Four Decades of Senior Household Income Growth

New Evidence from the Survey of Consumer Finances

John F. Cogan and Daniel L. Heil

The United States is in the midst of a major demographic transition. The baby boom generation contains a record number of senior citizens. Primarily due to remarkable advances in medical care, today's seniors are enjoying longer lifetimes and healthier lifestyles than any earlier generation of seniors. These changes are cause for celebration. Yet, they also present our society with a challenge. Nowhere is the challenge more acute than in the realm of federal finances.

The large and growing number of retirees is placing a heavy burden on the federal budget. In 2018, federal spending on persons age sixty-five and older accounted for 40 percent of noninterest federal spending, despite seniors representing only one-sixth of the population. Seniors' claims on the federal budget will grow to 50 percent by 2029.[1] Current and projected levels of federal taxes are insufficient to finance this burden. As a result, the annual federal budget deficit is forecast to exceed 5 percent of gross domestic product (GDP) by 2028.[2] Meanwhile, Medicare's Hospital Insurance program is projected to be unable to pay full benefits in six years. Social Security will be unable to do so by 2035.

The baby boomers' steadily growing strain on the federal budget has long been recognized. Both congressional and executive budget documents dating back at least to the early 1990s have warned of the fiscal consequences of rising federal spending on the elderly. Despite these well-known fiscal dangers, few policy makers seem aware that seniors' living standards have drastically improved since the early 1980s. This paper documents the remarkable growth in incomes of households headed by persons age sixty-five and older over the last four decades, which can be seen in both absolute terms and relative to incomes of younger households.[3]

From 1982 to 2018, the median inflation-adjusted income of senior households grew by a remarkable 85 percent.[4] This increase is four times greater than the increase among households headed by younger persons. After adjusting for household size and taxes, the median senior household income reached parity with the median among younger households in 2018. The substantial growth in senior household income has been broad based, occurring in all quartiles of the senior income distribution and among various age subgroups, household types, and education levels.

Rising income from private retirement plans and employment earnings has been the driving force behind this growth. While rising inflation-adjusted Social Security benefits have been a key source of income growth among senior households in the lower half of the income distribution, they have been relatively unimportant among those in the upper half. The pandemic-related disruptions notwithstanding, there is little reason to believe these trends won't continue over the next decade.

The juxtaposition of strong senior income growth driven by private savings and employment with the growing burden of federal spending by programs for the elderly raises serious public policy issues. Rising senior incomes provide an opportunity to reduce the growing federal fiscal burden, especially if policy makers continue to adopt and improve upon policies that encourage greater private savings and longer working lives.

HISTORICAL CHANGES IN THE POLICY LANDSCAPE

The starting year of our analysis, 1982, coincides with major changes in federal retirement policies that were intended to ensure that seniors maintained an adequate standard of living during their retirement years.

The 1977 Social Security Amendments established the program's current method for setting initial benefits. In 1982, this method became effective for persons age sixty-five and younger. This consequential law established the program's current method of determining initial monthly benefits, that is, the benefits to which workers are entitled when they reach the program's full retirement age. Under this policy, known as wage indexing, initial Social Security benefits of typical new retirees are effectively increased from year to year to match the growth in the national average wage. One of the policy's objectives was to ensure that the standard of living enjoyed by senior citizens kept up with that of the working-age population.

In the same year, the IRS issued final regulations governing newly created employer-sponsored 401(k) plans. Individual retirement accounts (IRAs), which were created in 1974, were still in their infancy.

Additional policy changes in each of these retirement income vehicles occurred throughout the ensuing years. Contribution limits for IRA and 401(k) plans were significantly expanded and, as a result, an expansive defined-contribution-plan industry was created. Meanwhile, Social Security's full retirement age was increased, and the earnings test, which reduced benefits for working seniors, was repealed for persons claiming benefits at this age.

