

Do Older Americans Have More Income Than We Think?

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U.S. Census Bureau

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This presentation is released to inform interested parties of ongoing research and to encourage discussion of work in progress. This presentation reports the results of research and analysis undertaken by Census Bureau staff. It has undergone more limited review than official publications.

Motivation

- Broad concern about well-being of Americans as they near and enter retirement
 - Have people saved enough?
- Data quality concerns as well
 - Discrepancies between survey income aggregates and other data sources such as National Income and Product Accounts and administrative records (ADREC)
 - By themselves, aggregate discrepancies cannot address questions about the distribution of income

Contributions

- Bring unique data sources together to develop new, nationally representative estimates of median household income and poverty for the population 65+ through 2012
- Explore which ADREC data sources are most important for our findings
- Reassess
 - Importance of DB and DC income for current retirees
 - Relative importance of Social Security income
 - Transition to retirement (Retirement Consumption Puzzle)

Data I: 2013 CPS ASEC

- Approximately 75,000 households
 - 15,000 households with householder age 65+
- Represents civilian noninstitutionalized population
- Source for official 2012 Income and Poverty Report
 - Uses traditional income questions
- PVS Process to assign Protected Identification Key (PIK)
 - Logit to estimate inverse probabilities and reweight PIK sample

Validating Five Types of Income in CPS ASEC

- Earnings (wages and self-employment)
- Social Security (OASDI)
- Supplemental Security Income (SSI)
- Dividends and Interest
- Retirement Income (excludes Social Security)
 - Retirement
 - Survivor
 - Disability

Money Income and the CPS ASEC

- Stream of regular payments
- Challenge of changing retirement landscape
 - Shift from Defined Benefit (DB) to Defined Contribution (DC)
 - Treatment of as-needed withdrawals, lump-sums, rollovers
- 2014 CPS ASEC Redesign
 - Adds specific questions about retirement account withdrawals
 - Address underreporting of asset income
 - Semega and Welniak (2015)
 - Compare traditional and redesigned income questions
 - Find 4.6% increase in median income for householders aged 65+

2013 CPS-ASEC Retirement Income Question

During 2012 did (you/ anyone in this household) receive any pension or retirement income from a previous employer or union, or any other type of retirement income (other than Social Security/ other than VA benefits/ other than Social Security or VA benefits) ?

What was the source?

- 1 Company or union pension (INCLUDE PROFIT SHARING)
- 2 Federal Government (CIVIL SERVICE) retirement
- 3 U.S. Military retirement
- 4 State or Local government pension
- 5 U.S. Railroad Retirement
- 6 Regular payments from annuities or paid up insurance policies
- 7 Regular payments from IRA, KEOGH, 401(k), 403(b), and 457(b) and (f) accounts
- 8 Other sources or don't know

Data II: ADREC Data from SSA

- Earnings
 - Wage and salary earnings from all W-2 jobs
 - Self-employment earnings from Schedule SE
- OASDI Benefits
 - Includes deductions for Medicare premiums
- SSI Benefits
 - Federal and state supplements

Data III: ADREC Data from IRS

- Form 1040
 - Total dividend income, taxable and tax-exempt interest income
 - Complications for joint filers and non-filers
- Form 1099-R
 - Gross distributions from pensions, annuities, retirement or profit-sharing plans, IRAs etc. (DB and DC income)
 - Available even if do not file 1040

INCLUDES	EXCLUDES
Early Distributions	Direct Rollovers
Normal Distributions	Conversions and Recharacterizations
Disability and Death Distributions	Excess Contributions
Roth Distributions	Section 1035 Exchanges

