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A M E R I C A

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Executive Summary

The State of 50+ America 2007, AARP's fourth annual "report card" on the quality of life of Americans aged 50 and older, continues our examination of the economic, health, and social well-being of the population aged 50 and older.¹ Any attempt to describe as complex a concept as well-being with a simple report card cannot capture the variation experienced by 87 million Americans. Nonetheless, a report card allows us to quickly scan a series of important indicators all at once and provides a sense of direction and significance of trends.

This year's report card suggests that the state of Americans aged 50 and older has improved somewhat over that of the past several years, with 16 indicators pointing in a positive direction and 9 pointing in a negative direction.² Economic indicators register the most uniformly positive change. Health indicators were more negative than positive, while both lifestyle/social (L/S) well-being and independent living/long-term care (IL/LTC) measures were somewhat mixed.

Ten-Year Trends

Economic Trends. Over the past decade, all seven economic indicators on which we have 10-year data register positive change for the total 50+ population, most notably with respect to employment and labor force participation rates. These two indicators have increased among each of the three age subgroups over the past decade. The percent with incomes above twice the poverty line increased by nearly 3 percentage points in a decade, and reliance on Social Security income has diminished in the past decade, indicating that people have a more diversified income base.

Some of the economic improvement is modest or still shows much room for improvement. Median inflation-adjusted family income increased by 13 percent

during the decade, only a modest average increase of 1.2 percent per year when compared with the 3.3 percent inflation-adjusted growth per year in GDP. Median financial assets grew by nearly 75 percent over the decade, or by 5.7 percent per year. Yet median financial assets are still less than \$50,000. Pension coverage has increased slightly over the past decade, but it declined relative to last year, and more than half the working population remains without a pension.

Three economic indicators were introduced in our 2005 report, so they have only two-year histories. Those respondents who say they are better off financially increased by only 1 percentage point over 2004 levels, while those who are confident in their retirement future or who report stable or decreasing debt declined slightly.

Health Trends. The seven 50+ health and long-term care indicators are mixed. By far the most notable change was the increase in insurance coverage for prescription drugs resulting from the enactment of the Medicare drug benefit. As a result, drug coverage for the aged 65 and older and disabled Medicare beneficiary population increased from about 57 percent to 90 percent. Change in the remaining six indicators was far more modest by comparison, with four negative and two positive. Positive change occurred in self-reported “excellent” or “very good” health status since 1999, and the percent of the population with fewer symptoms of depression has increased very slightly. On the downside, however, the percent of the 50 to 64 population with health insurance, the percent able to afford needed medical care, and the percent who are physically active all declined, while the proportion of the 50+ population who are neither obese nor overweight has shrunk by nearly 6 percentage points in 8 years.

Lifestyle/Social Trends. Among four L/S indicators, three were up and one was down. Improvements occurred in the share

of spending on nonessential items, the percent of the population with Internet access, and the perceived overall quality of life. But satisfaction with the amount of contact with family and friends declined since we first asked the question in the 2005 report.

Independent Living/Long-Term Care Trends. Of four IL/LTC indicators, two increased (the percent with no functional limitations and the percent of caregivers with no substantial caregiving burdens) and two decreased (perceived neighborhood safety and transportation access).

One-Year Trends

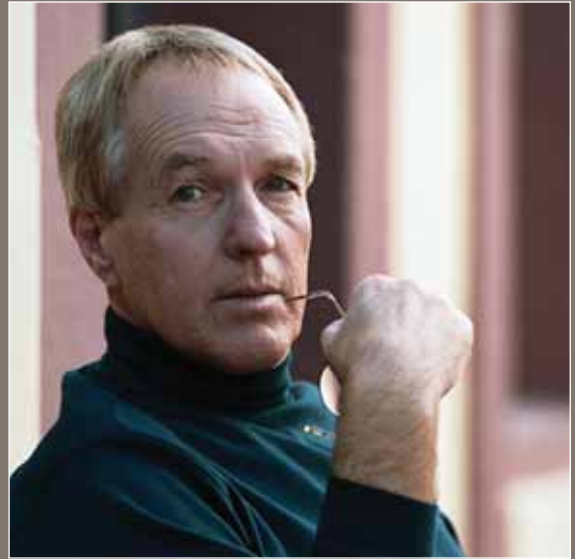
The picture over the past year, in contrast to the past decade, has been slightly less favorable, with 13 indicators improving, 9 declining, and 3 unchanged.³ Moderately positive change occurred in 7 of 10 economic indicators and change in the health indicators was mixed—drug coverage, affordability of care, and health status indicators were up but health insurance coverage, physical activity, and obesity continued the longer-term negative trend. L/S measures generally followed the longer-term trend—the share of spending on discretionary items and Internet use increased, but quality of life was unchanged and satisfaction with social contacts was negative. The one-year trends in IL/LTC measures were mostly negative, including lack of transportation access, perceptions of neighborhood safety, and percentage with functional limitations. Only the percentage of caregivers with no substantial caregiving burdens was improved.

The most consistently favorable one-year changes have occurred in economic indicators. Often, however, the indicators tell only a partial story. For example, median family incomes increased in 2005, but median income growth was considerably slower than GDP growth.

Slow median income growth in the context of robust aggregate growth suggests that income inequality has increased. Moreover, all the real income growth in the 50+ population occurred before 1998. Income for the typical family aged 50 and older has not increased in real terms since 1998. Financial wealth has increased but so has wealth inequality.

The modest progress shown in pension coverage in the past decade is shrouded by the increased risk and responsibility that individuals are being required to bear for their own retirement. Traditional pensions are in decline even among healthy companies; 401(k) retirement plans put the onus of investment risk on the worker; and workers find it difficult to save outside employer pension plans. Pensions received close scrutiny in the media in 2006 because of the enactment of the Pension Protection Act. Our special policy section this year is devoted to pension and retirement income adequacy from the standpoint of both people's expectations and reality. We have attempted to determine what people think they need relative to their preretirement income, what they expect, and what they actually say they have in retirement. We also attempt to get at people's experience spending down their assets in retirement, and how they view annuitizing their retirement wealth.

Although this report card attempts to capture some of the more relevant and important trends affecting Americans aged 50 and older, it does not explore in detail more complex issues such as distributional trends, demographic patterns, or more vulnerable populations such as women, minorities, people with disabilities, and those with low incomes. For such in-depth analysis of the data, we refer the reader to the AARP *Beyond Fifty* series of reports on selected topics.



Tables [→](#)



Indicator Overview

Table 1

Changes in Key Indicators of Well-Being

in Population 50+

Indicator Name	Indicator Year	Most Recent ^A Year	Previous Year	1-Year Change	Historical ^B Year	10-Year Change
1 Median family income (2005 dollars)	2005	\$38,000	\$36,390	↑	\$33,626	↑
2 Median financial assets (2005 dollars)	2005	\$45,006	\$42,300	↑	\$25,909	↑
3 Percent above 200 percent of poverty	2005	72.7	71.8	↑ †	69.0	↑ †
4 Percent of the population age 62+ who receive more than half of their income from sources other than Social Security	2005	54.9*	50.1*	↑ †	52.8*	↑ †
5 Pension coverage rate	2005	48.8	49.9	↓ †	47.0	↑ †
6 Employment rate	2005	46.0	45.1	↑ †	38.9	↑ †
7 Labor force participation rate	2006	47.5	46.9	↑ †	40.4	↑ †
8 Percent better off financially than a year earlier	2006	16.0	15.0	↑	15.0 (2004)	↑
9 Percent confident in their retirement future	2006	75.0	76.0	↓	76.0 (2004)	↓
10 Percent reporting no increase in personal debt	2006	82.0	82.0	=	83.0 (2004)	↓
11 Percent reporting health as "excellent" or "very good"	2005	47.3	47.0	↑	45.4	↑ †
12 Percent of noninstitutional Medicare beneficiaries (including disabled beneficiaries of all ages) with continuous Rx drug coverage	2006	89.8*	57.6 (2002)*	↑	49.4 (1997)*	↑
13 Percent of population 50 to 64 with health insurance from any source for any length of time during the year	2005	86.1^	86.5^	↓	87.1 (1999)^	↓ †
14 Percent able to afford medical care when needed during the past 12 months	2005	95.1	94.9	↑	95.9 (1997)	↓ †
15 Percent who engage in leisure time physical activity	2005	24.8	26.0	↓ †	25.2 (1997)	↓
16 Percent who are not overweight and not obese	2005	33.8	35.0	↓ †	39.7 (1998)	↓ †
17 Percent without possible signs of depression	2005	83.6	83.6	=	83.3 (1997)	↑
18 Percent of expenditures for "non-essentials"	2004	47.6	47.0	↑	45.7 (1990)†	↑
19 Percent of the population who use the Internet	2006	54.0	51.0	↑	19.3 (1998)	↑
20 Percent very satisfied with amount of contact with family, friends, and neighbors	2006	69.0	71.0	↓	71.0 (2004)	↓
21 Percent who say their quality of life has improved during the past 12 months	2006	16.0	16.0	=	13.0 (2004)	↑
22 Percent with no functional limitations requiring assistance from another person	2005	92.4	92.6	↓	91.5 (1997)	↑ †
23 Percent of caregivers with no substantial caregiving burdens	2006	68.0	65.0	↑	67.0 (2004)	↑
24 Percent who rarely or never miss something away from their residence due to lack of transportation	2006	88.0	90.0	↓	92.0 (2004)	↓ †
25 Percent who rate their neighborhood as "good" or "excellent" in terms of security	2006	83.0	86.0	↓	87.0 (2004)	↓

Indicator ■ Economic ■ Health ■ Lifestyle/Social ■ Independent Living/Long-Term Care

NA is used where comparison data are not available or where the indicator definition does not include the given age subgroup.

* 62+ only * All ages, including under 65 ^ Ages 50 to 64 only † Change is statistically significant at the .05 level. † Due to re-analysis, this number has changed from last year's report.

A. The "Most Recent Year" is the same as the "Indicator Year."

B. The "Historical Year" is 10 years prior to the "Most Recent Year," or "Indicator Year," unless otherwise noted.

Overview of 25 Indicators

The State of 50+ America 2007 provides AARP's fourth annual assessment of the overall quality of life of Americans aged 50 and older. As in the previous three reports, we examine change in various economic, health, lifestyle/social (L/S) and independent living and long-term care (IL/LTC) indicators over the most recent year, as well as multi-year change up to a decade (where possible). The multi-year comparisons generally prove more useful since year-to-year changes are often slight and not necessarily reflective of longer-term trends.

We have made a number of choices to simplify and structure the extensive amount of data. We have designed the indicators in such a way that an increase denotes improvement in well-being, just as in our previous reports. This makes it easier to “score” or summarize improvement across the array of indicators. One result of this construction is that some indicators are inelegantly phrased. For example, “the percentage of caregivers who have no substantial caregiving burdens” or “the percentage of the population who receive more than half of their income from sources other than Social Security” are slightly unwieldy. Despite the awkward linguistics, we have tried to maintain the integrity of meaning of the indicators.

In the interest of continuity from year to year, no new indicators have been added since the 2005 report, but the prescription drug coverage indicator has been superseded by data from the Department of Health and Human Services because of what is now virtually universal coverage for people aged 65 and older through the Medicare drug benefit. We will have to revisit this indicator in any future report. All indicators are derived from either well-established government surveys or

from the *2006 AARP Aging Indicators Study*,⁴ which accounts for nine of the indicators in this year's report. The Annual March Demographic Supplement to the Census Bureau's *Current Population Survey* is the source of seven indicators, and the National Center for Health Statistics' *National Health Interview Survey* accounts for five. The Bureau of Labor Statistics' *Consumer Expenditure Survey*, the Federal Reserve's *Survey of Consumer Finances*, the Centers for Medicare and Medicaid Services' *Medicare Current Beneficiary Survey*, the Henry J. Kaiser Family Foundation, and the Centers for Disease Control and Prevention's *Behavioral Risk Factor Surveillance System* each provide one.

We have retained the separate analysis of the population aged 75 and older that was added in the 2005 report because it provides information on the important differences between the “recently retired” and the “older retired.” For the sake of easier reading and brevity, we use the following terms and age designations interchangeably—those aged 50 to 64 will often be referred to as the “youngest” age group, those aged 65 to 74 as the “middle” age group, and those aged 75 and older as the “oldest” age group.⁵

Multi-Year Change

50+ Overall

In the past decade, the status of Americans aged 50 and older has improved on 16 of 25 measures of well-being in the areas of economics, health, L/S, and IL/LTC, while declining on nine others. From a multi-year perspective, Americans aged 50 and older did better on eight of 10 economic measures (median family income, median financial assets, pension coverage, employment rate, labor force participation, percent above two times poverty, reliance on income other than Social Security, retirement confidence); better on only three of seven health measures (drug

insurance coverage, physical health, and mental health⁶), but worse on four (health insurance coverage, health care affordability, physical activity, obesity); better on three of four L/S measures (increases in share of spending that is discretionary, Internet access, and overall quality of life), but a decrease in satisfaction with social contact; and mixed on IL/LTC indicators (better on functional limitations and caregiving burdens, worse on transportation access and perceived neighborhood safety).

The most notable economic changes in the multi-year perspective are those having to do with employment. Both the employment rate and labor force participation for people aged 50 and older were 7 percentage points higher in 2005 than in 1995, indicating that the trend toward longer work lives has acquired momentum. Median family income and median financial assets—have increased in inflation-adjusted terms. Median family income (adjusted for inflation) increased from \$33,626 to \$38,000 (+13 percent) since 1995, although all of that growth occurred before 1998—no net growth in real incomes has occurred since then. In this respect, the 50+ population reflects the broader economic situation for all Americans—median family incomes for the U.S. were lower in 2005 than they were in 1998. Median financial assets increased by 75 percent over a decade, although the median amount for the 50+ population is still only \$45,000. This does not include certain forms of wealth such as the primary residence, other real estate, or business property, and does not include amounts people can expect from either Social Security or defined benefit pensions. There were fewer people with incomes below twice the poverty level, also continuing a long-term trend. Pension coverage has increased from a decade ago, and the reliance on Social Security has declined.

Among our health indicators, the biggest single change is the percentage of respondents who have insurance that pays for drug coverage. Our historical data showed that about 57 percent of the 65+ or disabled population had drug coverage. Official data from the Department of Health and Human Services show that 90 percent of Medicare beneficiaries now have drug coverage. Self-reported health status, both physical and mental, improved slightly (+1.9 percentage points and +0.3 percentage points, respectively), over nearly a decade. While people may be feeling better, the report card is negative regarding the percent of people aged 50 to 64 who have health insurance coverage (-1.0 percentage points) and who are able to afford needed care. Other health indicators were also negative—only one-quarter of the population aged 50 and older is physically active and the trend is negative (-0.4 percentage points), and the percent who are not overweight and not obese is shrinking (-5.9 percentage points).

L/S indicators mainly improved. The share of income spent on nonessentials increased (+2.1 percentage points) as did access to the Internet (+34.7 percentage points) over multiple years and the percentage who report improved quality of life increased (+3 percentage points), but the percentage satisfied with social contacts dropped (-2 percentage points).

Two IL/LTC measures improved—the percentage who have no functional limitations (+0.9 percentage points) and the percentage of caregivers who report no substantial burdens (+1 percentage point) and two decreased—the percentage who had adequate transportation access and the percentage who felt secure in their neighborhood both declined by 4 percentage points each.

Three Age Subgroups

The three age subgroups generally track the overall 50+ results, with certain exceptions. Among the youngest age group, overall multi-year results were generally less favorable than for the total 50+ population—12 indicators were positive, 10 negative, and 1 did not change. The main differences were in the percent without functional limitations (no change, whereas it improved for 50+) and the percent of caregivers without substantial burdens (-2 percentage point change for those aged 50 to 64, compared with +1 for those aged 50 and older).

The middle age group fared best of all, improving on 18 indicators (compared with 15 for those aged 50 and older) and declining on only three (compared with nine for those aged 50 and older), with two indicators registering no change. The differences from the overall 50+ group were in the percentage who are better off financially than last year (no change for those aged 65 to 74, decline for those aged 50 and older), retirement confidence (+2 percentage points for those aged 65 to 74, -1 percentage point for those aged 50 and older), the percentage who are physically active (+0.5 percentage points for those aged 65 to 74, -0.4 percentage points for those aged 50 and older), and lack of transportation access (+1 percentage point for those aged 65 to 74, -4 percentage points for those aged 50 and older).

Change for the oldest group was quite similar to that of the overall population aged 50 and older (13 +, 9 -, and two no change). The main differences were self-reported health status, in which the group aged 75 and older declined (-0.2 percentage points, compared with +1.9 percentage points for those aged 50 and older) and share of spending on nonessentials, which decreased for those aged 75 and older (by -0.1 percentage point) but increased (+2.1 percentage points) for those aged 50 and older.

One-Year Change

50+ Overall

From the perspective of the past year, most of the indicators for the 50+ population moved in the same direction as the multi-year change, but there were fewer positive changes. Twelve indicators were positive, nine were negative, and three saw no change since the previous year, compared with 15 and nine for the multi-year comparison. Only seven economic indicators (rather than eight in the 10-year comparison) were positive. The exception was pension coverage, which increased over a decade but declined in the past year. Percent of respondents with stable debt levels was unchanged in the past year but had declined from two years ago. Two health indicators differed from the 10-year change: health affordability improved very slightly in the past year (+0.2 percentage points) but worsened over the past few years (-1.0 percentage points); and the mental health indicator was unchanged in the past year but improved very slightly in the years prior to that. L/S indicators showed virtually the same pattern as the multi-year comparison, as did the IL/LTC indicators, except that the percent with no functional limitations declined in the past year (-0.2 percentage points) but had improved (+0.9 percentage points) compared with 1997.

Three Age Subgroups

In the most recent year, the youngest group did better on economic measures than the total 50+ population. Whereas the 50+ population scored improvements on seven of 10 economic indicators, the group aged 50 to 64 improved on all economic indicators but one (pension coverage rate). Health indicator trends in the past year for this group were similar to that of the 50+ population overall except that self-reported health status declined (-0.6 percentage points) for those aged 50 to 64 but increased (+0.3

percentage points) for the overall population aged 50 and older; and the mental health measure improved for those aged 50 to 64 but was unchanged for those aged 50+.