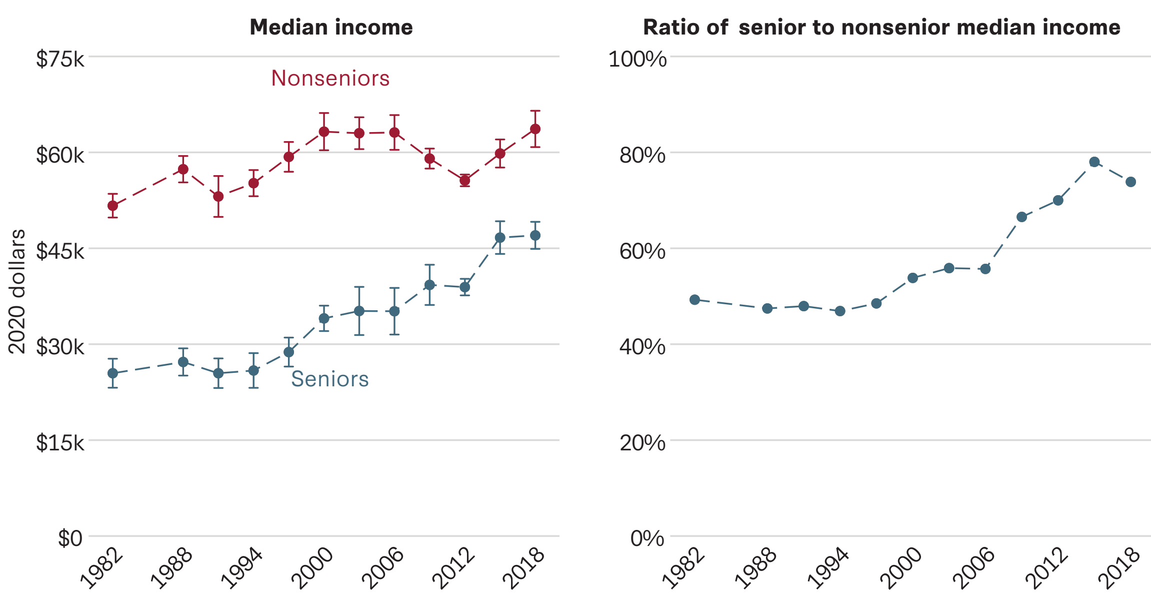
The result is a policy and economic landscape far different from that seen or expected by policy makers in 1977 when they were debating the merits of wage-indexing Social Security benefits.

THE GROWTH IN SENIOR INCOMES

To document the growth in senior household income during this period of policy change, we use the Federal Reserve's Survey of Consumer Finances (SCF). The triennial survey includes detailed questions on income and assets, making it particularly well suited to studying senior incomes. Indeed, the survey has been referred to as the "gold standard" for this purpose.[5] The unit of observation used in our analysis is the household. Senior households are defined as those headed by a person age sixty-five or older. Nonsenior households are those headed by persons under age sixty-five.

Figure 1 shows income trends from 1982 to 2018. The left-hand panel shows the trends in senior and nonsenior household median income in constant dollar terms. The right-hand panel shows the trend in median senior income relative to nonsenior median income. The median inflation-adjusted income of senior households increased from $25,500 in 1982 to $47,000 in 2018. The growth represents an 85 percent increase in the amount of goods and services that can be purchased by the typical senior household. The corresponding increase among younger households, from $51,600 in 1982 to $63,700 in 2018, is substantially less. Its 23 percent growth is only about one-fourth as large as the growth among senior households. Most of the increase in senior household income in absolute terms and relative to nonsenior households has taken place since the turn of the century.

FIGURE 1 Median income for senior and nonsenior households



Notes: Data are from Survey of Consumer Finances (SCF). Income is inflation adjusted using the Personal Consumption Expenditure (PCE) price index. Bars reflect the 95 percent confidence interval.

TABLE 1 REAL GROWTH IN MEDIAN INCOME FROM 1982 TO 2018

	Seniors	Nonseniors
Marital status		
Married	108%	49%
Single female	81%	21%
Single male	68%	5%
Age		
Under 65	—	23%
65–69	43%	—
70–74	108%	—
75 and older	146%	—
Education		
High school or less	47%	5%
Some college	27%	1%
Bachelor's or higher	58%	20%

Notes: Data are from SCF. Income is inflation adjusted using the PCE price index.

The broad-based nature of the growth in senior household income is shown in Table 1. Married couples enjoyed a substantial 108 percent increase. Female-headed households were not far behind with an 81 percent increase.

The magnitude of the senior household income growth is also strong across age groups. Particularly noteworthy is the more than doubling of the median income of households headed by persons age seventy-five or older. Not only is their income increase larger than that of younger senior households in percentage terms, but it is also greater in absolute dollar terms.

