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WHY DID POVERTY DROP FOR THE ELDERLY?

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Introduction

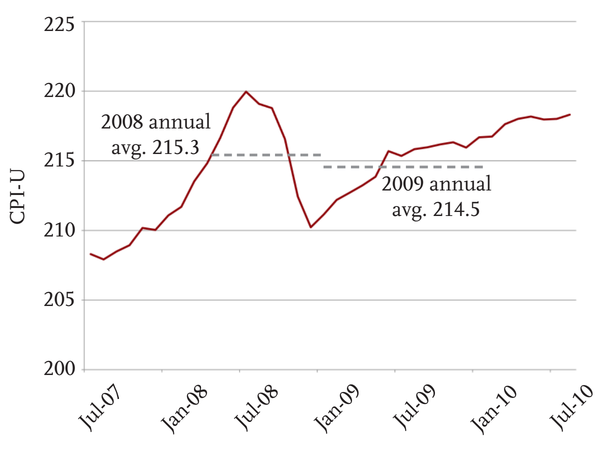
The Census Bureau just reported a large increase in poverty in the United States. Driven by job loss and long-term unemployment, the poverty rate rose from 13.2 percent to 14.3 percent, as 3.7 million more Americans found themselves with incomes below the poverty threshold.[1] Individuals aged 55-64 followed the national trend as they shared in job losses. Those 65 and over, however, saw a decline in their poverty rate. This outcome was the result of the timing of two different adjustments to reflect changes in consumer prices – an extraordinarily large cost-of-living adjustment (COLA) awarded to Social Security beneficiaries in 2009 and a decline in the index used to adjust the poverty threshold for 2009. This pattern is likely to be reversed in the future as Social Security beneficiaries receive no COLAs in 2010 and 2011 and the poverty threshold increases.

The discussion proceeds as follows. The first section describes the poverty thresholds and how they are adjusted over time. The second section discusses the importance of Social Security for low-income elderly and how Social Security benefits are adjusted for inflation. The third section speculates about how the indexing procedures are likely to affect the poverty rate of older Americans in 2010 and 2011.

Today's Poverty Threshold

The official poverty measure, which has been in use since the 1960s, has dollar thresholds that vary by family size and composition. If a family's total money income is less than the threshold, then all the individuals in that family are considered to be in poverty. The thresholds are updated annually to reflect changes in prices based on the Consumer Price Index for All Urban Consumers (CPI-U). Since the average annual CPI-U for 2009 was slightly lower than the average annual CPI-U for 2008, poverty thresholds for 2009 were slightly lower than for 2008 (see Figure 1).

Figure 1. Consumer Price Index (CPI-U), Used to Adjust Poverty Thresholds, July 2007-July 2010



Source: U.S. Bureau of Labor Statistics (2010a).

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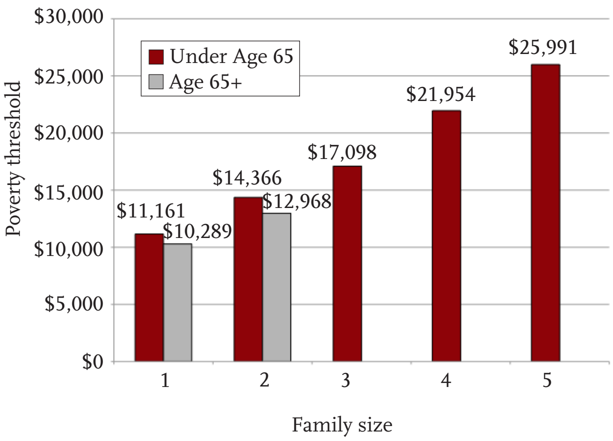
Figure 2 shows the 2009 thresholds by family size and the age of the individuals. For those 65 and over, the poverty threshold in 2009 was $10,289 for a single person and $12,968 for a couple.

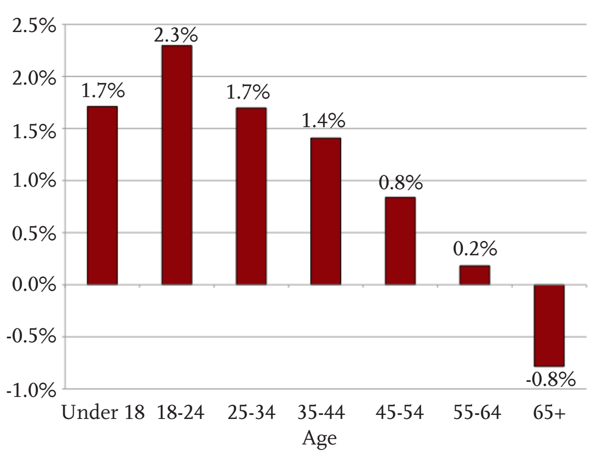
Figure 2. Poverty Thresholds by Size of Family and Age, 2009



Source: U.S. Bureau of the Census (2010).