The middle age group improved on 12 and declined on 10 indicators, with one unchanged. Of the economic indicators, only six improved and three declined, including median family income, the percent confident in retirement, and those with stable or declining debt. One economic indicator—personal debt—remained unchanged. Health indicators were mostly negative except for physical activity and ability to afford needed care (and Medicare beneficiaries with prescription drug coverage). The middle group improved on all four L/S measures, and declined on all four IL/LTC measures.

The oldest age group (aged 75 and older) had the worst overall report card, with 10 positive indicators, 11 negative, and 2 unchanged. Six of the 10 economic indicators improved (median family income, financial assets, percent above 200 percent of poverty, income other than Social Security, pension coverage, and being better off financially), but there were declines on the two employment indicators, on retirement confidence, and on personal debt. The oldest group improved on health status, affordability, and physical activity measures, but declined on obesity and was unchanged on mental health. On L/S measures, the oldest group declined on all four indicators, and on two of four IL/LTC measures (the exceptions were an improvement on caregiving burdens and no change on functional limitation measures).

Table 2

Changes in Key Indicators of Well-Being

Indicator Name	
1	Median family income (2005 dollars)
2	Median financial assets (2005 dollars)
3	Percent of the population above 200 percent of poverty
4	Percent of the population age 62+ who receive more than half of their income from sources other than Social Security
5	Pension coverage rate
6	Employment rate
7	Labor force participation rate
8	Percent better off financially than a year earlier
9	Percent confident in their retirement future
10	Percent reporting no increase in personal debt
11	Percent reporting health as "excellent" or "very good"
12	Percent of noninstitutional Medicare beneficiaries (including disabled beneficiaries of all ages) with continuous Rx coverage
13	Percent of population 50 to 64 with health insurance from any source for any length of time during the year
14	Percent able to afford medical care when needed during the past 12 months
15	Percent who engage in leisure time physical activity
16	Percent who are not overweight and not obese
17	Percent without possible signs of depression
18	Percent of expenditures for "non-essentials"
19	Percent of the population who use the Internet
20	Percent very satisfied with amount of contact with family, friends, and neighbors
21	Percent who say their quality of life has improved during the past 12 months
22	Percent with no functional limitations requiring assistance from another person
23	Percent of caregivers with no substantial caregiving burdens
24	Percent who rarely or never miss something away from their residence due to lack of transportation
25	Percent who rate their neighborhood as "good" or "excellent" in terms of security

Indicator ■ Economic ■ Health ■ Lifestyle/Social ■ Independent Living/Long-Term Care

in Population 50 to 64

in Population 65 to 74

Indicator Year	Most Recent ^A Year	Previous Year	1-Year Change	Historical ^B Year	10-Year Change	Indicator Year	Most Recent ^A Year	Previous Year	1-Year Change	Historical ^B Year	10-Year Change
2005	\$52,000	\$51,952	↑	\$50,358	↑	2005	\$30,028	\$30,105	↓	\$28,035	↑
2005	\$57,310	\$53,903	↑	\$31,968	↑	2005	\$35,004	\$32,900	↑	\$22,471	↑
2005	79.4	78.9	↑‡	76.9	↑‡	2005	68.5	67.7	↑‡	66.4	↑‡
2005	NA	NA	NA	NA	NA	2005	63.8 [▲]	62.0 [▲]	↑‡	60.8 [▲]	↑‡
2005	52.5	54.3	↓‡	51.9	↑	2005	29.1	27.8	↑	24.9	↑
2006	67.8	67.2	↑‡	63.7	↑‡	2006	22.1	21.4	↑	17.2	↑‡
2006	70.0	69.8	↑‡	66.3	↑‡	2006	22.8	22.3	↑	17.7	↑‡
2006	21.0	20.0	↑	20.0 (2004)	↑	2006	12.0	14.0	↓	12.0 (2004)	=
2006	71.0	70.0	↑	72.0 (2004)	↓	2006	80.0	81.0	↓	78.0 (2004)	↑
2006	77.0	76.0	↑	78.0 (2004)	↓	2006	86.0	86.0	=	88.0 (2004)	↓
2005	53.7	54.3	↓	52.2	↑‡	2005	42.3	41.0	↑‡	40.9	↑
2006	NA	NA	↑	NA	↑	2006	NA	NA	↑	NA	↑
2005	86.1	86.5	↓	87.1 (1999)	↓‡	2005	NA	NA	NA	NA	NA
2005	93.4	93.1	↑	94.3 (1997)	↓‡	2005	97.0	96.8	↑	97.4 (1997)	↓
2005	27.5	29.3	↓‡	28.7 (1997)	↓	2005	24.8	26.4	↓	24.3 (1997)	↑
2005	30.2	31.2	↓‡	35.6 (1998)	↓‡	2005	32.7	33.9	↓‡	39.2 (1998) ⁺	↓‡
2005	84.0	83.9	↑	83.6 (1997)	↑	2005	85.0	85.3	↓	84.8 (1997)	↑
2004	50.9	50.5	↑	50.1 (1990) ⁺	↑	2004	45.8	43.4	↑	41.3 (1990)	↑
2006	68.0	65.0	↑	31.3 (1998)	↑	2006	52.0	45.0	↑	12.3 (1998)	↑
2006	65.0	68.0	↓	69.0 (2004)	↓	2006	77.0	72.0	↑	76.0 (2004)	↑
2006	20.0	21.0	↓	16.0 (2004)	↑	2006	17.0	13.0	↑	12.0 (2004)	↑‡
2005	96.1	96.2	↓	96.1 (1997)	=	2005	93.1	93.9	↓	92.6 (1997)	↑
2006	68.0	64.0	↑	70.0 (2004)	↓	2006	66.0	68.0	↓	57.0 (2004)	↑
2006	88.0	88.0	=	95.0 (2004)	↓‡	2006	92.0	95.0	↓	91.0 (2004)	↑
2006	85.0	86.0	↓	88.0 (2004)	↓	2006	84.0	87.0	↓	84.0 (2004)	=

NA is used where comparison data are not available or where the indicator definition does not include the given age subgroup.
[▲] Ages 50 to 64 only ‡ Change is statistically significant at the .05 level. ⁺ Due to re-analysis, this number has changed from last year's report.

A. The "Most Recent Year" is the same as the "Indicator Year."
 B. The "Historical Year" is 10 years prior to the "Most Recent Year," or "Indicator Year," unless otherwise noted.

Table 3

Changes in Key Indicators of Well-Being

Indicator Name	
1	Median family income (in 2005 dollars)
2	Median financial assets (in 2005 dollars)
3	Percent of the population above 200 percent of poverty
4	Percent of the population age 62+ who receive more than half of their income from sources other than Social Security
5	Pension coverage rate
6	Employment rate
7	Labor force participation rate
8	Percent better off financially than a year earlier
9	Percent confident in their retirement future
10	Percent reporting no increase in personal debt
11	Percent reporting health as "excellent" or "very good"
12	Percent of noninstitutional Medicare beneficiaries (including disabled beneficiaries of all ages) with continuous Rx coverage
13	Percent of population 50 to 64 with health insurance from any source for any length of time during the year
14	Percent able to afford medical care when needed during the past 12 months
15	Percent who engage in leisure time physical activity
16	Percent who are not overweight and not obese
17	Percent without possible signs of depression
18	Percent of expenditures for "non-essentials"
19	Percent of the population who use the Internet
20	Percent very satisfied with amount of contact with family, friends, and neighbors
21	Percent who say their quality of life has improved during the past 12 months
22	Percent with no functional limitations requiring assistance from another person
23	Percent of caregivers with no substantial caregiving burdens
24	Percent who rarely or never miss something away from their residence due to lack of transportation
25	Percent who rate their neighborhood as "good" or "excellent" in terms of security

Indicator ■ Economic ■ Health ■ Lifestyle/Social ■ Independent Living/Long-Term Care

in Population 65+						in Population 75+					
Indicator Year	Most Recent ^A Year	Previous Year	1-Year Change	Historical ^B Year	10-Year Change	Indicator Year	Most Recent ^A Year	Previous Year	1-Year Change	Historical ^B Year	10-Year Change
2005	\$25,376	\$24,707	↑	\$23,684	↑	2005	\$20,958	\$20,354	↑	\$18,900	↑
2005	\$35,200	\$34,030	↑	\$23,029	↑	2005	\$36,320	\$35,000	↑	\$23,588	↑
2005	63.0	61.8	↑‡	60.4	↑‡	2005	57.1	55.3	↑‡	52.1	↑‡
2005	54.9*	50.1*	↑‡	52.8*	↑	2005	40.1	39.2	↑	37.7	↑
2005	27.2	25.8	↑	23.1	↑	2005	20.5	18.7	↑	14.5	↑
2006	14.6	14.3	↑	11.9	↑‡	2006	6.3	6.5	↓	4.7	↑
2006	15.0	14.9	↑	12.3	↑‡	2006	6.5	6.7	↓	4.8	↑
2006	11.0	10.0	↑	9.0 (2004)	↑	2006	9.0	6.0	↑	6.0 (2004)	↑
2006	80.0	82.0	↓	81.0 (2004)	↓	2006	80.0	83.0	↓	83.0 (2004)	↓
2006	88.0	89.0	↓	90.0 (2004)	↓	2006	90.0	92.0	↓	92.0 (2004)	↓
2005	38.3	36.7	↑	38.1	↑	2005	33.8	31.9	↑‡	34.0	↓
2006	NA	NA	↑	NA	↑	2006	NA	NA	↑	NA	↑
2005	NA	NA	NA	NA	NA	2005	NA	NA	NA	NA	NA
2005	97.6	97.4	↑	97.7 (1997)	↓	2005	98.2	98.1	↑	98.2 (1997)	=
2005	20.9	21.4	↓	21.1 (1997)	↓	2005	16.5	15.7	↑	17.1 (1997)	↓
2005	38.6	39.9	↓‡	44.3 (1998)†	↓‡	2005	45.0	46.4†	↓‡	52.3 (1998)†	↓‡
2005	83.1	83.2	↓	82.9 (1997)	↑	2005	80.9	80.9	=	80.4 (1997)	↑
2004	40.9	40.4	↑	38.7 (1990)†	↑	2004	34.1	36.3	↓	34.2 (1990)†	↓
2006	39.0	35.0	↑	9.0 (1998)	↑	2006	24.0	25.0	↓	4.3 (1998)	↑
2006	75.0	74.0	↑	73.0 (2004)	↑	2006	73.0	76.0	↓	69.0 (2004)	↑
2006	12.0	11.0	↑	10.0 (2004)	↑	2006	7.0	9.0	↓	8.0 (2004)	↓‡
2005	87.1	87.6	↓	86.2 (1997)	↑	2005	80.5	80.5	=	77.8 (1997)	↑‡
2006	68.0	67.0	↑	61.0 (2004)	↑	2006	71.0	65.0	↑	66.0 (2004)	↑
2006	89.0	91.0	↓	89.0 (2004)	=	2006	86.0	87.0	↓	87.0 (2004)	↓
2006	82.0	85.0	↓	86.0 (2004)	↓	2006	80.0	84.0	↓	87.0 (2004)	↓‡

NA is used where comparison data are not available or where the indicator definition does not include the given age subgroup.

* 62+ only ‡ Change is statistically significant at the .05 level. † Due to re-analysis, this number has changed from last year's report.

A. The "Most Recent Year" is the same as the "Indicator Year."

B. The "Historical Year" is 10 years prior to the "Most Recent Year," or "Indicator Year," unless otherwise noted.



→ ...income stagnation continues the worrisome trend noted in last year's report that incomes of the 50+ population are still below levels attained in the late 1990s...

Economic Indicators

1

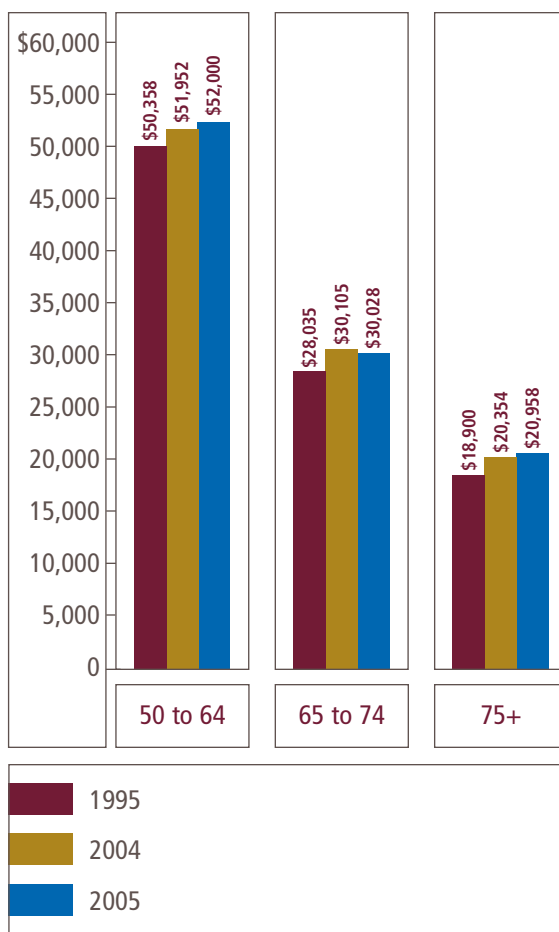
Median family income—one of the most basic measures of economic well-being—represents the income of the family in the exact middle of the income distribution, half falling above and half below. In general, the median family income of the 65+ population is less than half that of those aged 50 to 64, reflecting the loss of wage income after retirement.

Median family income for the 50+ population increased by 13 percent (adjusted for inflation) from 1995 to 2005. However, it increased only 3.3 percent for the group aged 50 to 64, 7.4 percent for the group aged 65 to 74, and 10.9 percent for the group aged 75 and older. As was the case last year, the 10-year income increase was smallest for the group most likely to be working.

In the past year, incomes grew negligibly for the group aged 50 to 64, declined negligibly for the group aged 65 to 74, and increased slightly for the group aged 75 and older. This income stagnation continues the worrisome trend noted in last year's report that incomes of the 50+ population are still below levels attained in the late 1990s, despite growth in GDP that is often taken as indicative of a strong economy.⁷

The Administration has argued that income growth should be measured from 2003, when its highly touted tax cuts took effect. Indeed, the robust growth in real GDP, which averaged 3.5 percent annually from 2002 to 2005, has frequently been said to be a result of those tax cuts. Although aggregate real income growth for the 50+ population has averaged 3.6 percent in that period, median household income growth for those aged 50 and older has averaged only 1.3 percent, and

Median family income (2005 dollars)



Source: U.S. Bureau of the Census, Annual Demographic Survey, March Supplement, Current Population Survey, 1996, 2005, 2006.

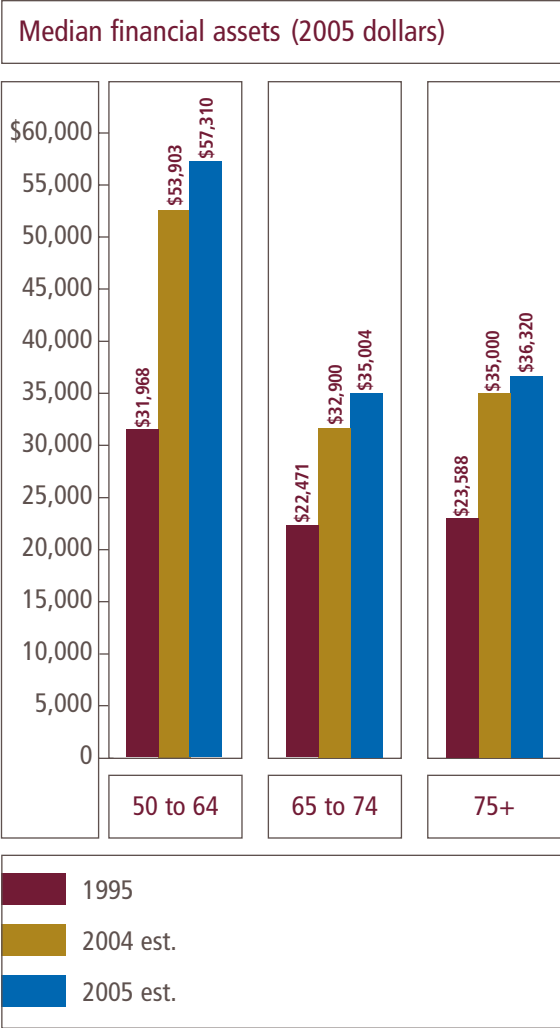
has been even lower for the groups aged 50 to 64 (-0.3 percent) and 65 to 74 (1.1 percent). Instead of broad income growth, incomes have grown much faster at the top of the income spectrum, and income inequality has increased.

2

Median financial assets in this report represent the financial wealth of the family in the exact middle of the wealth distribution of families aged 50 and older. It excludes housing and certain other tangible assets such as other real estate, vehicles, and business property. The 2004 triennial *Federal Reserve Survey of Consumer Finances* (SCF) provides the best and most recent estimate of household financial wealth. We use the 1995 SCF to provide a ten-year historical look back. Our 2004 figure differs from last year's report, which was a projection based on the 2001 SCF data. The 1995 and 2004 SCF surveys provide us with valuable baseline data against which to estimate values for 2005. We projected values for 2005 by taking the 2004 levels and applying aggregate growth rates in various wealth categories derived from the Federal Reserve Flow of Funds data.⁸

Median financial assets (adjusted for inflation) increased by 75 percent between 1995 and 2004 for the population aged 50 and older as a whole, although there were large differences among the age subgroups. Financial asset values increased by 80 percent for the group aged 50 to 64, while the financial assets of the middle and older age groups increased by about 55 percent.

Despite the robust growth in financial wealth over the past decade, financial assets in the range of \$45,000 (approximately the median for the 50+ population) will purchase a single life indexed annuity worth less than \$3,500 per year. Without a pension, this would leave most workers ill-prepared for retirement. In addition, growth in wealth has been accompanied by increased inequality. From 1989 to 2004, the share



Sources: Federal Reserve Board, Survey of Consumer Finances, 1995 and 2004; Federal Reserve Flow of Funds Accounts, September 21, 2005.

of wealth held by the top 1 percent of boomer wealth holders increased from 25 percent to 30 percent.

