Retirement Income
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They're Relatively Well-Off

By Kerry Pechter *Sun, Jul 18, 2010*

The median annual income for people over age 65 in the United States is only $18,000, including public assistance and financial help from friends and family. The average—skewed upward by the highest incomes—is almost $29,000.

More than half of America's 37 million elderly, judging by the Census Department's latest income survey, live on incomes below the amounts that most of us would consider desirable or tolerable and far below the amounts that financial planners typically use in their hypothetical examples.

The median annual income for people over age 65 in the United States is only $18,000, including public assistance and financial help from friends and family. The poorest 20% of the elderly, or more than seven million people, live on less than $9,000 a year. The average elderly income—skewed upward by the highest incomes—is almost $29,000. It ranges from $34,000 (for those ages 65-69) to $21,000 (for those ages 85 and over).

Depending on future economic trends, the repair of Social Security's finances, and the success of Medicare and Medicaid reform, their numbers may or may not balloon over the next 30 years as the Baby Boom generation retires and the U.S. elderly population doubles.

If you live in a suburb of single-family homes, you may rarely see the elderly poor. If you live or work in a large city, or visit a jobless rural area, or pass through towns on certain Native American reservations, or if you work directly with the elderly, you may meet them every day.

And anyone who rides the train from New York to Washington, D.C. inevitably passes the patched or hollowed rowhouses of Chester, Pa., and Baltimore, Md. The people on the barren streets, if any, tend to be young. The poorest of the elderly are often invisible, out of sight in apartments or nursing homes.

But, aside from the very poor, millions more Americans over age 65 live on quite modest incomes. Fully 80% of America's elderly, including the younger elderly who are still working, live on less $39,000 a year, according to the June issue of Notes from the Employee Benefit Research Institute in Washington, D.C. The issue included an analysis, "Income of the Elderly Age 65 and Over, 2008," based on data published as recently as March 2009.

The youngest elderly (65 to 69) have the highest average incomes ($34,481) of all older groups mainly because they still have considerable amounts of earned income. They receive about 40% or $14,000 a year from earnings. The share of income from earnings drops to only about 25% for those ages 70 to 74 and falls much lower after age 75. The average income for the oldest elderly is $21,758.

Income from Social Security averages between $10,000 and $12,000 for all elderly, although the highest annual benefit, received by high earners who don't claim until age 70, can reach about three times that amount. Almost 90% of Americans over age 65 receive Social Security benefits.

Investments and property provided income for 55.3% of those age 65 and older in 2008. Those with incomes of $38,468 and above received an average of 18% of their income from assets, while those with the lowest incomes (under $9,000) received an average of only about four percent of their income from assets.

Just over one-third (35%) of elderly receive income from pensions and annuities. The average pension, for those from ages 65 to 85 and older, averages between $4,900 and $5,900 a year. To put it another way, while many American receive pension income, the average pension provides less than $500 a month before taxes.

On average, the percent of average elderly income that comes from pensions has been going up and the percent from assets has been going down since 1975. In 1975, people age 85 and older—those born in or before 1890—derived 9.2% of their income from pensions and 26.5% from assets.

In 2009, the same group—born in or before 1925—derived 22.4% of income from pensions and only 14.1% from assets. The reversal in the weights of pension income and income from assets persists across all segments of the elderly population, but is less pronounced among those ages 65 to 74. This phenomenon might reflect the post-World War II expansion of pensions and perhaps the substitution of pensions for personal savings.

More detailed figures on pension income can be found in the government’s Survey of Consumer Finances. In 2006, 11.3 million Americans over age 65, or about 30% of the elderly, received an employer pension that averaged $10,800 a year. About 3.8 million received a government pension that averaged $15,600 and almost eight million received a private pension or annuity that averaged $7,900.

Income from employer pensions ranged from an average of $25,200 a year for 3.3 million elderly Americans who were in the top quintile of income to an average of just $2,280 a year for 466,000 elderly Americans who were among those in the lowest income quintile.

More older men also appear to be working to supplement their overall retirement incomes than did in the past. The percentage of average elderly men’s income that comes from earnings rose to 30.5% in 2008 from only 18.9% in 1985, an increase of more than 50%. Only 18.7% of average elderly women’s income came from earnings in 2008.

The good news is that the incomes of the elderly, adjusted for inflation, has been rising gradually since 1974. The median elderly income has grown from $13,264 (in 2009 dollars) in 1974 to $18,001 in 2008, a gain of about 36%. The average elderly income has grown faster, rising from $18,715 in 1974 to $28,778 in 2008, a gain of about 54%.

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