Senior households headed by college graduates registered the largest increase among the three education groups. The increases within each education group are less than the 85 percent increase in the median income among all senior households. This reflects the important role that rising levels of educational attainment among seniors plays in their household income growth. A rough estimate suggests rising educational attainment can account for about half of the increase in senior household income.

The contrast between the income growth among seniors and nonseniors in each of the various demographic groups in Table 1 is striking. Income growth among senior households dwarfs the growth among nonsenior households across all household types and education levels.

TABLE 2 INCOME AT VARIOUS PERCENTILES FOR SENIORS AND NONSENIORS (2020 DOLLARS)

	25th percentile		Median		75th percentile	
	Seniors	**Nonseniors**	**Seniors**	**Nonseniors**	**Seniors**	**Nonseniors**
1982	$13,300	$29,400	$25,500	$51,700	$46,200	$82,400
2018	$25,700	$33,200	$47,000	$63,700	$89,300	$117,900
Growth						
1982 to 2018	94%	13%	85%	23%	93%	43%

Notes: Data are from SCF. Income is inflation adjusted using the PCE price index.

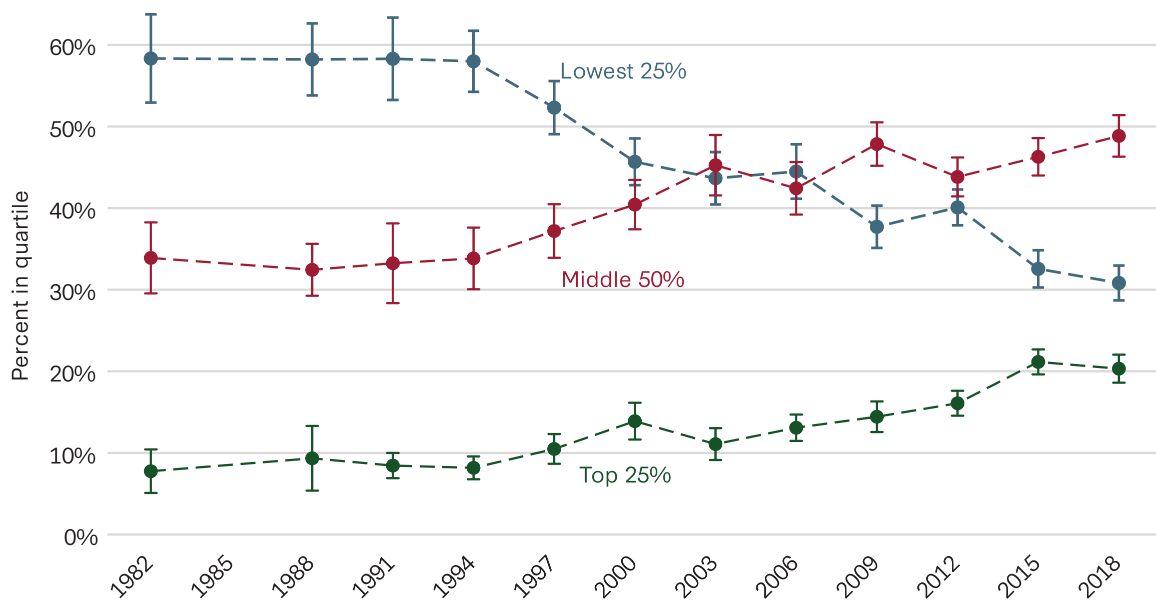
The substantial absolute and relative growth of senior income has also been widespread across the income distribution. Table 2 shows income levels of senior and younger households at various income percentiles of their respective income distributions. Senior households with incomes at the 25th percentile rose by 94 percent. This growth is more rapid than the growth in the overall median among senior households and seven times more rapid than the 13 percent increase among younger households. Senior households with income at the 75th percentile rose by a similar 93 percent, more than twice as fast as the growth among nonseniors at the same percentile.

The upward movement of senior incomes has produced a remarkable convergence over time between the senior and nonsenior income distributions. The convergence (depicted in Figure 2) began in the early 2000s and appears to have accelerated later in the decade. The red line shows that only about one in every three senior households in 1982 had an income that would place it in the middle 50 percent of the US nonsenior income distribution. By 2018, nearly half of all senior households (49 percent) had such incomes, placing them firmly in the middle class.