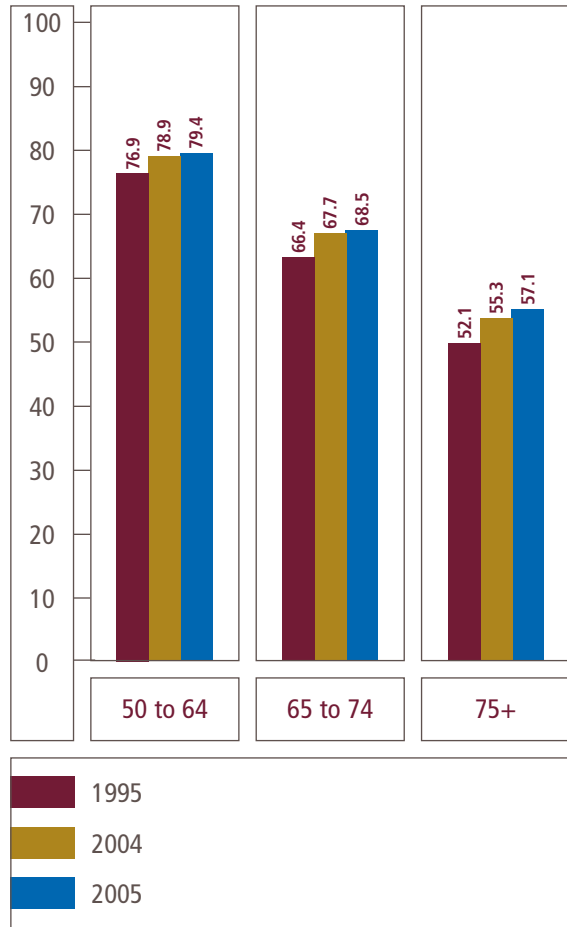
3

The percent of the population above 200 percent of poverty⁹ provides a rough indicator of the percentage of people with a minimally adequate standard of living. The poverty line, which was established more than 40 years ago, is indexed to general increases in prices. But prices have generally grown more slowly than wages in the economy, which better reflects the living standard. Therefore, the poverty line has fallen further and further behind the standard of living. For that reason we have selected two times the poverty line as a better reflection of a minimum standard of adequacy than the current poverty threshold.

When it was created, the poverty threshold was set at a lower level for people aged 65 and older than it was for the rest of the population because of putative age differences in nutrition requirements. Those dollar differences in the poverty thresholds remain today (\$9,367 in 2005 for the 65+ population and \$10,160 for those under age 65). This difference in poverty levels means that the older population must be poorer than younger age groups to be considered poor by the Census Bureau definition. Experimental measures that take into account the higher burden of health care costs among the older population yield higher poverty rates for the older population than for younger age groups.

More progress against poverty has been made among the 75+ subgroup than among the younger subgroups over the past decade, but about 43 percent of people aged 75 and older still fall below this standard of adequacy. In the past decade, the percent of people aged 50 to 64 who were above 200 percent of poverty

Percent of the population above 200 percent of poverty



Source: U.S. Bureau of the Census, Annual Demographic Survey, March Supplement, Current Population Survey, 1996, 2005, 2006.

increased by 2.5 percentage points (to 79.4 percent) while the middle subgroup had a comparable increase of 2.1 percentage points (to 68.5 percent).

Between 2004 and 2005, increases in the percent of those above 200 percent of poverty occurred in all three age subgroups—0.5 percentage points for the youngest subgroup, 0.8 percentage points for the middle subgroup, and 1.8 percentage points for the oldest subgroup.

4

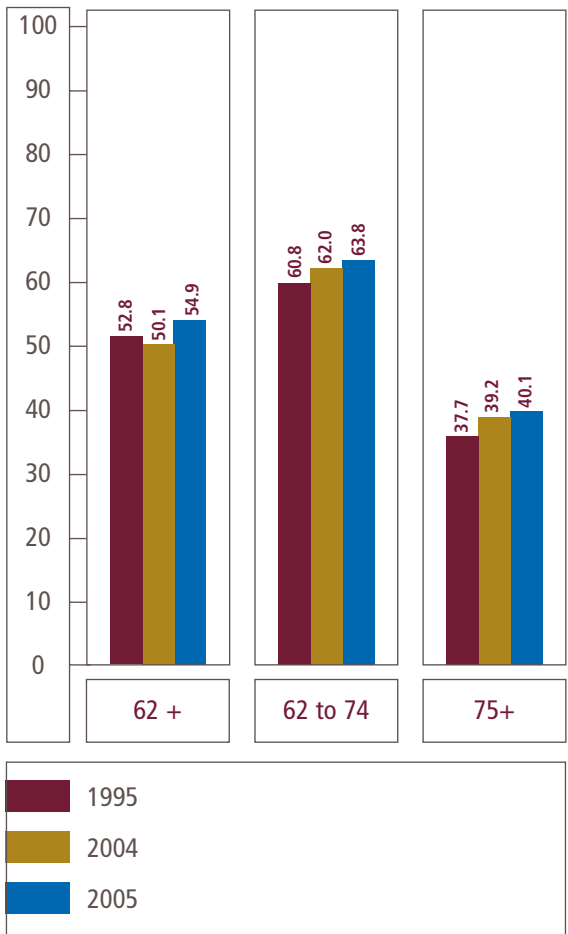
The percent of the population age 62+ who receive more than half of their income from sources other than Social Security.

Social Security was not intended to be the sole source of income for retirees. The percent of the population aged 62 and older who receive more than half of their income from sources other than Social Security indicates the relative dependence on sources of income other than Social Security. Having diverse sources of income generally means higher incomes and less vulnerability to income loss from any one source. When this percentage is higher, other things being equal, beneficiaries are better off.

A little over half (54.9 percent) of the population aged 62 and older received more than half of their income from sources other than Social Security in 2005, an increase from the past year and about a 2 percentage point increase over 10 years. Over the past year, the percentage also increased for the 62 to 74 subgroup as well as for the 75 and older subgroup. For the 10-year period, the percentage increased for both the 62-to-74-year-olds (3.0 percentage points) and the 75+ subgroup (2.4 percentage points).

The numbers reinforce the importance of Social Security and its role as the mainstay of retirees' income.

Percent of the population age 62+ who receive more than half of their income from sources other than Social Security

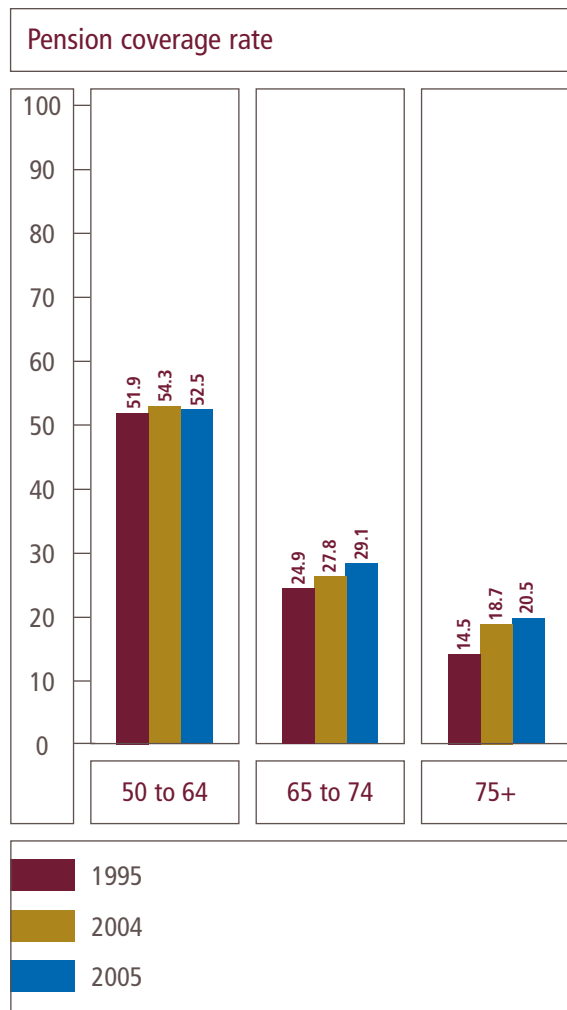


Source: U.S. Bureau of the Census, Annual Demographic Survey, March Supplement, Current Population Survey, 1996, 2005, 2006.

5

The pension coverage rate refers to the percentage of workers who actually participate in an employer-sponsored pension plan on their current job. This measure does not account for workers without a pension on their current job who may have already earned pensions from earlier jobs (see special pension section at the end of this report). For roughly half the workforce, including both full-time and part-time workers, a large part of ongoing saving for retirement occurs through participation in a pension plan.

The pension coverage rate for workers in the 50+ age group was 48.8 percent in 2005, up over one and a half percentage points from a decade earlier. The pension coverage rate for the youngest age group was 52.5 percent in 2005, up less than a percentage point from a decade earlier. The coverage rate for workers in the middle age group was 29.1 percent, up over 4 percentage points over the decade. These increases suggest a continued spreading of 401(k) coverage through the working population. The greatest increase in pension coverage was for workers in the oldest age group—a 6 percentage point increase. This increase for the oldest group may indicate true expansion of coverage or it may indicate that those turning 75 each year who continue working have better jobs that include retirement benefits. Coverage rates are higher still if only full-time, year round workers are included and if data are available to indicate whether a worker is covered by a pension from a previous job. But the long-term trend has been that less than half of adult workers at any given time have pension coverage through their current employer. Coverage rates are higher among older ages and reach 50 percent or more for those over the age of 50. Even though the shift in coverage from predominantly defined benefit to defined contribution plans has



Source: U.S. Bureau of the Census, Annual Demographic Survey, March Supplement, Current Population Survey, 1996, 2005, 2006.

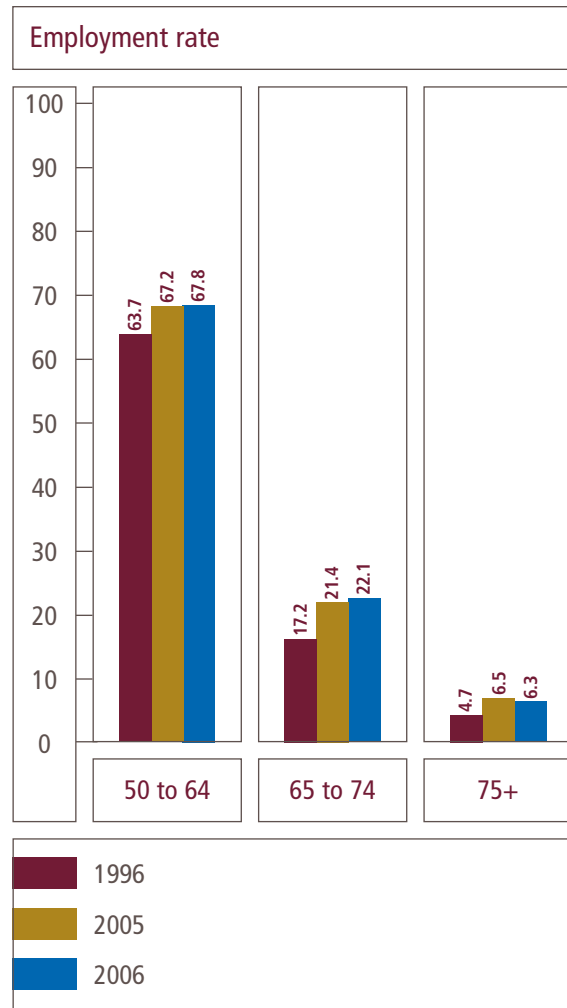
shifted risk from employers to workers, the rate of coverage has still remained locked at around 50 percent.

In the past year, coverage decreased from 54.3 percent to 52.5 percent for the working population aged 50 to 64. However, there was an increase of 1.3 percentage points (from 27.8 to 29.1 percent) for the middle age group and an increase of 1.8 percentage points among workers aged 75 and older. Coverage for the youngest group is of greatest concern because workers at this age would normally be in career jobs and should be building wealth in their pension plans. The middle and oldest age groups may already have earned a pension on another job so that coverage may not be as critical for them.

The employment rate

is the percent of people in the population or a particular age group who are working (it is often referred to as the employment-to-population ratio). Compared to a decade before, the employment rate rose by over 4 percentage points by 2006 for the youngest age group, and by almost 5 percentage points for the middle age group. For those aged 75 and older, the rate increased by 1.6 percentage points. These increases in employment reinforce other evidence of a long-term shift toward longer work lives.

Similar to what we reported last year, the near term has been less favorable. The slow recovery from the 2001 recession means that many older workers have not benefited greatly from the job recovery—the employment rate for the middle age subgroup of workers had the largest one-year increase—0.7 percentage points. There was an increase of a modest 0.6 percentage points for the youngest subgroup of the population (from 67.2 to 67.8 percent). The rate for the oldest subgroup actually declined 0.2 percentage points. These modest and inconsistent changes may partly reflect the trend we saw with median family income—the economic recovery represented by GDP growth has not necessarily translated into income or significant job opportunities.



Source: U.S. Bureau of the Census, Annual Demographic Survey, March Supplement, Current Population Survey, 1996, 2005, 2006.

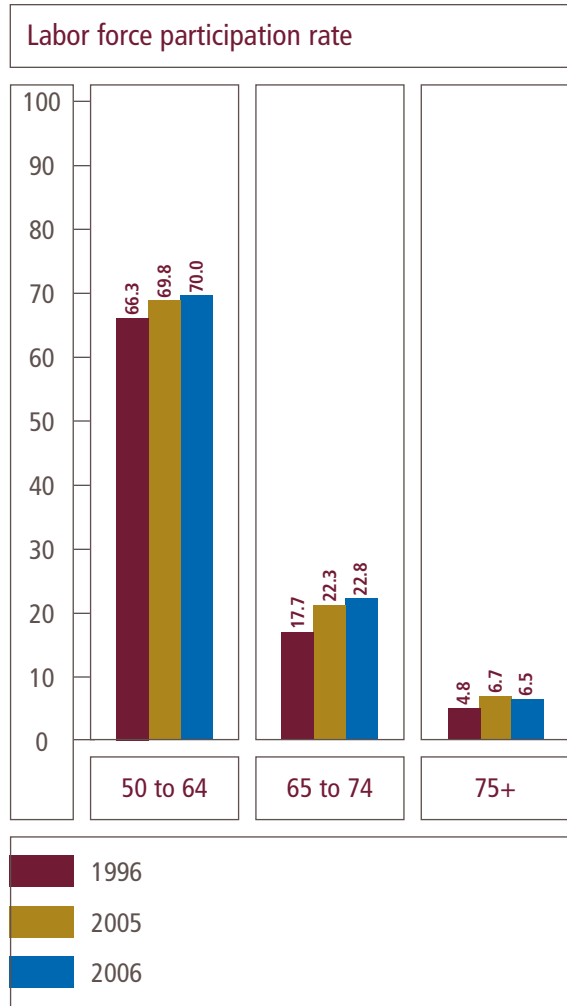
7

The labor force participation rate

is the ratio of those *employed* and those *without a job and looking for work* to the adult civilian noninstitutional population.

The labor force participation rate of the 50+ population has increased since 1980, a development that masks two opposing trends—an increase in the participation rate for women, as growing numbers of middle-aged and older women remained in or entered the labor force, and a decrease in the participation rate for men aged 55 to 64. Although the trend toward ever-earlier retirement seems to have come to an end, many men still leave the labor force in their late 50s to mid-60s.

The overall labor force participation rate was 70 percent for people aged 50 to 64 in 2006, up nearly 4 percentage points from a decade earlier. The rate of 22.8 percent for those aged 65 to 74 was up over 5 percentage points in 10 years, and even labor force participation of those aged 75 and older increased—by 1.7 percentage points—over the last decade. Nearly 80 percent of baby boomers say they expect to work at least part time in retirement.¹⁰ Other surveys also reveal high percentages of older workers planning to work in retirement, most often because they want to remain active, be productive, or do something fun. Many, however, say they need the money or access to health insurance.



Source: U.S. Bureau of the Census, Annual Demographic Survey, March Supplement, Current Population Survey, 1996, 2005, 2006.

8

The percent better off financially than a year earlier is an indicator derived from the *AARP Aging Indicators Study, 2006*. About one-fifth (21 percent) of the youngest group considered their economic situation to be better than one year ago, little changed from 2005 (20 percent). The middle and older subgroups were both much less likely (12 percent and 9 percent, respectively) to report being economically better off than one year ago. These disparities were slightly smaller in 2006 than in 2005.

The oldest respondents were more likely (76 percent) than the youngest (59 percent) and middle (69 percent) age respondents to report being about the same as one year ago (not shown in table). However, only 9 percent of the oldest respondents reported to be better off than one year ago while 15 percent of these oldest respondents reported to be worse off.

Nearly one-fifth (20 percent) of the youngest respondents reported that they were worse off compared with one year ago, down from 24 percent in 2005 (not shown).

Percent better off financially than a year earlier		
	2005	2006
50 to 64	20%	21%
65 to 74	14%	12%
75+	6%	9%

Source: AARP Aging Indicators Study, 2005, 2006.

9

The percent confident in their retirement future

is also derived from the *AARP Aging Indicators Study, 2006*. Respondents were asked about their level of confidence (very, somewhat, not very, not at all) that they would have enough money to live comfortably throughout their retirement years.

Three-quarters (75 percent) of all 50+ respondents said they were very or somewhat confident about having adequate money to live comfortably in retirement, one percentage point below 2005. In general, younger respondents were less likely to be very or somewhat confident (71 percent) than the two older groups (both 80 percent).

As other surveys and our previous surveys have found, confidence in retirement seems to be higher among those already retired (80 percent for both middle and older subgroups) than among those likely to be working (71 percent). However, confidence levels are slightly lower among the two older groups than in 2005.

The percent of the youngest respondents who reported being not all confident (11 percent) was nearly twice that of middle (6 percent) and nearly triple of older (4 percent) respondents (data not shown).

Percent confident in their retirement future

	2005	2006
50 to 64	70%	71%
65 to 74	81%	80%
75+	83%	80%

Source: AARP Aging Indicators Study, 2005 and 2006.

The percent reporting no increase in personal debt is also derived from the *AARP Aging Indicators Study, 2006*. Respondents were asked whether their total debt (including all mortgage debt, credit cards, installment loans) had increased, remained the same, or decreased from the previous year, or if they had no debt in the last 12 months.

