Late-life economic inequality has risen sharply in recent decades, study finds

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Economic conditions have caused older Americans to see significant increases in financial inequality over the past three decades, according to the results of a study published online in *The Gerontologist*.

In the article "Cumulative Advantage, Cumulative Disadvantage and Evolving Patterns of Late-Life Inequality," the authors found that inequality is higher after age 64, and especially after age 74, than during traditional working years.

"Increasingly, life after age 65 in the U.S. is a 'two worlds of aging' experience, with the well-off older adults doing better and the less well-off part of the income distribution doing worse," said Rutgers University Professor Stephen Crystal, PhD, who was the lead author of the paper. "Based on the economic experience to date of people who are now in their middle years and will make up the future elderly, we can expect this problem to become worse, not better."

The study data were taken from the Survey of Income and Program Participation. Co-authors on the paper included Dennis G. Shea, PhD, and Adriana Reyes, MA, both of Pennsylvania State University.

In a line of work beginning in the 1980s, Crystal and Shea introduced the term "cumulative advantage and cumulative disadvantage" to describe processes by which the effects of early economic, educational, and other advantages can cumulate over the life course.

This new study compared inequality across age groups for data collected in 2010 versus data collected in 1983 and 1984. The researchers examined changing age profiles of inequality using a summary measure of economic resources, taking into account income, annuitized value of wealth, and household size.

Between 1983-84 and 2010, the share of total income received by 65-to-74 year olds in the lower 40 percent of the income distribution went down from 17 to 14 percent, while the share of the best-off 20 percent increased from 46 to 48 percent. For people 75 and over, the share received by the lower 40 percent decreased from 15 to 14 percent, while the share of the top 20 percent increased from 47 to 50 percent, with the lower 80 percent receiving only 50 percent.

Concentration of wealth among older people also increased. By 2010, the top 20 percent accounted for 62 percent of total annuitized value of wealth. Overall, inequality within each birth cohort increased as its members moved from early to mid to later life. The sharpest increases occurred in the cohorts that reached ages 65+ by 2010 (those born generally during the Great Depression and World War II) and those reaching ages 55 to 64 in 2010 (leading edge baby boomers). These cohorts experienced a lower-inequality environment during their earlier working years, but within-cohort inequality increased sharply for them as they moved into middle and later life in the higher-inequality environment of recent years.

"Middle-aged and older people who are not members of the educational and economic elite have seen their financial security whittled away experienced by the disappearance of well-paying industrial jobs bearing good benefits; the disappearance of traditional pensions; and other changes. They face a difficult future in their retirement years," Crystal said.

Older people in the lower 40 percent of the income distribution are heavily reliant on Social Security for their income, with the lowest 20 percent receiving 66 percent of their income from this source and the second quintile receiving 50 percent. The article states that many of these individuals have experienced an increasingly services-oriented economy with fewer well-paid industrial jobs; decreased family stability in lower-income social strata; and an increasing trend for higher-status men and women to marry one another, among other changes. Structural shifts in retirement income systems, such as the move from defined-benefit to defined-contribution pension arrangements, have also impacted retirement prospects of lower-wage workers; individual retirement accounts have failed to make up the gap created by the erosion of traditional pensions.

"The current and projected levels of inequality in later life are not inevitable—they are strongly affected by policy choices, in areas ranging from Social Security to taxation to health care financing," Crystal said. "We can and should do better in providing a decent floor for retirement income in the future. As the U.S. considers what to do about the looming shortfall in the Social Security Trust Fund—and whether to close it by providing more revenues to the fund or by reducing the benefit levels provided under current law—the implications for the less-advantaged in America's high-inequality retirement future need to be carefully considered."

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