At the same time, the proportion of seniors with incomes that place them among the poorest 25 percent of nonsenior households (blue line) has declined precipitously over time. As the blue line shows, in 1982 seniors were more than twice as likely as nonseniors to have incomes that placed them in the lowest income quartile (60 percent versus 25 percent). In 2018, seniors were only slightly overrepresented in the lowest quartile (30 percent versus 25 percent). Meanwhile, the percentage of senior households that rank among the richest 25 percent of the nonsenior household population has increased sharply, up from 9 percent in 1982 to 20 percent in 2018.

Senior household incomes have always been less than younger household incomes. As the data suggest, however, senior incomes are rapidly catching up. In fact, they may have already reached parity with younger households. The aforementioned income comparisons between senior and younger households do not account for the many factors that differentially affect

FIGURE 2 Share of senior households by nonsenior quartiles



Notes: Data are from SCF. Bars reflect the 95 percent confidence interval.

living standards of the two groups. This includes household size, the number of children in the household, tax burdens, medical needs, the receipt of in-kind transfers, and employer-provided fringe benefits. Assessing the full impact of these factors is beyond this paper's scope, but we do assess the importance of two factors: federal income and payroll taxes, and household size.

Because a larger share of senior household income comes from sources that are not subject to payroll taxes and are taxed at lower rates than ordinary income, senior household tax burdens are generally lower than those of younger households. Senior households are also on average smaller than younger households.

The impact of these adjustments is shown in Table 3. Before any adjustments, the median senior household income in 2018 was 71 percent of the nonsenior median.[6] Accounting for taxes raises this number to 79 percent. Accounting for household size (using a household adjustment developed by the US Census Bureau for the supplemental poverty measure) raises the senior median income to parity with the nonsenior median. Statistical tests of differences between these medians in each survey year revealed that, prior to 2012, the nonsenior median was statistically higher than the senior median. From 2012 forward in time, the difference is not statistically significant. In short, from a statistical standpoint, income parity between seniors and nonseniors was reached more than a decade ago according to the SCF.[7]

THE SOURCES OF INCOME GROWTH

Four sources of income account for virtually all of senior household income: retirement plan income, labor earnings, income from assets held outside of tax-preferred retirement plans

TABLE 3 RATIO OF SENIOR AND NONSENIOR MEDIAN INCOMES WITH TAX AND SIZE ADJUSTMENTS

	SCF
Pretax median	71%
Post-tax median	79%
Adjustment for household size and taxes	99%

Notes: Data from 2019 SCF and 2019 CPS. Household size adjustment follows US Census Bureau method.

TABLE 4 SOURCES OF INCOME AMONG ALL SENIORS (2020 DOLLARS)

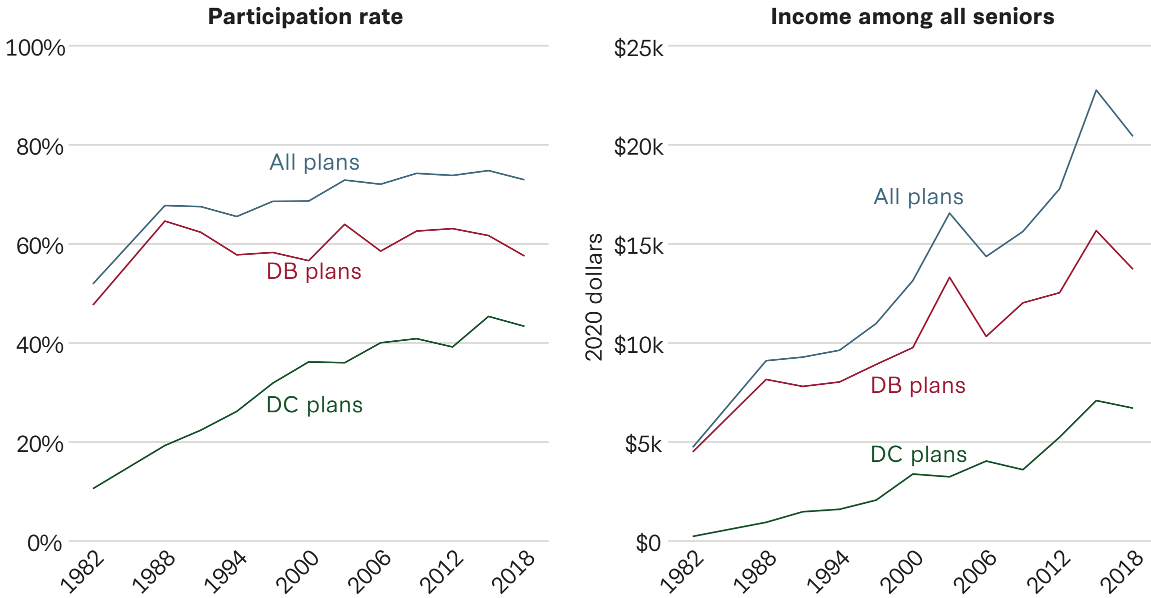
	Mean income	Retirement	Labor earnings	Investment	Social Security
1982	$43,400	$4,700	$10,400	$14,100	$13,400
2018	$91,900	$20,400	$22,700	$23,700	$22,300
Growth					
1982 to 2018	112%	332%	119%	67%	66%
Contribution to income growth	—	32%	25%	20%	18%