In sum, 82 percent of all respondents aged 50 and older reported no increase in debt from the previous year. In general, this percentage increased with age, from 77 percent among the youngest to 90 percent among the oldest subgroup. Slightly more respondents aged 50 and older reported a decrease in their debt (18 percent) than an increase (17 percent; data not shown).

Of all 50+ respondents, 29 percent reported having no debt in the previous 12 months, similar to 2005. Approximately one-half (51 percent) of the oldest respondents, one-third (33 percent) of middle respondents, and 19 percent of youngest respondents reported no debt (data not shown). This was an increase from previous levels for the youngest respondents (14 percent in 2005) and a decrease for middle (36 percent in 2005) and oldest (55 percent in 2005) respondents.

The debt load of mature Americans is the subject of considerable discussion among policy makers, financial experts, academics, and others. While much of the discussion focuses on younger Americans, concern about boomers nearing retirement age is growing, especially as they compare to previous cohorts of retirees. Many older people are, indeed, debt-free. However, a significant number of older people

Percent reporting no increase in personal debt		
	2005	2006
50 to 64	76%	77%
65 to 74	86%	86%
75+	92%	90%

Source: AARP Aging Indicators Study, 2005, 2006.

continue to have debt into retirement, which does not augur well for their future financial well-being. This has implications for decisions such as retirement, as well as expenditure decisions including necessities such as medical expenses and housing.



→ ...7.1 million 50-to-64-year-olds had no health coverage during 2005, 1.9 million more than in 1999...

Health Indicators

11

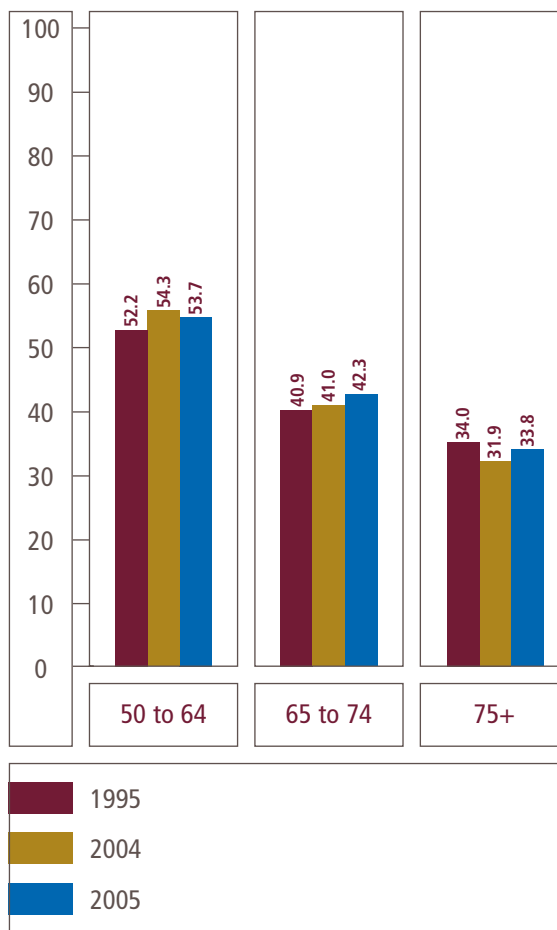
The percent reporting their health as “excellent” or “very good”

is one of the most widely used measures of health around the world. Although subjective, self-assessed health has been found to correlate strongly with objective measures of physical and mental health. It is also a predictor of health outcomes such as mortality, functional status, and health services use.

According to the *National Health Interview Survey*, the percentage of the 50+ population who reported their health as “excellent” or “very good” (on a scale ranging from poor, fair, or good to very good or excellent) increased slightly between 2004 (47.0) and 2005 (47.3). The results for the population aged 50 and older in 2005 mask fairly dramatic differences in reported levels of “very good” or “excellent” health status within the group ranging from 53.7 percent for the youngest subgroup to 33.8 percent of those aged 75 and older. Between 2004 and 2005, the percent reporting “excellent” or “very good” health increased among two of the three age subgroups. The exception was the 50 to 64 age group, which experienced a slight decrease (-0.6 percentage points).

Between 1995 and 2005, the percent of the population reporting “excellent” or “very good” health increased by 1.9 percentage points for the entire group aged 50 and older and is consistent with the direction of change for all but the oldest age group. By contrast, the population aged 75 and older experienced a slight decrease (0.2 percentage points) in the proportion reporting “excellent” or “very good” health.

Percent reporting health as “excellent” or “very good”



Source: National Center for Health Statistics, National Health Interview Survey 1995, 2004, 2005.

12

The percent of noninstitutional Medicare beneficiaries (including disabled beneficiaries of all ages) with continuous Rx coverage

Medicare's new outpatient prescription drug benefit, Part D, took effect in 2006. Although this is a voluntary benefit, the percentage of noninstitutional Medicare beneficiaries with continuous prescription drug coverage—which had been averaging between 57 and 58 percent, regardless of age, for the past few years—catapulted to about 90 percent with implementation of Part D.

Despite the breadth in coverage, several caveats are important to understand in examining what is defined as “continuous” coverage. First, some beneficiaries may have decided against enrolling in Part D in 2006 if they had other plans that provided benefits equal to, or better than, Medicare's. In future years, particularly with possible reductions in employer-sponsored retiree drug coverage, these options may be reduced and coverage may lapse for a period until Part D enrollment is assured.

Second, due to the structure of the Part D program, many enrollees will experience a coverage gap once their covered prescription drug costs reach \$2,250, and until they exceed \$5,100 in 2006. About half of all Part D enrollees in 2006 were in plans that did not provide coverage for drugs (brand and/or generic) in this so-called “donut hole,” and almost one-third of those were projected to have expenditures in the coverage gap.¹¹

Percent of noninstitutional Medicare beneficiaries (including disabled beneficiaries of all ages) with continuous Rx coverage

	1997	2002	2006
All ages	49.4%	57.6%	89.8%

Source for 1997, 2002: Analysis of Medicare Current Beneficiary Survey, Cost and Use files by The Peter Lamy Center on Drug Therapy and Aging, University of Maryland School of Pharmacy.

Source for 2006: The Henry J. Kaiser Family Foundation, Medicare: Prescription Drug Coverage Among Medicare Beneficiaries Data Update, June 2006. <http://www.kff.org/medicare/upload/7453.pdf>

Data of actual percentages of Part D enrollees who lacked gap coverage and who sustained prescription drug expenditures during this period should be available in 2007 and will be tracked accordingly.

13

The percent of population 50 to 64 with health insurance from any source for any length of time during the year (those aged 65 and older are excluded because Medicare is nearly universal in this age group) for any length of time during the year is an important measure because people with health insurance have a reduced risk of poor health outcomes and premature death compared with their peers who are uninsured. Potential sources of health coverage include individually purchased private insurance, employer-sponsored insurance, Medicare, Medicaid, and other government programs.

According to the U.S. Bureau of the Census' *Current Population Survey*, 86.1 percent of the youngest subgroup reported having health insurance at any time during 2005. Although this was a slight drop in the share with coverage from the previous year, the actual number of people in the age subgroup with coverage rose by 1.5 million due to the overall growth of the youngest subgroup.

Over the course of the 6-year period 1999 to 2005, the population aged 50 to 64 grew by 27 percent, but the number of people aged 50 to 64 with health coverage has not been keeping pace with the overall growth of the age group. The result is that 7.1 million of those aged 50 to 64 had no health coverage during 2005, 1.9 million more than in 1999, and the share of this group who had coverage dropped one percentage point.

Percent of population 50 to 64 with health insurance from any source for any length of time during the year

	1999	2004	2005
50 to 64	87.1%	86.5%	86.1%

Source: U.S. Bureau of the Census, Annual Demographic Survey, March Supplement, Current Population Survey, 2000, 2005, 2006.

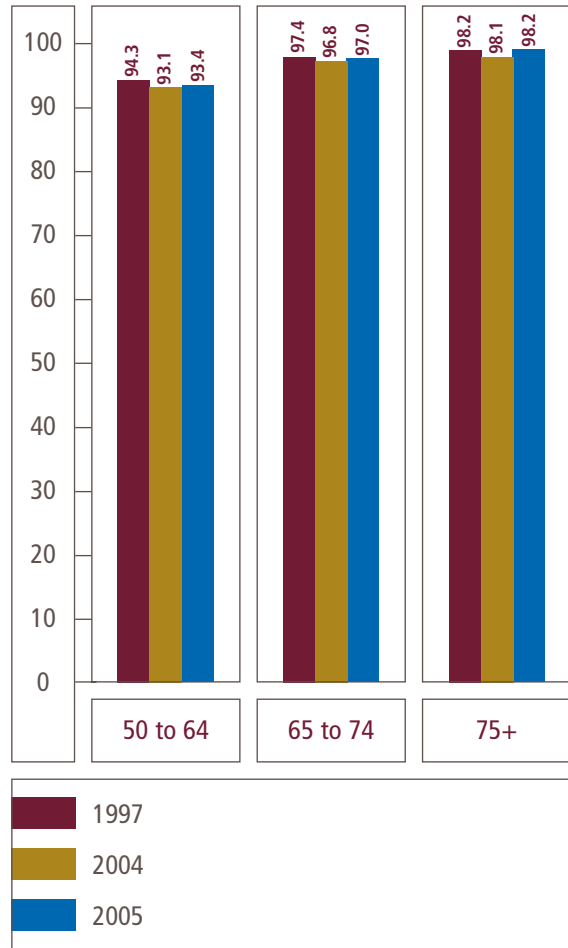
The percent able to afford medical care when needed during the past 12 months

Health insurance coverage by itself does not guarantee access to needed medical care. Fortunately, even though less than 9 in 10 people under age 65 have health insurance, the percent able to afford medical care when needed during the past 12 months was 95.1 percent for the overall population aged 50 and older in 2005, and it exceeded 90 percent for all age subgroups. According to the *National Health Interview Survey*, the change from 2004 to 2005 among the three subgroups increased within a narrow range of 0.1 to 0.3 percentage points.

Between 1997 and 2005, there was a 0.8 percentage point decline in the portion of the population aged 50 and older who could afford needed health care during the previous 12 months. The decline was somewhat larger among the youngest subgroup (-0.9 percentage points) than the middle subgroup (-0.4 percentage points), while the oldest subgroup had no change.

In each of the years studied, the survey data consistently show that, within the population aged 50 and older, the percent able to afford medical care when needed increased slightly with the age of the subgroup. In 2005, 93.4 percent of the youngest age group was able to afford care when needed. In comparison, the portions of the middle age group and the oldest group who were able to afford care were 3.6 and 4.8 points higher, respectively. Because Medicare coverage for most people starts at age 65, the greater ability of the population aged 65 and older to afford needed care is likely a reflection of Medicare's role in improving access to health insurance coverage and health and financial security.

Percent able to afford medical care when needed during past 12 months



Source: National Center for Health Statistics, National Health Interview Survey, 1997, 2004, 2005.

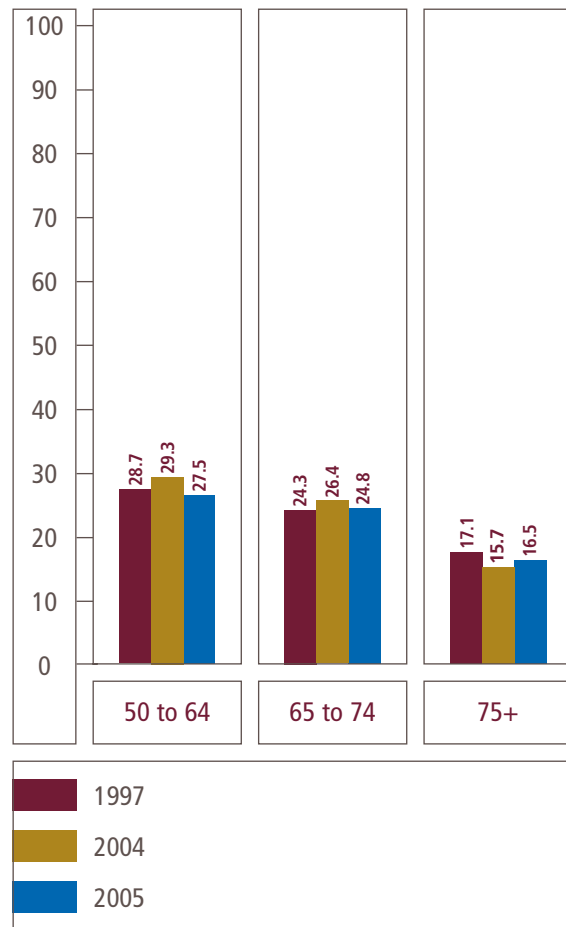
The percent who engage in leisure time physical activity is an important indicator of a healthy lifestyle. Older adults can achieve significant health benefits from moderate physical activity performed on a regular basis. For example, physical activity contributes to the ability to live independently and reduces the risk of falling, fracturing bones, dying from heart disease, and developing conditions like high blood pressure, colon cancer, and diabetes. Other benefits include decreased anxiety and depression and an improved overall feeling of well-being.

According to the *National Health Interview Survey*, in 2005, one-quarter (24.8 percent) of the 50+ population engaged in some type of leisure time physical activity. Regular leisure time physical activity is defined as engaging in light to moderate activity for 30 minutes or more, five or more times a week; or engaging in vigorous activity for 20 minutes or more at least three times a week. Physical activity in 2005 was much less common among the oldest subgroup (16.5 percent) than either the middle or the youngest age subgroups (24.8 percent and 27.5 percent, respectively).

Between 1997 and 2005, the direction of the change was negative for the overall 50+ group (-0.4 percentage points) and the oldest and youngest subgroups (-1.2 and -0.6 percentage points, respectively), but those aged 65 to 74 experienced a one-half percentage point increase.

The data comparing 2004 to 2005 show a decline in physical activity except for the subgroup aged 75 and older, which experienced an increase of 0.8 percentage points. Because of the importance of exercise throughout the lifecycle, successful strategies are needed to encourage continued physical activity as people age.

Percent who engage in leisure time physical activity



Source: National Center for Health Statistics, National Health Interview Survey, 1997, 2004, 2005.

The percent who are not overweight and not obese¹⁶

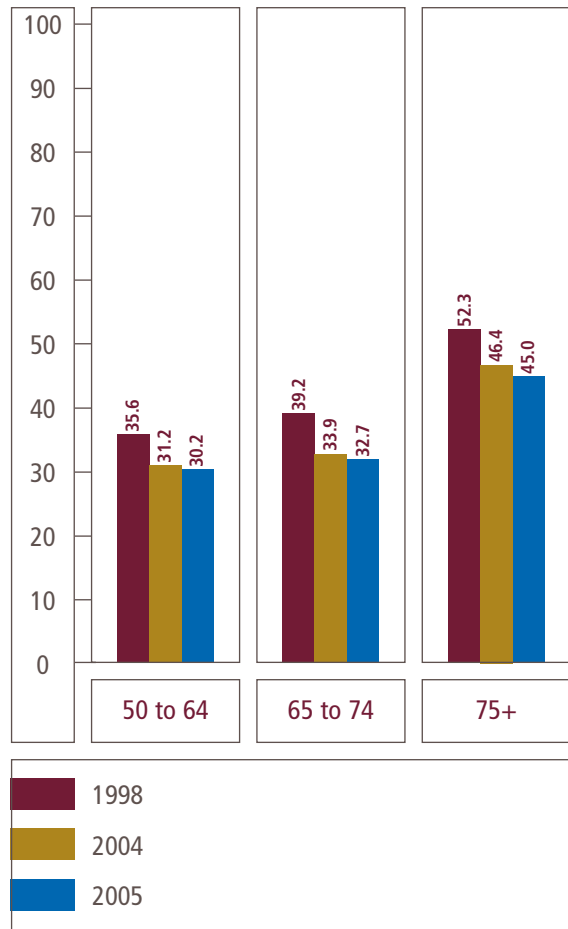
is an important measure of whether people are maintaining body weight at a level that lowers their risk for certain chronic illnesses. People are considered not overweight and not obese if their body mass index (BMI), a measure of weight in relationship to height, is less than 25.

According to the *Behavioral Risk Factor Surveillance Survey*, in 2005, one-third of the 50+ population was neither overweight nor obese. Among the entire population aged 50 and older, the subgroup aged 75 and older had the highest portion that were not overweight and not obese (45 percent), while the portions among the youngest and middle subgroups were considerably lower.

The 50+ population has experienced a significant and disturbing drop in this indicator—from 39.7 percent to 33.8 percent—over the 7-year period between 1998 and 2005. This finding is consistent with the Surgeon General’s recent warning that overweight and obesity have reached epidemic proportions among the general population. Relatively large declines in this measure occurred across all age subgroups in the past 7 years, with somewhat larger declines among the older age groups.

The percent not overweight and not obese among the 50+ age group also decreased slightly between 2004 and 2005. Similar small changes are reflected among all of the subgroups aged 50 and older with the decrease ranging from 1.0 to 1.4 percentage points.

Percent who are not overweight and not obese



Source: Centers for Disease Control and Prevention, Behavioral Risk Factor Surveillance System, 1998, 2004, 2005.

Note: Due to re-analysis, some numbers may have changed from the last report.

The percent without possible signs of depression

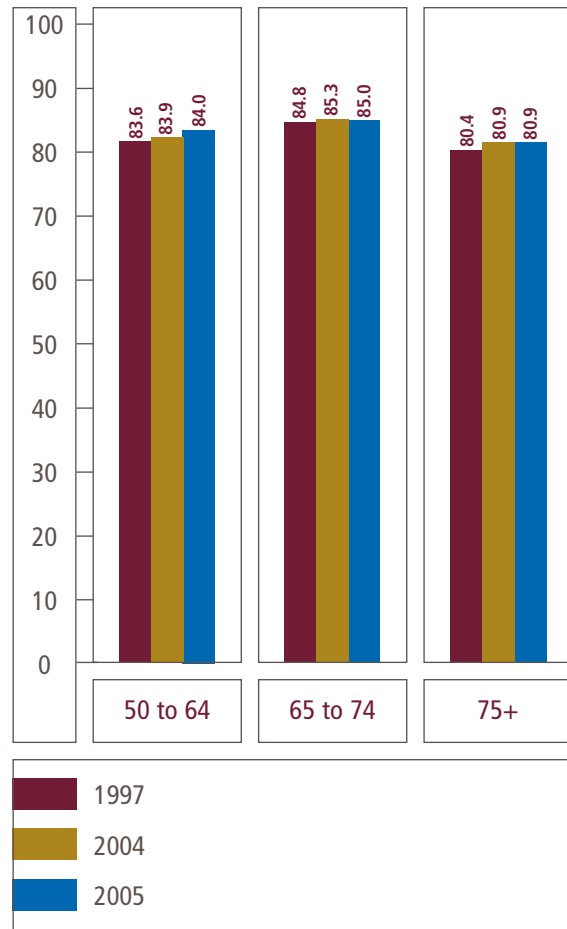
is an important measure of mental well-being among the 50+ population. Depression is the most common mental disorder, yet it is widely under-recognized and under-treated. When left untreated, mental disorders can be just as serious and disabling as physical conditions. Furthermore, depression is a risk factor for suicide, by which older Americans—particularly men aged 85 and older—are disproportionately likely to die.

