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Poverty headed up for coming seniors

By Jim Nowlan

After three decades in which poverty among seniors declined dramatically, the pendulum has begun to swing back toward higher levels of poverty or near-poor status among the coming generation of senior citizens. What can be done, if anything, to make life easier for the many who live in fear of retiring badly?

During the post-World War II era, the economic situation of those post-65 in age improved steadily. There was Social Security in the 1930s and then Medicare in 1965. Large businesses and governments were generally providing “defined benefit” pensions in which the retirement checks were based upon an amount guaranteed by the employer. Wages improved for nearly all Americans, and people saved more than before for retirement.

In 1968, 30 percent of American seniors lived in poverty, according to the US Census Bureau. That figure declined steadily, reaching a low of 10 percent in 2000, and now is at 15.9 percent, based on a new formulation that includes the out-of-pocket health care costs for the first time. I predict, unfortunately, that the percentage of seniors in poverty or near-poor status will creep upward in the years to come, for several reasons.

(In 2012, the poverty line was $15,130 for a couple, and nearly a quarter of older Americans had family incomes below 150 percent of the poverty line.)

First, companies that still have pension programs have been shifting them from “defined benefit” (DB) to “defined contribution” (DC) plans. In a DB plan, retirees are guaranteed a set amount per pay period for life, often based upon a fairly rich formula. In DC plans, retirement pay outs are based upon what the employee and the employer contribute to a plan, much like a 401-k plan, and generally at much less rich rates.

For example, in a special report on pensions, the Economist magazine noted that employers alone contribute about 20-25 percent of payroll to DB plans. In contrast, the *combined* total of contributions by both employers and employees to DC plans is around 9-10 percent of payroll.

In 1975, 85 percent of private-sector employees had DB plans; by 2005, that had dropped to 33 percent, and is undoubtedly lower than that today. In the government sector, more states, including Illinois, are trying to shift employees from DB to less generous DC plans.

Second, wages for new employees in manufacturing and many other sectors of the economy have been declining. The new two-tier wage rates at many manufacturers put new employees at $13-16 per hour versus about twice that or more for more veteran employees.

Third, we are living longer, and more retirees are likely to outlive the finite savings from their DC plans.

Fourth, most of the savings in personal retirement accounts are held by the upper-income earners. According to the Employee Benefit Research Institute, the 25 percent of earners with less than $50,000 in family income held only 12 percent of the total financial assets, whereas the 15 percent with more than $150,000 in income held 60 percent of such assets.

What we are seeing is a reduction in the overall American standard of living that will affect the elderly more than others in the generation to come.

It is easy for financial counselors to advise saving more, yet how does a family with two incomes that together generate less than $40,000 (two incomes at $10 per hour each) save much, or anything?

Social Security is the program that alone keeps up to one-third of all elderly Americans out of poverty. Many people doubt that Social Security will be there for them in retirement. The program can, however, be sustained indefinitely, but it will take the fortitude of elected officials to act soon to do so.  The longer we wait to increase funding for Social Security or slow the rate of benefit increases, or both, the more difficult it becomes.

Readers should ask their congressmen and women how they plan to secure the future of Social Security.

Second, save something each month, even if only a small amount. This builds the habit of saving, ideally for later when incomes are higher.

Third, according to Ed Lawler of the University of Southern California Marshall School of Business, “don’t retire. If you like your job at all, hold onto it. Because getting back in (the workforce) in this era is essentially impossible.”