Notes: Data are from SCF. Income is inflation adjusted using the PCE price index.

(termed “non-retirement plan asset income”), and Social Security benefits. Table 4 provides various summary statistics on each source’s growth and its contribution to growth in senior household income. Mean senior household income increased 112 percent between 1982 and 2018, somewhat higher than the 85 percent median income increase. All four major income sources played important roles in this growth. But retirement plan income and labor earnings were the key drivers. Income from private retirement plans more than quadrupled during the thirty-six-year period and accounted for about one-third of the increase in total household income. Labor earnings doubled and accounted for one-fourth of the income increase. Income from investments held outside of retirement plans grew by 67 percent and accounted for 20 percent of the increase. Income from Social Security rose by 66 percent and accounted for only about one-sixth of the total increase. By 2018, each of the four sources accounted for roughly equal shares of the total. Of particular note, Social Security income, despite its 66 percent growth since 1982, went from the most important income source to the least important.

A brief word about the growth of each source is in order.

FIGURE 3 Senior retirement plan participation and income by type of plan



Notes: Data are from SCF. Defined contribution plans include IRAs. Bars reflect the 95 percent confidence interval.

RETIREMENT PLAN INCOME

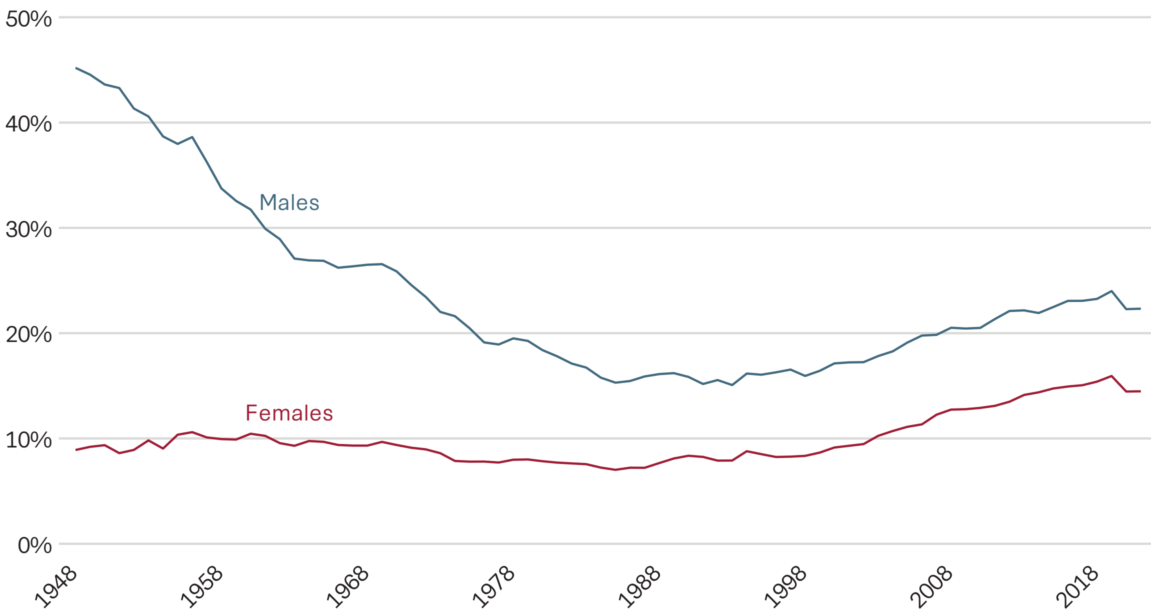
A combination of rising participation in defined contribution plans (mainly IRAs and 401(k) plans) and rising income from both defined benefit and defined contribution plans has produced the fourfold increase in mean retirement plan income. As shown in the left panel of Figure 3, overall participation in retirement plans among seniors rose from 52 percent in 1982 to 73 percent in 2018. Most of the increase since 1982, and all of the increase since 1988, is due to the growth in defined contribution plan enrollment.[8] In 1982, only 11 percent of all senior households had a member enrolled in a defined contribution plan. By 2010, the percentage had quadrupled. Since then, however, a disturbing trend has developed: participation in defined contribution plans has plateaued.