In 2005, according to the *National Health Interview Survey*, 83.6 percent of the population aged 50 and older did not experience feelings of sadness (to the extent that nothing cheered them up), hopelessness or worthlessness some, most, or all of the time. The middle age subgroup was most likely to be free of these possible signs of depression during the previous month (85 percent), while the oldest subgroup was least likely (80.9 percent).

Between 1997 and 2005, there was a small increase in the portion of people in all three 50+ age subgroups who did not experience these possible signs of depression in the last month. The largest change was an increase of half a percentage point among the 75+ population.

During the latest one-year period of 2004 to 2005, the overall 50+ population experienced no change in the portion with possible signs of depression, as did the 75+ subgroup, with small changes among the other subgroups.

Percent without possible signs of depression



Source: National Center for Health Statistics, National Health Interview Survey, 1997, 2004, 2005.



→ Between 1998 and 2006, the proportion of people aged 50+ who say they use the Internet “from anywhere” increased from 19 percent to 54 percent.

Lifestyle/Social Indicators

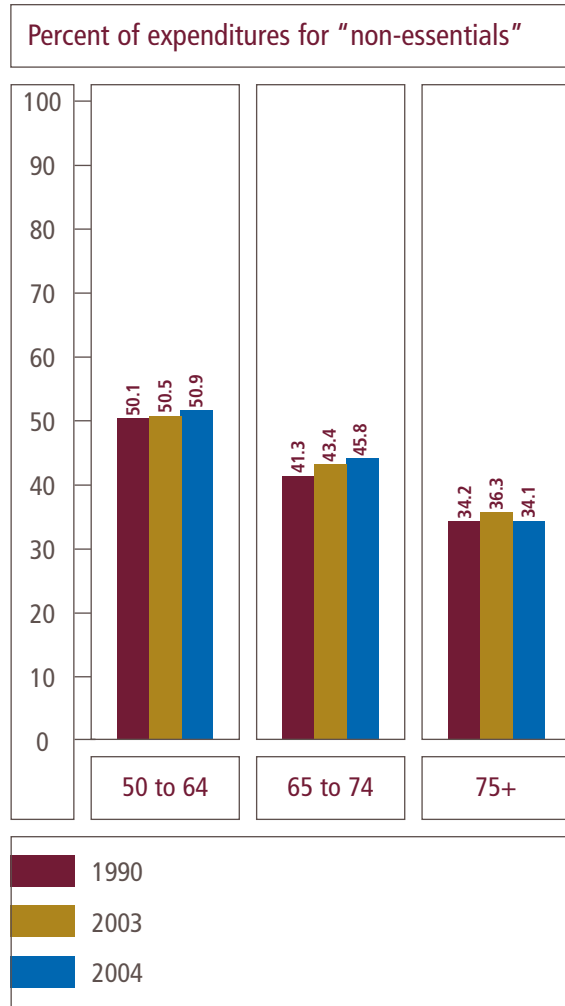
18

The percent of expenditures for “non-essentials”¹²

suggests the degree of flexibility or slack in family budgets, or the percent of budgets that is discretionary. The greater the flexibility or discretion, the greater sense of security one might experience and the less anxiety. Great budget discretion also suggests an ability to save for emergencies, for long-term investments such as children’s education, and for retirement.

The portion of family budgets spent on nonessentials increased from 45.7 percent in 1990 to 47.6 percent in 2004 for the population aged 50 and older overall. For the youngest age group, nonessential spending went from 50.1 percent to 50.9 percent of total spending during the period. The discretionary share of spending increased for the middle age group, from 41.3 percent to 45.8 percent.

In the most recent year, discretionary spending went from 47.0 percent (2003) to 47.6 percent (2004) for those aged 50+. The youngest group experienced a slight increase while the middle group saw a larger increase (from 43.4 percent to 45.8 percent). The oldest group decreased from 36.3 percent to 34.1 percent.



Source: Bureau of Labor Statistics, Consumer Expenditure Survey, 1990, 2003, 2004.

Note: Due to re-analysis, some numbers may have changed from the last report.

The percent of the population who use the Internet

provides one measure of the degree of connection with the outside world. Americans over the age of 50 rely increasingly on the Internet to communicate with friends and family, keep abreast of the news, search for health and medical information, pay bills, make online purchases, track investments, engage in work-related activities, and more. For this age group, the Internet is rapidly becoming an essential tool of modern life.

The percentage of people who use the Internet from home or any other place declines with age. While two-thirds of the youngest age subgroup (68 percent) say that they use the Internet, slightly more than half of the middle age subgroup (52 percent) and less than one-quarter of the oldest subgroup (24 percent) report that they use the Internet.

Our question on Internet use “from home or any other place” is comparable to a question asked by the Bureau of the Census in a 1998 supplement to the Current Population Survey.¹³ Between 1998 and 2006, the proportion of people aged 50 and older who say they use the Internet “from anywhere” increased from 19 percent to 54 percent.¹⁴ During that same time period, the percentage of Internet users more than doubled among the youngest age subgroup, from 31.3 percent to 68 percent. It grew from 12.3 to 52 percent among the middle age subgroup and from 4.3 to 24 percent among those aged 75 and older.

In today’s world, a high-speed—or broadband—connection to the Internet has become increasingly important. For example, a broadband connection with monitoring devices and interactive video

Percent of the population who use the Internet

	1998	2005	2006
50 to 64	31.3%	65%	68%
65 to 74	12.3%	45%	52%
75+	4.3%	25%	24%

Source: AARP Aging Indicators Study, 2005, 2006; U.S. Bureau of the Census, Current Population Survey, Internet and Computer Use Supplement, 1998.

makes home health care a viable option for consumers, which may be especially important to those with limited mobility or who are not well enough to travel. A broadband connection also facilitates distance learning opportunities, again especially important for individuals who have jobs, disabilities, or family responsibilities that make it difficult to travel to a classroom.¹⁵

The additional capacity of broadband dramatically enhances the Internet’s ability to provide important services to individuals and communities, particularly older Americans. These changes may merit closer watching in the future.

The percent very satisfied with the amount of contact with family, friends, and neighbors is an important measure of social well-being. For instance, research has shown that social contact with friends and neighbors can positively affect the physical and mental health of older Americans. Ties with family and friends are also a critical way to help alleviate feelings of isolation, an important concern for many older Americans. Finally, family, friends, and neighbors are important sources of informal assistance to and support for older people.

Overall in 2006, nearly seven in 10 persons aged 50 and older were “very satisfied” with the amount of contact with family, friends, and neighbors. The percent “very satisfied” with the amount of contact with family, friends and neighbors was significantly higher for the middle age group (77 percent) and the 75 and older age group (73 percent) than the youngest subgroup aged 50 to 64 (65 percent).

Women aged 50 and older were more likely than men to be “very satisfied” with the amount of contact with family, friends, and neighbors (73 percent vs. 65 percent). In addition, among people aged 50 and older, those with household incomes under \$25,000 were less likely to be “very satisfied” with the amount of contact than those making more than \$25,000 (63 percent vs. 72 percent).

Percent very satisfied with amount of contact with family, friends, and neighbors

	2005	2006
50 to 64	68%	65%
65 to 74	72%	77%
75+	76%	73%

Source: AARP Aging Indicators Study, 2005, 2006.

The percent who say their quality of life improved during the past 12 months

is a measure that encompasses many aspects of well-being, with their relative importance varying from person to person and as one ages or circumstances change. For most people, quality of life includes finances, health, living situation, employment and other activities, and relationships to friends and family. In responding to a question about whether quality of life has improved, declined, or stayed the same compared to 12 months ago, each person may be responding to changes in one or more of these aspects of life quality.

Among those aged 50 and older, 16 percent said their quality of life improved in 2006, the same proportion as in 2005. In addition, the proportion who said their quality of life declined also remained nearly unchanged (17 percent in 2006, compared to 18 percent in 2005). Most people aged 50 and older (66 percent) said their quality of life was about the same as it was a year ago (data not shown).

Americans aged 75 and older were least likely to note an improvement in their quality of life in the last year (7 percent), compared to 17 percent of those aged 65 to 74 and 20 percent of those aged 50 to 64. Men and women in the youngest and middle age groups, aged 50 to 64 and aged 65 to 74, were about as likely to say their quality of life improved as they were to say that it declined. But men aged 75 and older were almost twice as likely to say that their quality of life declined in the last year as they were to say that it improved, while nearly five times as many women aged 75 and older reported that their quality of life had declined as said that it had improved.

Percent who say their quality of life improved during the past 12 months

	2005	2006
50 to 64	21%	20%
65 to 74	13%	17%
75+	9%	7%

Source: AARP Aging Indicators Study, 2005, 2006.



...about one in five people aged 50 and older provides cash or direct financial help to older relatives to help them take care of themselves.



Independent Living and Long-Term Care Indicators

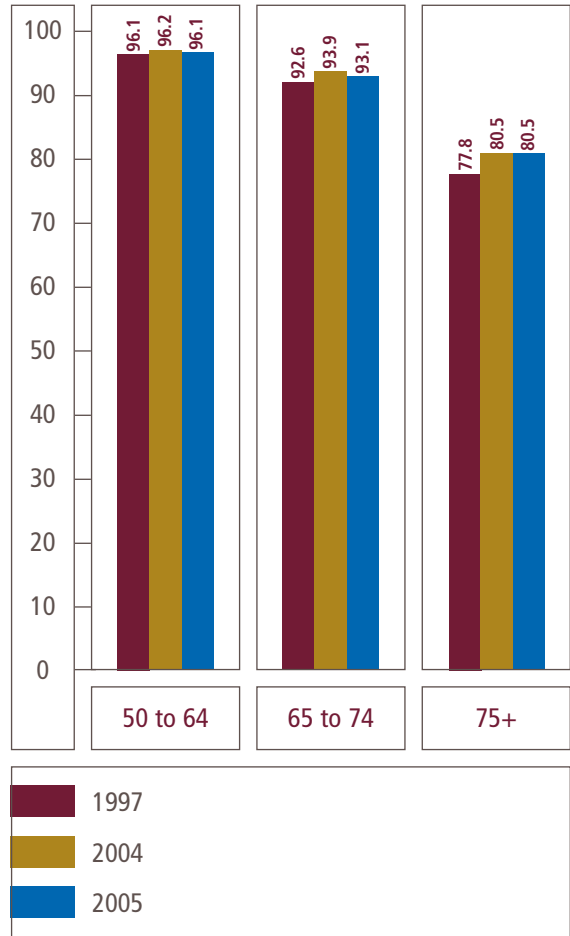
22

The percent with no functional limitations requiring assistance from another person

measures independence, which generally correlates with a sense of control and empowerment. This indicator of disability measures the percentage of the population that does not have a chronic condition that requires the help of another person with either personal care needs, such as bathing or dressing, or in handling routine needs, such as everyday household chores or shopping.¹⁶ People who need such help typically receive assistance from family or other unpaid caregivers, from paid caregivers, such as aides from home care agencies, or from both unpaid and paid caregivers. Other individuals with disabilities may not need human assistance, but make extensive use of special equipment and technologies, such as wheelchairs and computers, as well as services in their communities, such as accessible public transportation, in order to maintain independence.

The proportion of people who do not need any human assistance with functional limitations declines with age, especially among people aged 75 and older. Ninety-six percent of people aged 50 to 64, 93 percent of people aged 65 to 74, and 81 percent of people aged 75 or older do not need such assistance. Over the past 8 years, the percentage of all people aged 50 and older without such limitations has increased from 91.5 to 92.4 percent. Over that period, the percentage of the youngest age group having no functional limitation did not change, while the percentage of the middle and oldest age groups having no functional limitations increased by 0.5 and 2.7 percentage points respectively.

Percent with no functional limitations requiring assistance from another person



Source: National Center for Health Statistics, National Health Interview Survey 1997, 2004, 2005.

The percent of caregivers with no substantial caregiving burdens

is another measure of quality of life. The great majority of the assistance received by people with disabilities in the United States is provided by family and friends rather than by paid caregivers. The assistance provided can range from visiting on a regular basis to occasional help with chores to providing intense personal care for many years. We have defined substantial caregiving burdens as one of the following: spending more than 20 hours per week providing care or experiencing a decrease in pay or benefits as a result of caregiving.

In 2006, 39 percent of people aged 50 and older reported providing unpaid help, such as assistance with personal needs or chores, arranging for services, or visiting regularly, to a relative or friend aged 50 and older, nearly unchanged from 41 percent in 2005. Unpaid caregiving is more common among people in the youngest subgroup (46 percent) than the middle subgroup (35 percent), or the oldest subgroup (24 percent).

Of this group of unpaid caregivers aged 50 and older, the proportion not reporting substantial burdens in 2006 was 68 percent, about the same as was found in 2005 (65 percent). For the youngest age group, the figure was 68 percent without significant burdens; for the middle age group, the figure was 66 percent; and for the oldest age group, it was 71 percent compared to 64 percent, 68 percent, and 65 percent respectively in 2005. Although some of these changes appear large, none is statistically significant because of the small sample of caregivers within age groups (the question was only asked of caregivers).

Percent of caregivers with no substantial caregiving burdens

	2005	2006
50 to 64	64%	68%
65 to 74	68%	66%
75+	65%	71%

Source: AARP Aging Indicators Study, 2005, 2006.

Helping older friends and relatives often involves money as well as time: about half of caregivers aged 50 and older say that caregiving has resulted in an increase in their expenses, and about one in five people aged 50 and older provides cash or direct financial help to older relatives to help them take care of themselves (data not shown).

Not surprisingly, those aged 75 and older are more likely than those aged 50 to 74 to report receiving unpaid care. Overall, 16 percent of persons aged 50 and older, and 27 percent of people aged 75 and older received unpaid care in 2005 (data not shown).

The percent who rarely or never miss something away from their residence due to lack of transportation

suggests the proportion of older people whose mobility needs and wants are being met. When mobility needs are *not* being met, individuals are likely to be both physically and socially isolated, and research shows that such isolation contributes to impaired mental and physical well-being.

The percentage of individuals whose transportation needs are being met (according to the indicator) is generally high, although there has been a decrease in the total population aged 50 and older, from 92 percent in 2004 to 90 percent in 2005 to 88 percent in 2006. Looking at the subgroups, individuals in the middle age group (92 percent) are least likely to miss things because of a lack of transportation, while individuals in the youngest (88 percent) and oldest (86 percent) age groups are more likely to do so.

In addition, the survey data reveal significant differences between race and economic circumstance regarding transportation: one-quarter (25 percent) of African Americans aged 50 and older frequently or occasionally missed activities due to a lack of transportation, compared with less than one-tenth (9 percent) of whites aged 50 and older; and nearly one-quarter (24 percent) of people aged 50 and older with household incomes of less than \$25,000 frequently or occasionally missed activities because of lack of transportation, compared with only 5 percent of those with incomes of \$25,000 or more.

Importantly, there is a strong correlation between whether individuals drive and whether their transportation needs are being met. AARP research reveals that

Percent who rarely or never miss something away from their residence due to lack of transportation

	2005	2006
50 to 64	88%	88%
65 to 74	95%	92%
75+	87%	86%

Source: AARP Aging Indicators Study, 2005, 2006.

more than nine out of 10 aged 50+ individuals who drive themselves rarely or never miss doing something because they do not have transportation options, while only five out of 10 non-driver who rely on others for rides rarely or never miss doing things because of not having transportation. In other words, half (50 percent) of non-driver frequently or occasionally miss trips for shopping, social, recreation, family, and religious ceremonies or functions that keep them socially engaged in their community.

The percent who rate their neighborhood as “good” or “excellent” in terms of security

is an important measure of successful aging. Personal safety and security can influence how willing and able older people are to do errands and participate in the social life of their community. Fear of crime contributes to isolation, and perceptions of neighborhood crime can affect property values. Furthermore, older people are sometimes perceived as vulnerable and become a target for crime.

Fortunately, most people aged 50 and older have positive perceptions of neighborhood safety. More than eight out of 10 rate their community as “good” or “excellent” in terms of how safe they feel when walking in their neighborhood during the evening, with no significant variation across the older age subgroups. However, perceptions of safety have declined across all age subgroups.

However, there were significant differences among income subgroups. In particular, 27 percent of people aged 50 and older with under \$25,000 in household income viewed neighborhood safety as “fair” or “poor,” compared to 15 percent of those earning \$25,000 to \$50,000 and only 3 percent of those earning \$50,000 or more. Also, African Americans (26 percent) and Hispanics (37 percent) aged 50 and older were more likely than whites to view their neighborhood safety as “fair” or “poor.” Notably, urban areas were perceived more unfavorably than other areas for safety, with 20 percent of urban residents aged 50 and older indicating only “fair” or “poor” safety, compared to 10 to 12 percent in suburbs and rural areas.

Percent who rate their neighborhood as “good” or “excellent” in terms of security

	2005	2006
50 to 64	86%	85%
65 to 74	87%	84%
75+	84%	80%

Source: AARP Aging Indicators Study, 2005, 2006.

Pensions and Retirement Income Adequacy

On August 17, 2006, President Bush signed into law the Pension Protection Act (PPA) of 2006, the most comprehensive pension legislation since the enactment of the Employee Retirement Income Security Act (ERISA) of 1974. The PPA is expected to have sweeping impacts on the extent and type of pension coverage U.S. workers have, the adequacy of their pensions' benefits, the security of their pensions, and the types of retirement benefits that workers will receive.