Figure 3 shows the change in the poverty rate between 2008 and 2009 by age. In each age group – except those 65 and older – the poverty rate increased. The increase was most pronounced for those 18-24, for whom the rate jumped from 18.4 percent to 20.7 percent. For those 65 and over, however, the poverty rate decreased by 0.8 percentage point. The question is: why?

Figure 3. Percentage Point Change in Poverty by Age, 2008 to 2009

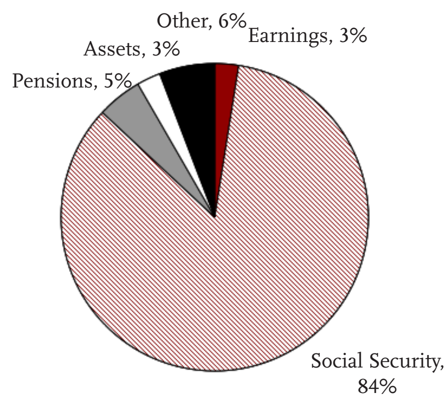


Source: U.S. Bureau of the Census (2010).

The Role of Social Security in the Poverty Numbers

For those 65 and over in the lower third of the income distribution, Social Security accounts for 84 percent of total income (see Figure 4). Therefore, what happens to Social Security benefits has an enormous impact on whether households fall above or below the poverty line.

Figure 4. Sources of Income for Low-Income Households Aged 65 and Over, 2009

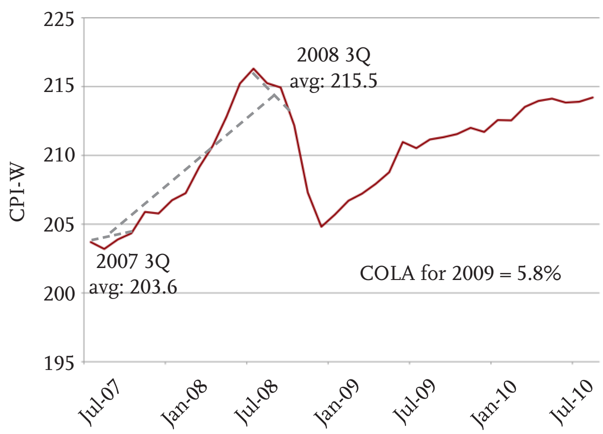


Source: Calculations based on the U.S. Bureau of the Census, *Current Population Survey*, 2009.

The Social Security COLA is designed to maintain the purchasing power of recipients' benefits once they retire. Mechanically, Social Security COLAs are calculated every October by comparing the third-quarter data of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) with the previous year's numbers, and then the adjustment is made in the following January. Rising energy prices in 2008 called for a 5.8-percent COLA to be paid in January 2009 (see Figure 5 on the next page).[2] This increase was the highest Social Security COLA awarded since 1982. Moreover, before the COLA could even be paid, prices plummeted, so Social Security recipients got a benefit increase to compensate for a rise in prices that no longer existed.

In addition to the COLA, the American Recovery and Reinvestment Act of 2009, which launched the $787 billion national economic stimulus package, provided for a one-time payment of $250 to individuals who receive Social Security retirement and disability benefits.[3] For a couple near the poverty threshold, the combined payment of $500 amounts to almost an additional 4 percent increase in total family income.

Figure 5. Consumer Price Index (CPI-W), Used to Set Social Security COLAs, July 2007-July 2010



Source: U.S. Bureau of Labor Statistics (2010b).

Thus, the reason for the decline in poverty among those 65 and over is the confluence of a decline in the poverty threshold, an enormous COLA, and a one-time $250 payment.

What about Next Year?

In all likelihood, poverty should increase among the elderly in 2010 and 2011. The poverty thresholds are likely to increase by 1.6 percent in 2010 and another 1.3 percent in 2011, according to forecasts of changes in the CPI-U by the Office of Management and Budget.[4]

In contrast, Social Security beneficiaries received no COLA in 2010 and will not get another COLA until prices rise back to where they were in the fall of 2008 (Social Security never reduces benefits when prices decline). At the current time, it looks like beneficiaries will not receive a COLA in 2011. And Congress has not authorized any more $250 payments.

With rising poverty thresholds and no Social Security COLAs, the poverty rate for those 65 and over is likely to rise.

Conclusion

One could ask many questions about the measurement of poverty and the nature of inflation adjustments. But those questions go beyond the point of this *brief*. The goal here is simply to explain why, in the face of an enormous upsurge in poverty, poverty declined among those 65 and over. The answer is an unusual confluence of events in 2009, which will unwind in 2010 and 2011, causing poverty rates to rise.

Endnotes

1 U.S. Bureau of the Census (2010).

2 U.S. Social Security Administration (2008).

3 U.S. Social Security Administration (2009).

4 U.S. Office of Management and Budget (2010).

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