Meanwhile, average income from retirement plans among all seniors grew throughout the entire period of analysis (shown in the right panel of Figure 3). By 2018, it was three times its 1982 level. Although income from defined contribution plans is a rapidly growing share of the total, income from defined benefit plans remains the primary source of retirement plan income, accounting for two-thirds of the total in 2018.

LABOR EARNINGS

The doubling in mean household earnings is largely due to a remarkable rise in employment among both senior men and women. The senior male employment ratio began rising in the mid-1990s and the senior female employment ratio began rising in the late 1980s. Over the entire period, the growth in both employment ratios is substantial, rising by 36 percent among senior males and 80 percent among senior females. The large employment increases are

FIGURE 4 Employment rates for seniors by sex: 1948 to 2021



Note: Data are from the Current Population Survey (CPS).

also broad based, occurring among virtually all household types, education levels, and age groups.

The employment growth among senior men since the mid-1990s represents a historic change from the prior trend. As shown in Figure 4, prior to the mid-1990s the senior male employment ratio had been declining since at least the end of World War II. This decline was itself the continuation of a declining trend that had been under way for a century or longer.[9] The causes of the trend change are, as yet, poorly understood by economists. Explanations have focused on the impacts of higher education levels, improvements in health and longevity, changes in the composition of jobs, improved work incentives due to the shift in private retirement plans from defined benefit to defined contribution plans, policy changes in Social Security, and complementarity between the leisure times in married-couple households. Although research has documented the importance of each of these factors individually on seniors' employment, none of them can explain the trend reversal among either males or females.[10]

The growth in senior female employment is only slightly less remarkable. Prior to its rise, which began in the late 1980s, the senior female employment ratio had been declining for about three decades.

Employment growth among senior males stands in sharp contrast to the flat employment ratio among nonsenior males over the same period. In contrast, the increase in the senior female employment ratio, measured in percentage-point terms, is similar to the increase among nonsenior females (a gain of 11 percentage points for seniors versus 12 percentage points for nonseniors).

TABLE 5 NON-RETIREMENT INVESTMENT INCOME BY TYPE AMONG SENIOR HOUSEHOLDS

	All sources	Interest	Dividends	Rental	Realized capital gains
Share receiving					
1982	65%	59%	20%	14%	5%
2018	40%	23%	20%	14%	12%
Mean among recipients					
1982	$21,800	$11,600	$12,500	$14,600	$52,700
2018	$59,800	$13,300	$19,400	$65,200	$66,600
Growth rates (1982 to 2018)					
All seniors	67%	–55%	57%	330%	187%
Among recipients	174%	15%	55%	347%	26%

Notes: Data are from SCF. Income is inflation adjusted using the PCE price index. Mean calculation is limited to households with nonzero values. Rental income includes income from trusts and royalties.

NON-RETIREMENT PLAN INCOME

Mean senior household income from assets held outside of retirement plans more than doubled between 1982 and 2018. Table 5 reports their mean income by the type of asset. As the data show, there is a substantial decline in the share of senior households that receive income from any of the four asset categories. The entire decline is due to a reduction in the percentage of households that report receiving interest income. This decline is likely due to the dramatic decline in real bond yields from their highs in the early 1980s to below 1 percent for most of the last decade.

The second bank of numbers in Table 5 reports the mean amount of income received from each of four asset categories among households that report positive income from that source. As the data show, large increases in income from rental properties and capital gains realizations are the primary drivers behind the increase in overall income from non-retirement plan assets.