Because of the importance of this landmark legislation and the ripple effects it is likely to have on the world of pensions and retirement security, this year's AARP well-being indicators survey focuses on pensions—especially issues of coverage, pension and retirement income adequacy, and the distribution of pension assets, including preferences regarding lump sums versus annuities. While some of the survey findings confirmed those of other studies, a number of surprising results emerged.

Rate of Pension Coverage

It is no longer news that the pension world has changed radically since the ERISA was enacted. While traditional defined benefit (DB) plans still have more than 20 million participants according to Department of Labor data, that compares with more than 50 million in defined contribution (DC) plans,¹⁷ including 47 million in 401(k) plans.¹⁸ When the 401(k) plan was introduced 25 years ago, DB plans had 30 million participants and DC plans had roughly 14 million.

Of all workers with pension coverage, roughly 60 percent now have DC coverage only, and just over 10 percent have DB coverage only. In 1980, these percentages were almost exactly reversed. Nearly 30 percent of workers have both DB and DC coverage today, compared with only

about 22 percent in 1980, but down from about 33 percent in 1990.¹⁹

Pension coverage has been explored in many other studies, and the coverage rate can vary substantially depending on the definition and population included. If employer *sponsorship* rather than *participation* is the standard, and if full-time private and government workers aged 25-64 are included, potential coverage rates reach as high as 65 percent. But if we count actual participation and include only private sector workers of all ages, coverage rates are as low as 40 percent. Coverage rates are higher when counted on a lifetime (not just current job) and household basis.²⁰ Coverage rates also vary by sex and income, although men and women who are full-time, full-year workers are covered at about the same rate.²¹

We examined pension coverage of any kind (either DB or DC) among respondents of all ages who were working, both on a current job and any job (lifetime) basis, as well as a spouse's coverage to arrive at a *household* coverage rate. We tabulated separate DB coverage rates for respondent-workers on their current job, then coverage on any other job, then a spouse's DB coverage, and tabulated each separately as well as cumulatively. We then did the same for DC plan coverage. What we found is shown in Figure 1. Of our total sample of 1,504, 560 respondents of all ages were working, 337 of whom were aged 50 and older.

Thirty-six percent of all respondents who were working had DB plan coverage on their current job, and 14 percent had such coverage from previous jobs, bringing respondents' total lifetime DB coverage to 41 percent. About 29 percent of worker respondents also had spouses who had a DB plan through their

employer, which brought total DB coverage within households (i.e., for either spouse) to 52 percent.

More working respondents had DC plan coverage (51 percent) than had DB coverage, and 21 percent had DC coverage from a previous job. Factoring in a spouse's DC coverage (35 percent) brings the total household coverage rate for any kind of pension, either a DB or DC plan, to 79 percent.

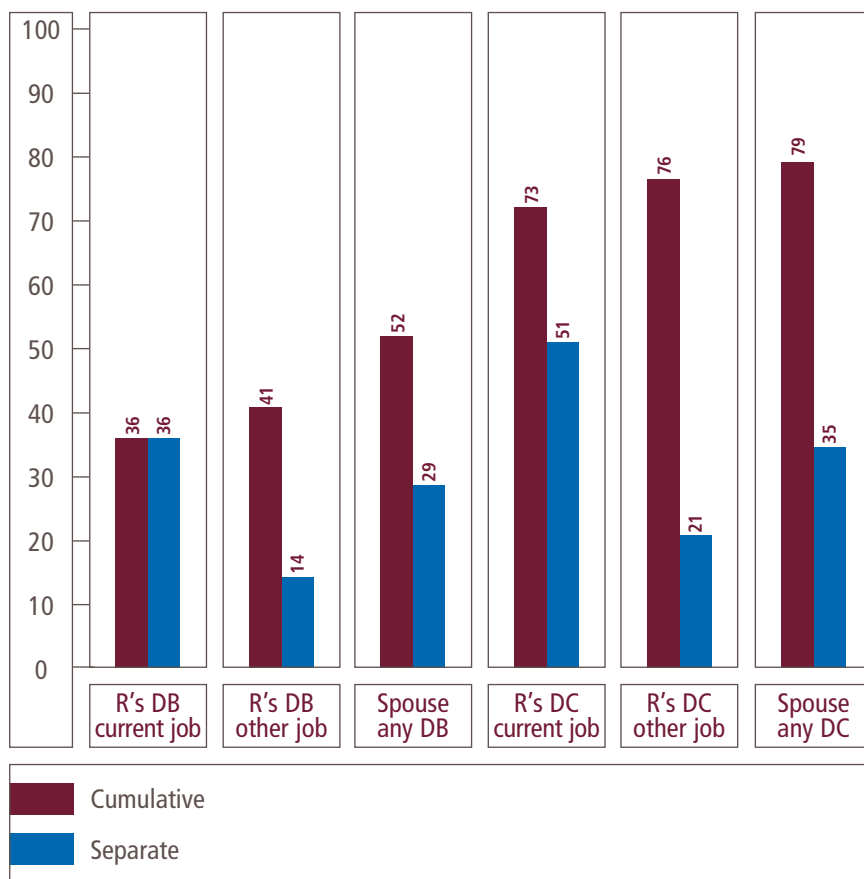
Major and Minor Sources of Retirement Income

We sought to determine which of five potential sources of retirement income—

a retirement savings plan such as a 401(k), a traditional DB pension, Social Security, earnings, or other savings—survey respondents thought would be the most important sources for them.

Responses differed considerably by age, in part because the types of pension coverage people have has changed markedly over time, as noted above. For example, respondents aged 25 to 49 were the most likely of any age group to cite a workplace retirement savings plan, such as a 401(k), or other savings as major sources. Respondents aged 50 and older, on the other hand, were far more likely

Figure 1: Rate of pension coverage



Cumulative Rates of Pension Coverage Based on Respondent's (R's) DB Coverage From Current or Other Job and Spouse Lifetime DB Coverage and Respondent's DC Coverage From Current or Other Job and Spouse's Lifetime DC Coverage.

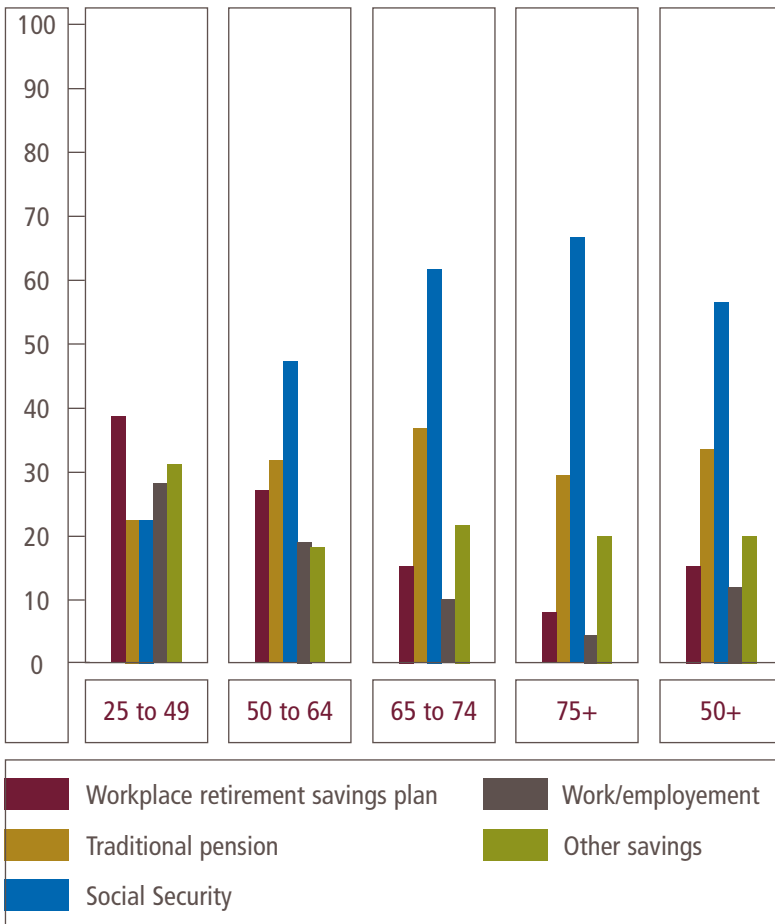
than younger ages to identify Social Security and traditional pensions as major sources of retirement income (see Figure 2 below).

Not surprisingly, Social Security was mentioned with increasing frequency as age increased. The percentage of respondents that thought Social Security would be a major source increased from less than one-quarter among those aged 25 to 49 to more than two-thirds among those aged 75 and older. On the other hand, close to one in five of the group aged 25 to 49 thought that Social Security would not be a source of income in retirement (not shown).

When asked what income source they thought would constitute the *largest* share of retirement income, a very similar pattern and ranking emerged, except that among the group aged 25 to 49, Social Security ranked second, behind “workplace retirement savings plans” and slightly ahead of “other savings,” as the largest share of retirement income.

Income Adequacy and Replacement Rates
Retirement income adequacy is a somewhat elusive concept, and experts have not agreed on a precise standard. Financial planners generally say that people need to replace about 70 to 80 percent of their preretirement income

Figure 2: Expected major sources of retirement income (% selecting each)



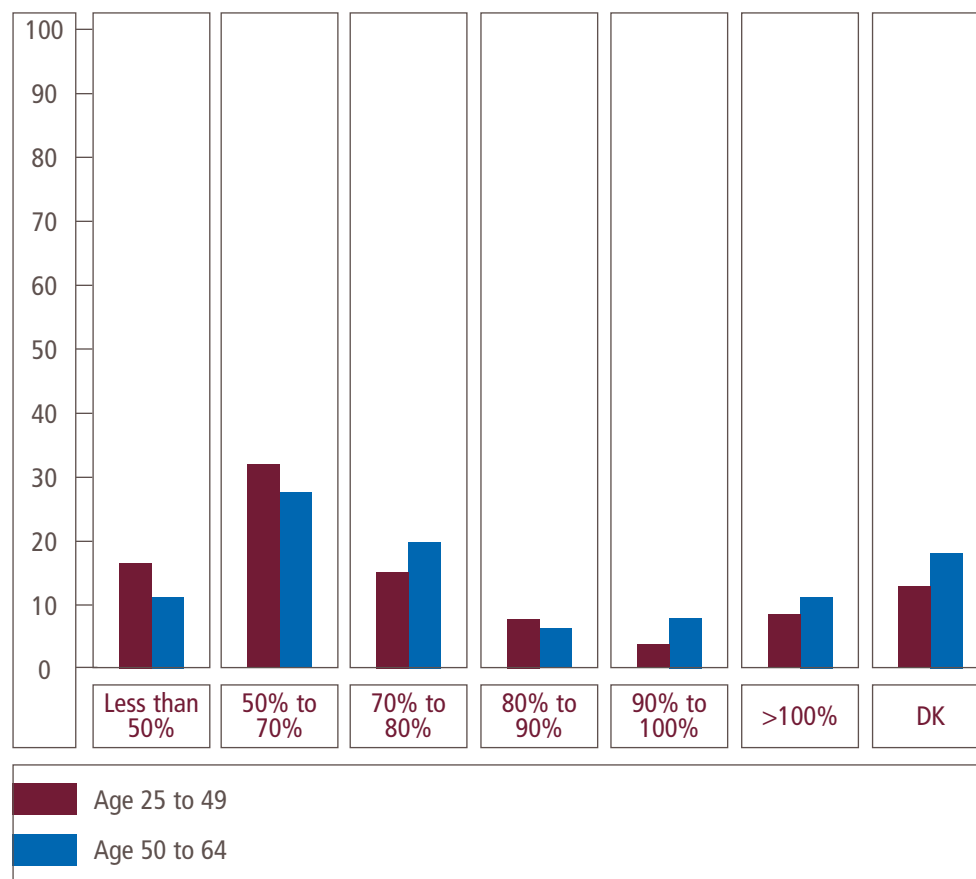
to achieve adequacy in retirement. However, that leaves numerous questions unanswered, such as what income sources are included, what preretirement period is the benchmark, or whether certain forms of wealth (such as housing) should be excluded.

We asked respondents under age 65 who had never retired (694 cases) what percentage of preretirement income they thought they would *need* to live as well in retirement as they did prior to retirement. They were also asked what percentage of preretirement income they would *actually have* in retirement. Because we are dealing with less than half the sample respondents,

conclusions should be drawn with caution. Nevertheless, the findings are consistent with other survey data.

Nearly half of those under age 50 and nearly 40 percent of those aged 50 to 64 thought they would need less than 70 percent of preretirement income to live as well as they did before retirement (see Figure 3 below). Given the advice of financial planners, this is unexpectedly low. However, it is consistent with the results of the *Retirement Confidence Survey*, which found that 50 percent of workers thought that they would need less than 70 percent of preretirement income, and 78 percent thought they would need less than 85 percent.²²

Figure 3: Percent of respondents needing various income replacement rates, by age



Moreover, more than half of those under age 50 and close to half of those over age 50 *expected* to have less than 70 percent of their preretirement income to live on (see Figure 4). Only about one-fifth of the under age 50 group and one-fourth of the over age 50 group thought they would need more than 80 percent of preretirement income, and less than 10 percent of both groups thought they would actually have that much.

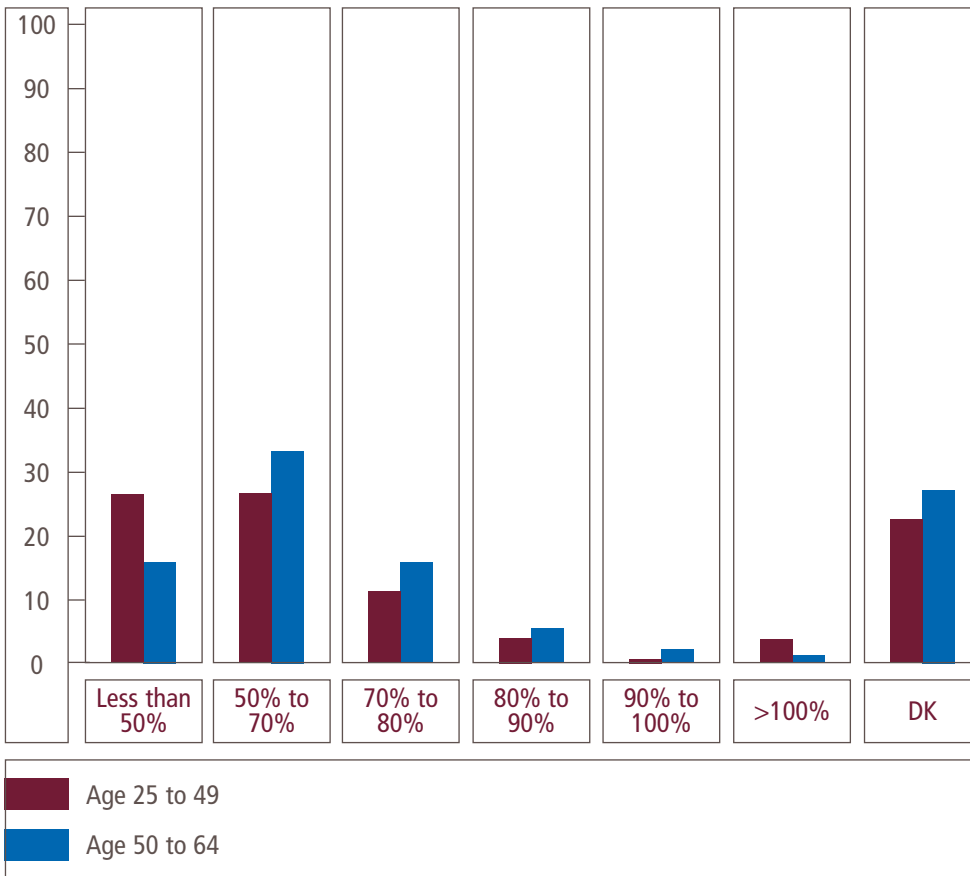
It should be noted, however, that a sizeable minority of respondents (14 percent of those under age 50 and 18 percent of those over age 50) did not know how to answer the “need” question, and even larger percentages (23 percent

of those under age 50 and 26 percent of those over age 50) could not answer the “expectation” question.

We then asked all *retired* respondents whether their current retirement income was lower, higher, or about the same as their income just before they retired. The single largest response in all age groups (40 percent to 45 percent of each) was that retirement incomes were lower (see Figure 5 below).

But more than half of retirees in each age group said that their incomes were either the same as or higher than their income just prior to retirement. The sharp disparity between preretirement

Figure 4: Percent of respondents expecting various income replacement rates, by age

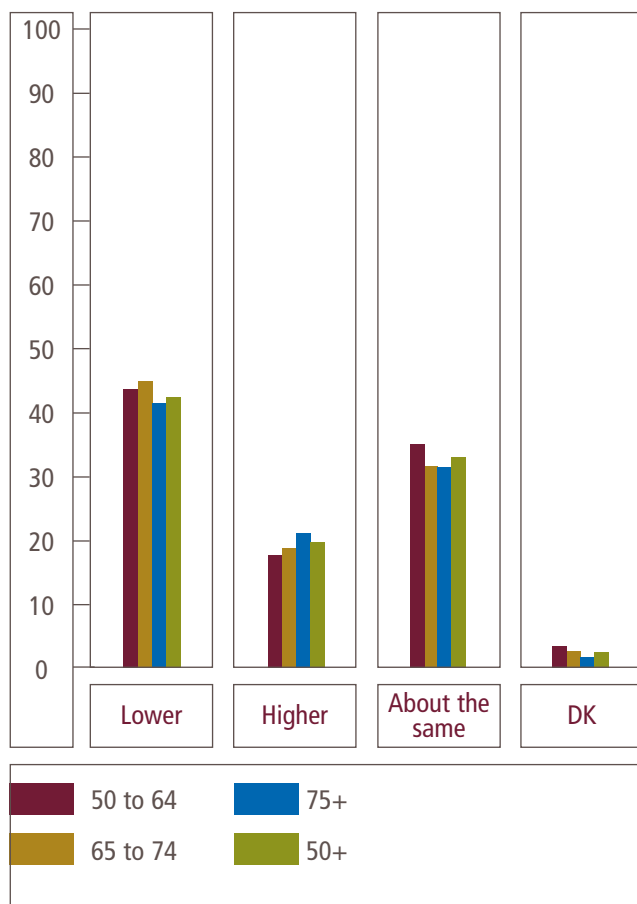


expectations represented in Figure 4 and post-retirement reality depicted in Figure 5 is difficult to interpret. Given the high percentage of “don’t know” responses regarding expectations, we should probably treat with some skepticism the ability of workers to judge their retirement needs. It is a matter of concern, however, if large percentages of workers think they will be able to manage retirement on less than 70 percent of their preretirement income. Other retirement surveys have found that satisfaction with the adequacy of retirement resources seems to increase with age. Perhaps retirees have adjusted their expectations about needs, and that influences their recollections about

preretirement income levels. Or it may be that these responses have less to do with income levels per se and more to do with the general standard of living that people feel they have achieved. Whatever the answer, these findings seem to warrant further exploration.