SOCIAL SECURITY INCOME

Social Security's wage-indexing policy was designed, in part, to ensure that initial Social Security benefits kept pace with the growth in average worker wages. The 66 percent increase in senior households' average inflation-adjusted Social Security income, while not out of line with the policy objective, is nevertheless higher than the 54 percent increase in workers' wage earnings.[11] There are many reasons why this could be the case, since the relationship between the growth

TABLE 6 SOCIAL SECURITY BENEFITS AMONG SENIOR RECIPIENTS (2020 DOLLARS)

	1982	2018	Growth
Married couples	$18,000	$31,000	78%
Head	$12,300	$20,000	62%
Spouse	$5,600	$11,800	109%
Single female	$11,000	$17,100	57%
Single male	$12,600	$18,600	47%

Notes: Data are from SCF. Income is inflation adjusted using the PCE price index.

in household Social Security income and workers' wages is only an approximate one. The possible reasons include changes in household composition, increases in the age at which recipients choose to receive benefits, and changes to Social Security benefit rules.

But, as shown in Table 6, the most important reason for the rise in average senior household Social Security income relative to average worker earnings appears to be a substantial increase in Social Security benefits among spouses. The growth in average benefits of senior male and female household heads is only slightly greater than the growth in the wage index. Meanwhile, the average benefit of spouses doubled over the period.

DISTRIBUTIONAL CHANGES

In considering public policies that affect senior incomes, the distribution of income among seniors is as important as the overall level among them. As shown in Table 2, the growth in senior incomes across the income distribution has been substantial over the last four decades. The median income among senior households in the lower half of the income distribution (i.e., the 25th percentile) rose by 94 percent. Similarly, the median of the upper half (i.e., the 75th percentile) grew by 93 percent. Despite similar growth rates, the level and composition of income of between lower- and upper-income senior households differ markedly. Understanding these differences is important as policy makers consider reforms to federal old-age programs and retirement savings vehicles.

Table 7 divides the senior household population into those in the lower and upper halves of the senior income distribution. Lower-income senior households, of course, rely heavily on Social Security; in 1982, it accounted for 73 percent of their income. In contrast, Social Security accounted for less than one-fourth of upper-income household income. Instead, income from non–retirement plan assets and labor earnings were their dominant income source, accounting for nearly two-thirds of their income. Income from retirement plans in 1982 was relatively unimportant for both income groups, contributing only 8 percent to total income for lower-income households and 11 percent for upper-income households.

TABLE 7 SOURCES OF INCOME AMONG SENIORS BY INCOME LEVEL

	Lower half				
	Mean income	**Earnings**	**Social Security**	**Retirement**	**Investment**
1982	$14,400	$700	$10,500	$1,200	$1,200
2018	$26,200	$2,600	$16,600	$5,000	$700
1982 share	—	5%	73%	8%	8%
2018 share	—	10%	63%	19%	2%
Growth					
1982 to 2018	82%	298%	58%	314%	–45%
Contribution to income growth	—	17%	51%	32%	–4%
	Upper half				
	Mean income	**Earnings**	**Social Security**	**Retirement**	**Investment**
1982	$72,300	$20,100	$16,400	$8,300	$27,100
2018	$157,400	$42,800	$28,000	$35,800	$46,600
1982 share	—	28%	23%	11%	37%
2018 share	—	27%	18%	23%	30%
Growth					
1982 to 2018	118%	113%	71%	334%	72%
Contribution to income growth	—	27%	14%	32%	23%

Notes: Data are from SCF. Income is inflation adjusted to 2020 dollars using the PCE price index. Income distribution is limited to households with senior heads.

Labor earnings and retirement plan income were the fastest-growing income sources for both lower- and upper-income households from 1982 to 2018. Among lower-income households, labor earnings and retirement plan income quadrupled. Among upper-income households, retirement plan income more than quadrupled and labor earnings doubled. Social Security income also grew substantially, and slightly faster among upper-income households. The growth in non–retirement plan asset income differed sharply between the two income groups, declining by 45 percent among lower-income households and rising by 72 percent among upper-income households. Social Security remains the dominant source of income growth among lower-income households, accounting for 51 percent of their total income increase. Among upper-income households, however, its contribution to household income growth was a relatively unimportant 14 percent.

CONCLUSION

The Survey of Consumer Finances data show substantial and broad-based growth in income of households headed by persons age sixty-five and older since the early 1980s. This growth is four times faster than the increase in income among nonsenior households. As a result, the median senior household disposable income, after adjusting for household size, has reached parity or near parity with the median among younger households. The driving forces behind the absolute and relative increase in senior household income are income from retirement plans and labor earnings from greater employment. Social Security plays an important role in contributing to income growth only among households in the lower half of the senior income distribution. Its role in boosting income among households in the upper half is relatively unimportant.