When the minority of retirees who said their income was lower in retirement were asked more specifically what percentage of their preretirement income they currently had, two-thirds of the groups aged 50 to 64 and 75 and older, and about 60 percent of the group aged 65 to 74, said they currently had less than 70 percent of their preretirement income. Looking at retired respondents aged 50 and older as a

Figure 5: Current household income compared to income right before retirement



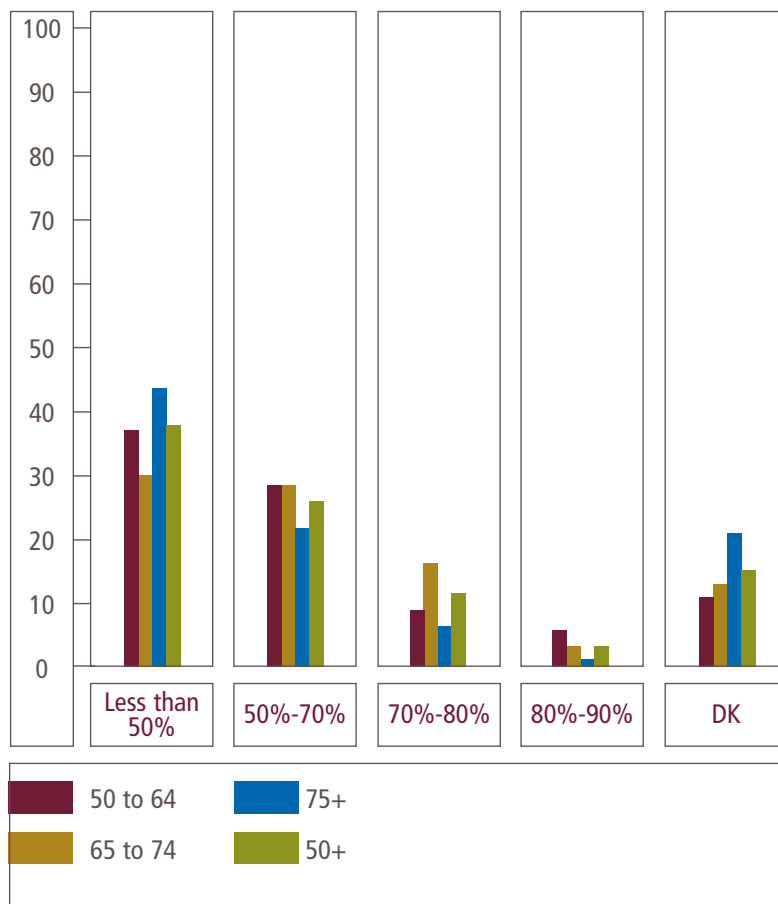
whole, 28 percent overall (i.e., 64 percent of the 44 percent who said their incomes in retirement were lower than before they retired) had incomes below the standard of 70 percent of preretirement income.

When retired respondents were asked whether their retirement income was more than, less than, or about what they expected to have, nearly 60 percent of all retirees aged 50 and older and more than half of each age subgroup said it was about what they expected, while another 12 to 16 percent said they had more income than they expected in retirement (see Figure 7). In the group aged 50 and older, the two older age subgroups were more likely than the group aged 50 to 64 to have about what they expected.

Figures 5 and 7 may appear slightly in conflict because those with “lower incomes” in Figure 5 substantially exceed those with “less than they expected in retirement” in Figure 7. However, if one assumes that people *expect* income to decline in retirement, then the 23 percent of people aged 50 and older who said they had less income than they expected in retirement may be compatible with the 28 percent of retirees who said they had less than 70 percent of their preretirement income (i.e., they may have expected a 70 percent replacement rate).

We asked retirees about their levels of retirement spending as well—was it more than, less than, or about what they

Figure 6: Current household income as a percent of pre-retirement income

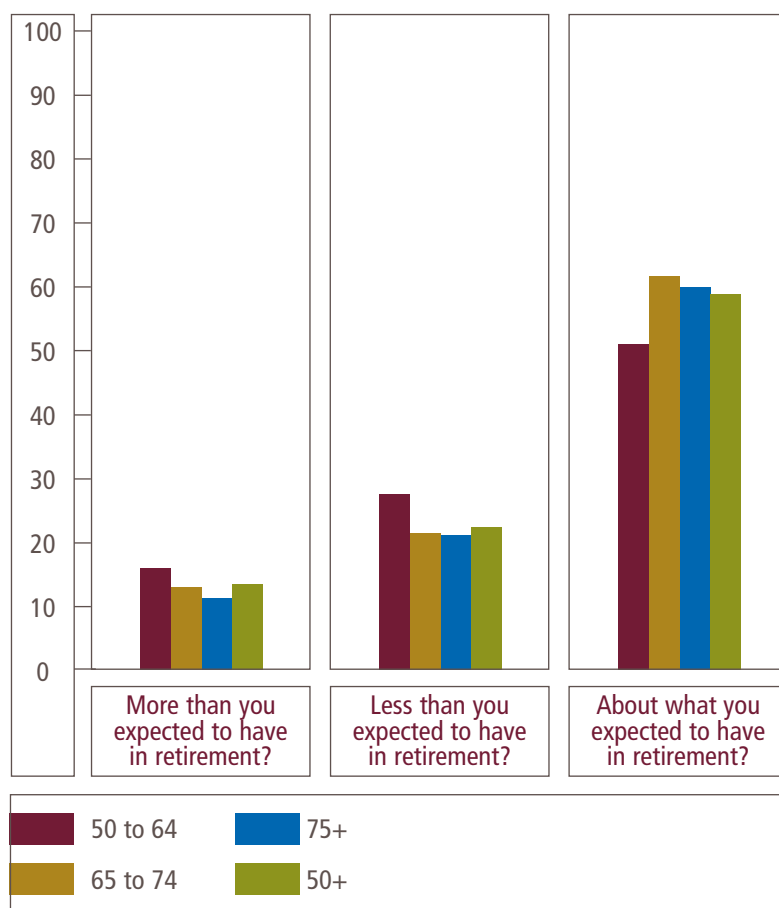


expected (see Figure 8). These responses suggested that more people have had rude shocks than have had pleasant surprises. Whereas about 12 to 16 percent of retirees had more income than they expected, close to 30 percent of all age groups were spending more than they expected. About one-quarter had less income than expected, but only about 10 to 15 percent had lower spending than expected. With annual increases in the cost of health care exceeding wage increases by a large margin, these unpleasant surprises are likely to continue for many retirees.

Asset Decumulation and Annuitization
 One of the less-studied areas of retirement income adequacy is

consumption of assets in retirement. Although considerable research has been done on the kinds of pension distributions that people take, comparatively little has been done until recently on how or how rapidly retirees spend or use up their savings. Research has shown that consumption drops substantially at retirement, a finding discomfiting to some economists because it does not seem to comport with the prevailing life cycle model that predicts a relatively smooth and stable consumption trajectory between work and retirement. The drop in consumption would not surprise financial planners, however, who advise people that they will need less than 100 percent of

Figure 7: Since you retired, have you found that the income that you have is...

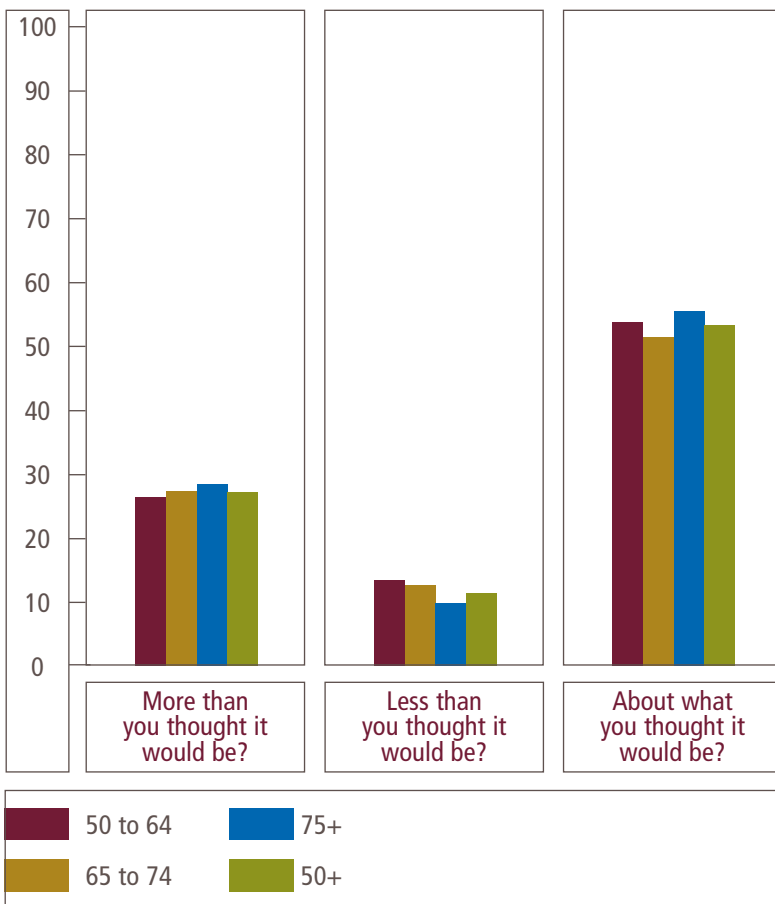


preretirement income to manage in retirement, with the standard recommendation in the 70 to 80 percent range. Some research has shown positive wealth changes for people 65+ in the 1989 to 1994 period,²³ and that older people generally do not use up their savings until after age 70.²⁴ A study done for AARP found that the wealth of older households in the 1980s was relatively flat in retirement, but that it increased in retirement years among retirees past age 70 in the 1990s.²⁵ Of course, consumption and income are not the same, and if workers saved 30 percent of their preretirement income (meaning they spent only 70 percent of their pre-retirement income), then 70 percent

replacement rates could be compatible with a smooth consumption trajectory.

We asked the retirees in the sample whether they had had to rely on some of their savings in order to meet their needs (see Figure 9). Majorities of 58 percent or higher in each age group and 60 percent of retired respondents overall answered “no,” they did not have to use up their savings in order to meet their needs (not shown). Among the minority (252 respondents) who said they did have to supplement their income with some of their savings, about 28 percent said they did so immediately and another 32 percent did so within the first three years after retirement.

Figure 8: Since you retired, have you found that your actual spending is...

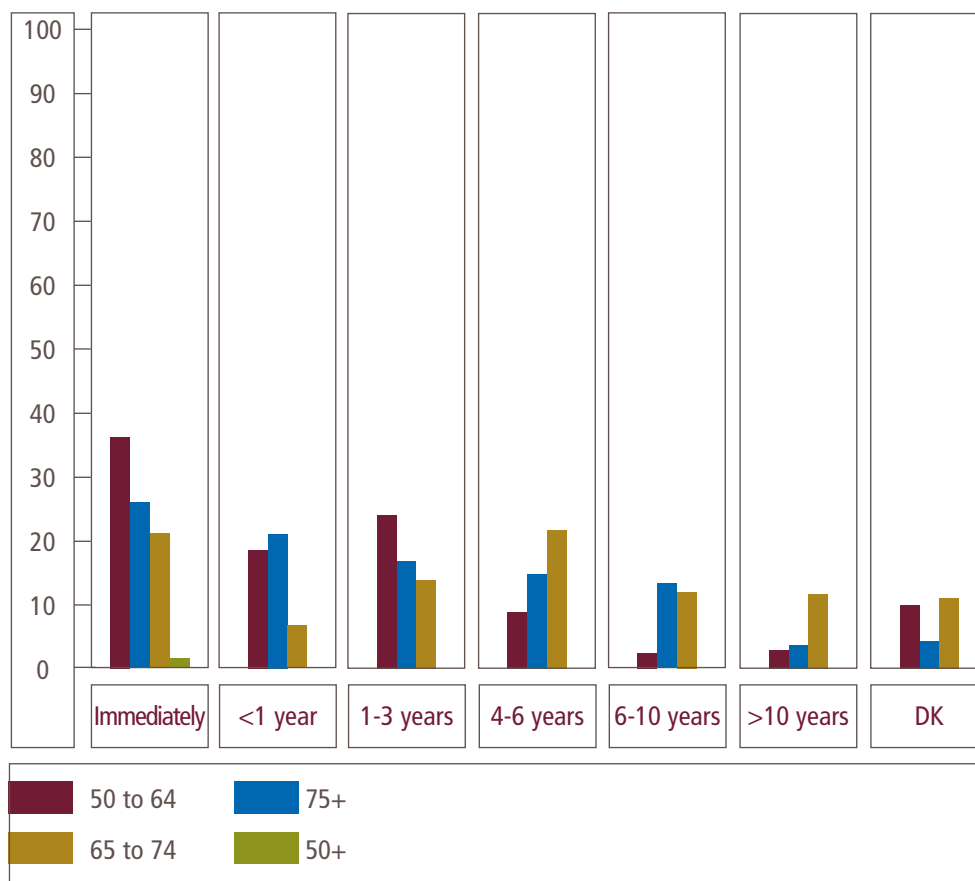


A concern expressed by many regarding retirement security is the tendency of pensions holders to cash out their pensions and take lump sums, rather than take a life annuity that would provide a guaranteed income for life. We attempted to determine people's preferences regarding the distribution of pension plans as lump sums or as annuities. We posed to all respondents under age 65 in the sample (948 in all) the hypothetical scenario of retiring at age 65 with a retirement benefit worth \$260,000 or instead taking a specific equivalent amount annually (\$20,000) for life. Roughly equal percentages of those aged 25 to 49 and those aged 50 and older (41 percent and 44 percent, respectively) selected the lump sum option, but

slightly larger percentages of each age group preferred taking the annual amount for life (54 percent for those under age 50, 48 percent for those aged 50 and older; Figure 10).

When we gave the respondents under age 65 the added option of taking a combination of lump sum and annual amounts, that became the leading response, with identical 42 percent shares of each age group opting for the combination, about one quarter still opting for the lump sum, and about one-fifth sticking with the annuitize-all option (see Figure 11). About 8 percent of the younger group and 14 percent of the older group could not decide which option to choose.

Figure 9: How long after retirement did you begin to supplement your income with some of your savings?



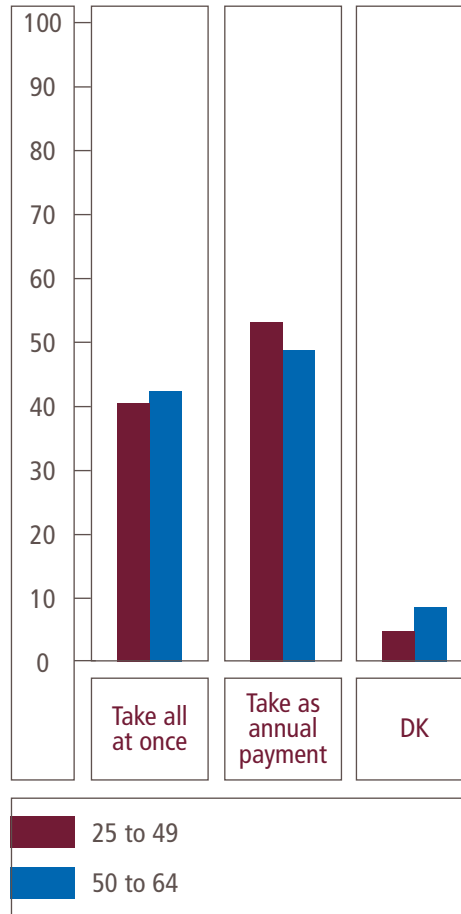
Conclusion

Our survey results support the findings of other research that fewer than half of today's workers have pension coverage on their job. Coverage rates increase when we consider pensions from any previous employment, and increase still further when household coverage is counted.

On the broader questions of retirement income adequacy, the survey results suggest that workers who have never been retired have modest expectations about their level of post-retirement income. They say they need less than 70 percent of their preretirement income, and in general they expect to have that or less. The good news is that retirees for the most part find that they have adequate amounts of income in retirement. This is a conundrum that bears further investigation. If it is true that workers have relatively low expectations for retirement income, are they perhaps underestimating the amount they will receive from Social Security? This appears to be particularly true of younger workers, a high percentage of whom appear to expect little from Social Security. Given the high percentage of "don't know" responses from workers regarding their retirement income expectations, is this simply another instance of lack of knowledge of retirement prospects? Does the relative satisfaction among retirees come as a surprise that they can cope with their resources, even though they appear to have less income and higher expenses than they expected?