These income trends have important implications for retirement income policies. The creation and subsequent expansion of IRAs and 401(k) plans greatly enlarged the opportunities for retirement savings for the current generation of retirees. Similarly, the elimination of the Social Security earnings test and the shift from defined benefit plans to more-attractive defined contribution plans significantly increased incentives for seniors to continue working well into their late sixties and early seventies. Although the precise magnitude of these policies is still a matter of debate, their positive impact on savings and investment is beyond dispute.

There is little reason to suggest that the rising income trend won't continue in the near future. In a more in-depth paper, we find that inflation-adjusted household asset levels among those who are approaching retirement (ages fifty-nine to sixty-four) are similar to those of current senior households when they were nearing retirement.[12] While the pandemic and the economic lockdowns seriously reduced employment among seniors, their employment levels have rebounded significantly since. As of October 2022, senior employment rates have already recovered to their 2018 levels.

Still, there is more policy makers can do to ensure seniors continue to prosper. As noted above, increased employment among seniors has played a large role in their income growth. Policies that encourage work, especially among seniors, are key in ensuring continued gains. Similarly, policy makers should adopt legislation and regulations that encourage greater retirement savings among working-age households. Certain provisions of the SECURE (Setting Every Community Up for Retirement Enhancement) Act of 2019 and the recently enacted SECURE 2.0 Act are steps in the right direction. These laws have raised the age at which individuals are required to take IRA and 401(k) distributions, increased catch-up contributions for persons age fifty and older, and reduced administrative burdens for smaller employers who wish to offer 401(k) plans to their employees.

Along with encouraging work and saving, fundamental changes in the growth and distribution of Social Security benefits are in order. According to the SCF, even if initial Social Security benefits had been permitted to grow over time only at the rate of inflation rather than at the rate of wage growth, the median inflation-adjusted income among senior households would still have increased by 74 percent between 1982 and 2018. The median among lower-income households would have risen by 75 percent, while the upper-income median would have risen by 83 percent over the same period. These increases would still be far larger than the 23 percent increase in the median income of all nonsenior households.

ACKNOWLEDGMENTS

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NOTES

1. CBO 2019, 12.

2. CBO 2022, 7.

3. The paper summarizes the results of our more detailed analysis, which is presented in Cogan and Heil 2022.

4. All income figures used in this paper are expressed in constant dollars using the Personal Consumption Expenditure (PCE) index to adjust income for price changes.

5. Chen et al. 2018.

6. The 71 percent figure differs from the ratio calculated from the numbers reported above due to a slight change in the definition of a household.

7. SCF data limitations do not permit us to adjust incomes for the differential costs of medical care between seniors and nonseniors. However, data from the Consumer Expenditure Survey suggest that adjustments for medical care would not appreciably affect our conclusions. Estimates from the 2018 survey show that health expenditures accounted for 13 percent of senior household income and 5 percent of nonsenior household income.

8. In 1982, defined contribution plans were limited mainly to IRAs, 403(b), 457(b), Keogh plans, and only a handful of 401(k) plans. Part of the increase in defined contribution plan enrollment among seniors reflects a well-documented shift among employers away from defined benefit plans toward defined contribution plans, a shift due primarily to rising administrative costs of defined benefit plans and the portability and greater flexibility at retirement age of defined contribution plans.

9. For a discussion of these trends, see Costa 1998.

10. See, for example, the studies by Purcell 2009, Poterba 2014, and Coile 2019. The phenomenon among males is not confined to the United States. Recent NBER research has shown that it is present in most developed countries (Coile, Milligan, and Wise 2018).

11. Workers' wages are measured by the Social Security Administration's wage index.

12. Cogan and Heil 2022.

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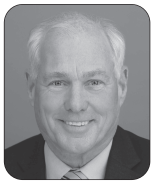

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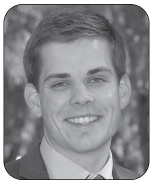

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Synopsis

The growing number of retirees is placing a well-documented strain on the federal budget. Less recognized is the substantial growth in senior citizens' income levels. Using the Survey of Consumer Finances, this paper tracks the remarkably strong income growth in households headed by persons age sixty-five and older during the last four decades. The strong growth in seniors' incomes provides the basis for a comprehensive reexamination of federal retirement policies.

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