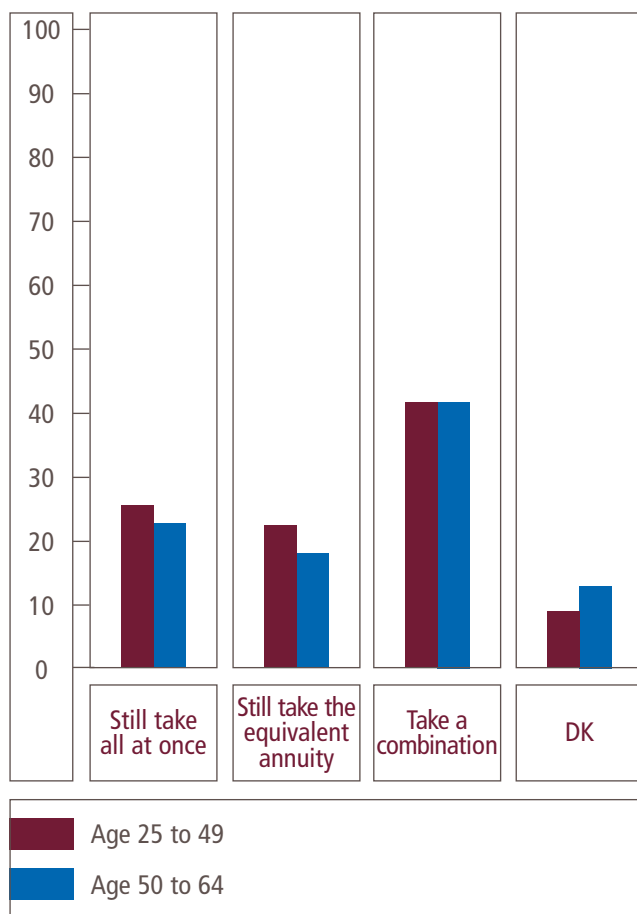
Perhaps the reconciliation of these findings lies in the fact that retirees seem to be able to conserve their assets in retirement—they do not spend them down or, if they do, they seem to spend them relatively slowly. The high percentages of retirees who do not use up their savings are consistent with the research cited

Figure 10: You have the choice of taking this benefit all at once, or to take the equivalent benefit as annual payments of \$20,000, adjusted every year for inflation, and paid to you every year for as long as you live. Which would you choose?



earlier. Conservation of assets may be due in part to sharp drops in consumption, which several studies have found to occur in retirement. It may also reflect unanticipated success in financial markets, where investment returns more than offset spend-down rates, as happened more frequently in the late 1990s. How precisely retirees manage to do that was beyond the scope of our survey, but it is a question for future research.

Figure 11: Now suppose you had the option of receiving some of the \$260,000 as a lump sum and then receiving the balance in monthly installments of equivalent value for as long as you live. Now which would you choose?



Expert Commentaries



Robert L. Clark

The benefits from pension plans are an important component of retirement income for many older Americans. Throughout the twentieth century, an increasing number of firms established retirement plans as a key component of their employment and compensation policies. These plans allowed companies to achieve their objectives of attracting and retaining quality workers and ultimately retiring older workers. Income from pensions allowed many workers to retire and still maintain their standard of living.

What is the future for employer-provided pension plans? Although we know the recent history of retirement plans, the future is uncertain. For the past three decades, the proportion of the labor force that participated in a pension plan through their employer has remained relatively stable, with approximately half of all workers being covered by a retirement plan. However, during these 30 years, there have been major changes in government regulations and a substantial shift in the type of plan covering most workers. Coverage by traditional defined benefit plans has plummeted while coverage by 401(k) plans and other defined contribution plans has expanded. In addition, cash balance plans and other hybrids have grown in importance. To some, the shift away from traditional defined benefit plans is a cause for alarm; others note that the alternative may have been for companies to offer no pension at all.

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These trends in pension coverage are due to changes in employer and employee preferences, the uncertainty of the costs to employers of providing defined benefit plans, and the uncertainty surrounding the future benefits that workers can expect to receive from traditional defined benefit plans due to plan terminations, downsizing, and greater worker mobility. Government regulation has made defined benefit plans more costly to manage, compared with defined contribution plans. Adverse economic conditions have illustrated a fundamental weakness in the traditional methods of funding defined benefit plans and in the funding requirements specified by government regulations and accounting standards. Declines in employment in industries that traditionally used defined benefit plans as part of their compensation package and increases in the relative size of sectors where companies typically did not offer traditional plans have exacerbated this trend. Finally, worker preferences may have changed, with many workers now desiring a more portable pension plan like a 401(k) plan.

Many analysts often argue that defined benefit plans are less risky than defined contribution plans. Is this true? Typically these analysts focus solely on the financial market risk in defined contribution plans. However, history has shown that defined benefit plans are also affected by economic events such as company bankruptcy, plan terminations,

market fluctuations, and large scale layoffs. Workers and former employees of many of America's corporate giants would not believe that defined benefit plans are not risky. It is rare that a worker now entering the labor force expects to remain with the same firm for an entire career. Thus, the portability features of defined contribution plans have become more important.

Will these trends continue? Based on my analysis of employment and compensation policies, I anticipate that coverage by defined contribution plans and cash balance plans will continue to expand while traditional defined benefit plans will become even less important. The Pension Protection Act of 2006 clarified the legal status of hybrid pension plans; there will likely be another spurt in the growth of these plans. Ongoing funding problems and legacy costs of traditional plans will continue to provide incentives for employers to terminate or convert these plans. If these expectations are realized, a key issue will be whether plan designs can be modified to reduce the areas of concern associated with defined contribution plans and cash balance plans. Some provisions in the Pension Protection Act provide a start by allowing automatic enrollment in 401(k) plans and the use of lifecycle funds as a default investment. However, careful review and evaluation of pension policies is necessary if employer-provided retirement plans are to remain an important component of the employment contract.

Robert Clark is Professor of Management, Innovation, and Entrepreneurship, and Professor of Economics, North Carolina State University. He has conducted wide-ranging research on retirement, pensions, and Social Security, both in the U.S. and internationally. He has also been engaged in a variety of projects assessing the key issues in the economics of higher education and the future of higher education in North Carolina.

Professor Clark is a Fellow of the Employee Benefit Research Institute, a Fellow of the TIAA-CREF Institute, and a member of the American Economic Association, the Gerontological Society of America, International Union for the Scientific Study of Population, and the National Academy of Social Insurance. In 2003, he chaired the Technical Panel on Assumptions and Methods that was appointed by the U.S. Social Security Administration to review and evaluate the annual projections of the Old Age Survivors and Disability Insurance program.



Alicia H. Munnell

As suggested by the responses to the AARP survey, today is the “golden age” of retirement income. Most current retirees received their Social Security benefits at a Normal Retirement Age of 65, many are one-earner couples and receive a supplemental spouse’s benefit of 50 percent, and many still rely on traditional defined benefit plans as the main source of supplementary income.

However, a rapidly changing retirement income landscape signals that trouble lies ahead. First, Social Security’s Normal Retirement Age has moved from 65 to 66, and eventually will go to 67. This shift means lower replacement rates—benefits relative to preretirement earnings—at any given retirement age. Another contributor to declining Social Security replacement rates is the shift to two-earner couples, where the wife’s earnings increase preretirement income but often yield little additional benefits. Second, the private sector has moved from traditional defined benefit plans to 401(k)s, in which the median asset balances are very modest. Median 401(k) holdings (including IRAs) of household heads approaching retirement are only \$60,000. The Pension Protection Act of 2006, with its support for more “automatic” 401(k) plans, should improve the picture. But resource-strapped families will still face the choice of covering college costs or saving for retirement. Finally, families approaching retirement today have only about \$40,000 in financial assets outside their 401(k) plans. Their only meaningful holding is their house, with typical housing equity of about \$125,000.

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The most promising options going forward are twofold. First, more future retirees will be forced to tap their housing equity in retirement. This option is not a panacea, however. The amount accessible depends on interest rates, and even at today’s low rates the maximum amount homeowners could access through a reverse mortgage is only 50 percent of the value of their house. Second, more people are going to have to work longer. And, indeed, younger respondents in the *AARP Aging Indicators Study* cite employment as an important source of retirement income. Working longer may not be as easy as it sounds, however. About 40 percent of today’s retirees view their retirement as involuntary, and employers have mixed feelings about older workers. Yet if continued employment can be achieved, it is a powerful solution to the retirement income challenge. The bottom line, which is reflected in the AARP survey, is that future generations are going to have a much harder time gaining a secure retirement than people retiring today.

Alicia Munnell is the Peter F. Drucker Professor of Management Sciences at Boston College’s Carroll School of Management. She also serves as the director of the Center for Retirement Research at Boston College. Previously, Professor Munnell was a member of the President’s Council of Economic Advisers (1995 to 1997) and Assistant Secretary of the Treasury for Economic Policy (1993 to 1995). She spent most of her professional career at the Federal Reserve Bank of Boston, where she became Senior Vice President and Director of Research in 1984. She has published many articles, authored numerous books, and edited several volumes on tax policy, Social Security, public and private pensions, and productivity.

Dr. Munnell was co-founder and first President of the National Academy of Social Insurance and is currently a member of the American Academy of Arts and Sciences, the Institute of Medicine, and the Pension Research Council at the University of Pennsylvania’s Wharton School.



Teresa Ghilarducci

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More American workers over the age of 50 are offered pensions at work, but expanding coverage does not mean rising income adequacy. About half of older workers do not have a pension and most pensions are individual accounts with amounts too small to retire on—the typical 401(k) yields about \$3,000 per year. The Securities Industry Association calculates that 80 percent of 52-year-olds will have to save one-fifth of their take-home pay in order to retire with an adequate income. Many will not devote that much cash to savings.

Inadequate guaranteed pensions means more older people will face poverty, those who can will seek work, and the retirement income gap between the top 10 percent and bottom 10 percent will rise; in 2003, the top had six times as much as the bottom, in 2023 it will be 8.6 times as much. This trend reverses gains in income security made in the last three decades.

Hidden from view is the growing ineffectiveness of government policy to expand coverage. While pension coverage increased by 2 percentage points from 1994 to 2004, the tax revenue lost because of the favored tax treatment of employer retirement plans increased by 86 percent in a 10-year period to \$87 billion in 2006.

Economists generally agree there is no “optimal” retirement age—workers and jobs vary widely—and agree that improving longevity alone does not mean people should work longer. The Social Security system used age 65 as a retirement age; retirement could expand as the nation became richer and workers lived longer.

That the United States is one of three Organization for Economic Cooperation and Development (OECD) nations that ban forced retirement emphasizes the commitment to free choice between retirement and work. That pensions are not adequate suggests more older workers will choose to seek work closer to employers’ terms than their own. Policies to protect older workers in the labor force are urgently needed.

Teresa Ghilarducci is Professor of Economics at the University of Notre Dame and director of the Higgins Labor Research Center at the University. The End of Retirement, her new book from Princeton University Press, investigates the effect of pension losses on older Americans. Her book Labor’s Capital: The Economics and Politics of Employer Pensions (MIT Press) won an Association of American Publishers award in 1992. Ghilarducci has published numerous articles and testifies frequently before the U.S. Congress. She serves as a public trustee on the newly created GM Defined Contribution Health Fund for UAW Retirees and served on the Pension Benefit Guaranty Corporation’s Advisory Board from 1995 to 2002, and on the Board of Trustees of the State of Indiana Public Employees’ Retirement Fund from 1997 to 2002.



Mark J. Warshawsky

Current and recent past cohorts of middle-class retirees, on average, have done fairly well as retirement support arrangements from both the public sector (Social Security and Medicare) and the private sector (traditional pension and retiree health plans) have combined to provide usually adequate and sometimes generous benefits. For many households, fortuitous increases in the value of housing and other asset holdings before and during the retirement years augmented these external formal sources. Indeed, the positive effects of all these factors were evidenced by declining rates of poverty and, until recently, lower and lower rates of labor force participation among the late middle-age and older groups. But more recent trends are largely negative and contain worrying implications for future retirees.

The projected financing troubles and current government budget implications of the major social insurance programs are well known. In the private sector, many employers have stepped back from traditional defined benefit (DB) pension plans, which typically provide lifetime benefits based on years of employment service. Instead, defined contribution (DC) plans, which often depend on the initiative of the worker to participate and almost always depend on the vagaries of asset market performance, are gradually becoming the predominant type of retirement plan. These DC plans rarely offer life annuities to plan participants as a distribution method, so current and future retirees will also increasingly be left on their own to face the significant risk of

Director of Retirement Research

Watson Wyatt Worldwide

outliving their assets. Fewer and fewer employers provide their workers with support for health insurance in retirement, either before or after eligibility for Medicare. It is possible that these concerns and changes are already showing up in the later retirement ages that we have been seeing in the last few years.

The Pension Protection Act of 2006 should give a more stable and supportive environment for retirement plans, especially DB pension plans, by improving and smoothing their funding requirements. It is imperative that public policy continue to find ways to encourage employers to provide adequate and strong retirement plans. And it is essential that we establish both Social Security and Medicare on a sustainable basis as soon as possible to serve as a foundation for the retirement security of future generations.

Mark J. Warshawsky is Director of Retirement Research at Watson Wyatt Worldwide, a prominent global benefits consulting firm. Until August 2006, Dr. Warshawsky was Assistant Secretary for Economic Policy at the U.S. Treasury Department, where he played a major role in developing the Bush Administration's pension proposals and in the Trustees' Reports for Social Security and Medicare. A frequent speaker to business and professional groups, Dr. Warshawsky is a recognized thought leader on pensions, Social Security, insurance, and health care financing. He has written numerous articles published in leading professional journals, books, and working papers, and has testified before Congress on pensions, annuities, and other economic issues. A member of the Social Security Advisory Board for a term through 2012, he is also on the Advisory Board of the Pension Research Council of the Wharton School.

Endnotes

- ¹ In this report card on individuals aged 50 and older, we have included one table for all those aged 50 and older and additional tables for four subgroups (aged 50 to 64, 65 to 74, 75 and older, and 65 and older). The aged 65 and older subgroup is not discussed in the text but is included in the tables as a reference point.
- ² In the text we generally discuss the directional changes of the various indicators without reference to their statistical significance. However, we note in all the tables those changes that are statistically significant at the traditional .05 level. We urge readers to refer to the tables as they read the text to identify those changes that are actually statistically significant. Most of the one-year changes are not statistically significant. Most (although not all) of the 10-year changes are statistically significant for the overall 50+ population, but not necessarily for the age subgroups.
- ³ In order to more accurately reflect the U.S. 50+ population in our results, we revised our sample weight scheme for the *2005 AARP Aging Indicators Study*. Some numbers that appeared in last year's report may be slightly different in this year's report due to this minor adjustment.
- ⁴ Conducted for AARP by Woelfel Research, Inc. in September 2006.
- ⁵ For a brief discussion of how we display the group aged 65 and older, see footnote 1.
- ⁶ The percent who report infrequent depressive symptoms.
- ⁷ In the case of the subgroup aged 50 to 64, 2005 median family income (\$52,000) was 4 percent below their 1998 income level (\$54,322) in 2005 dollars. Income in 2005 for those aged 65 to 74 (\$30,028) was lower than the 1999 level (\$30,153 in 2005 dollars), as was the case for those aged 75 and older (2005 income of \$20,958 compared with 1999 income of \$21,276 in 2005 dollars). In truth, however, income stagnation has affected all ages. Median household income for all U.S. households was lower in 2005 (\$46,326 in 2005 dollars) than it was in 1998 (\$46,508 in 2005 dollars), according to the Census Bureau. U. S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States, 2005*, Current Population Reports, P60-231, August, 2006.
- ⁸ We estimated median financial assets for 2005 for each household in the 2004 SCF sample by adjusting the values of assets in 12 different asset classes, as well as overall financial assets, using the aggregate growth in these asset classes between 2004 and 2005 as reported in the Federal Reserve Flow of Funds data for September 19, 2006. We then adjusted all values to 2005 price levels based on the Consumer Price Index.
- ⁹ This indicator is defined as 100-P, where P is the percentage of persons who are below 200 percent of the poverty line.
- ¹⁰ AARP, *Baby Boomers Envision Retirement II*, 2004.
- ¹¹ J. Cubanski and P. Neuman, "Status Report on Medicare Part D Enrollment in 2006: Analysis of Plan-Specific Market Share and Coverage," *Health Affairs* Web exclusive, Nov 21, 2006, <http://www.healthaffairs.org>
- ¹² Essentials are defined as food, housing, health care, and utilities; and nonessentials represent the difference between total expenditures and expenditures on necessities.
- ¹³ While these questions are comparable, they are from different surveys. Therefore the changes were not tested for significance.
- ¹⁴ These data, drawn from the U.S. Bureau of the Census, *Current Population Survey, Internet and Computer Use Supplement, 1998*, and the *AARP Aging Indicators Study, 2005*, are not shown in the tables.
- ¹⁵ For more information on consumers and broadband Internet access, see Susannah Fox, "Digital Divisions," (Washington, D.C.: Pew Internet & American Life Project, October 5, 2005), http://www.pewinternet.org/pdfs/PIP_Digital_Divisions_Oct_5_2005.pdf
- ¹⁶ This indicator is defined as 100-P, where P is the percentage of persons who have a limitation requiring assistance from another person. People with limitations are defined as those who (1) have an activity limitation that was caused by at least one chronic condition; and (2) because of a physical, mental, or emotional problem, need the help of other persons (a) with personal care needs, such as eating, bathing, dressing, or getting around inside this home; or (b) in handling routine needs, such as everyday household chores, doing necessary business, shopping, or getting around for other purposes.
- ¹⁷ M. Buessing and M. Soto, "The State of Private Pensions: Current 5500 Data," Center for Retirement Research, Boston College, Issue in Brief #42, February 2006.
- ¹⁸ Investment Company Institute, "401(k) Plans: A 25-Year Retrospective," Research Perspective 12, no. 2, November 2006.
- ¹⁹ A. Munnell, J. Lee, and K. Meme, "An Update on Pension Data," Center for Retirement Research, Boston College, Issue in Brief #20, July 2004, figure 9.
- ²⁰ *Ibid.*, figure 4.
- ²¹ *Ibid.*, figure 3.
- ²² R. Helman, C. Copeland, and J. VanDerhei, "Will More of Us Be Working Forever: The 2006 Retirement Confidence Survey," Issue Brief #292, Employee Benefit Research Institute, April 2006.
- ²³ E. Hurst, M. Luoh, and F. Stafford, "The Wealth Dynamics of American Families, 1984-94," *Brookings Papers on Economic Activity*, 1998, 267-329.
- ²⁴ M. Hurd, "The Income and Savings of the Elderly," Final Report to AARP Andrus Foundation, 1991.
- ²⁵ S. Haider, M. Hurd, E. Reardon, and S. Williamson, "Patterns of Dissaving in Retirement," Issue Paper #2000-10, AARP Public Policy Institute, August, 2000.

AARP is a nonprofit, nonpartisan membership organization that helps people 50+ have independence, choice and control in ways that are beneficial and affordable to them and society as a whole. We produce *AARP The Magazine*, published bimonthly; *AARP Bulletin*, our monthly newspaper; *AARP Segunda Juventud*, our bimonthly magazine in Spanish and English; *NRTA Live & Learn*, our quarterly newsletter for 50+ educators; and our website, AARP.org. AARP Foundation is our affiliated charity that provides security, protection, and empowerment to older persons in need with support from thousands of volunteers, donors, and sponsors. We have staffed offices in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.



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