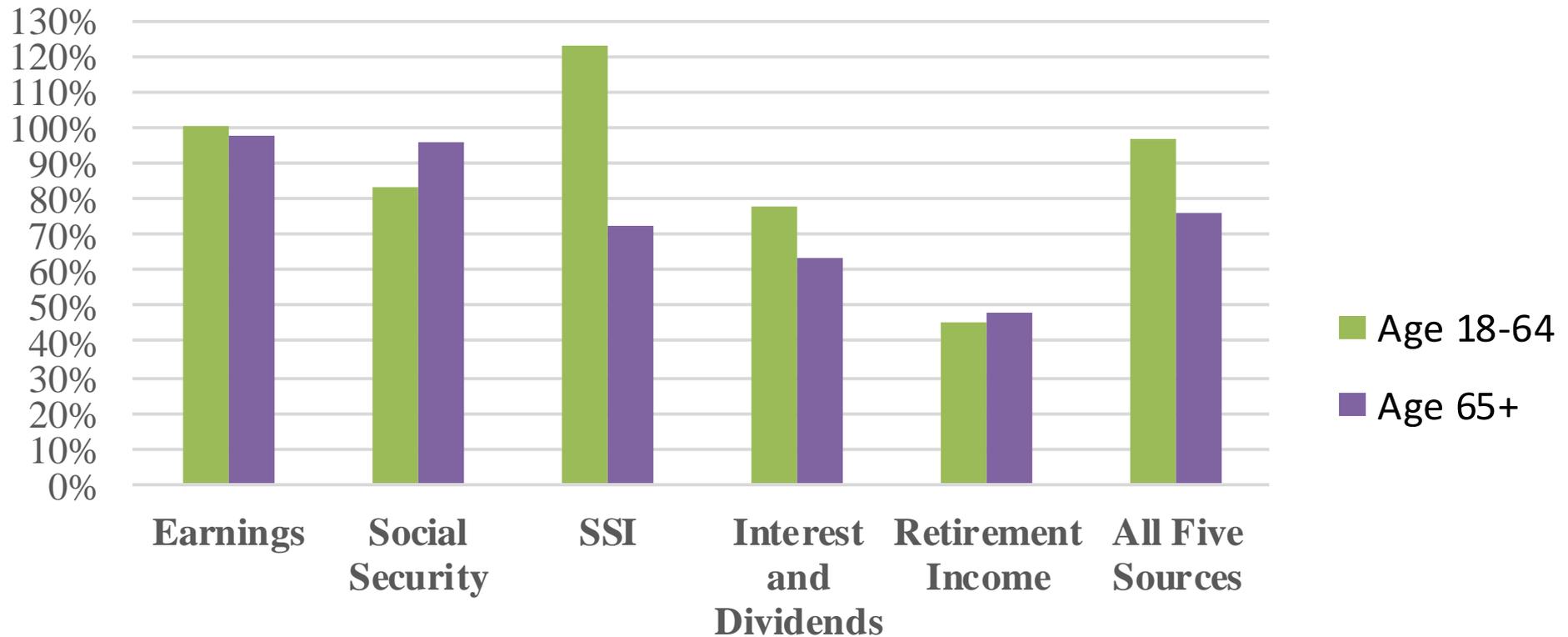
More on Form 1099-R

- Our extract has two categories
 - IRA (Roth, traditional, SIMPLE, SEP)—Reported on line 15 of Form 1040
 - Employer Sponsored –Reported on line 16 of Form 1040
- Alternative income concept
 - When distribution permanently leaves tax-preferred accounts and is available for consumption
 - Short and Skog (2014), Iams and Purcell (2013)
- May not be able to exclude *indirect* rollovers
 - Under 3% of aggregate gross for age 55+ (Argento et al., 2015)

Constructing New Income Variables

- Merge on PIK to assign ADREC income to CPS at person-level
 - Complication with 1040s (joint returns and non-filers)
 - Replace CPS income amounts with corresponding ADREC amounts
- Those with PIKs but who do not match to a given ADREC have zero of that type of income
- Those without PIKs keep CPS values
- Outside of five sources of validated income just using CPS values
- Sum up to family and household levels as needed

CPS Income as Percent of ADREC

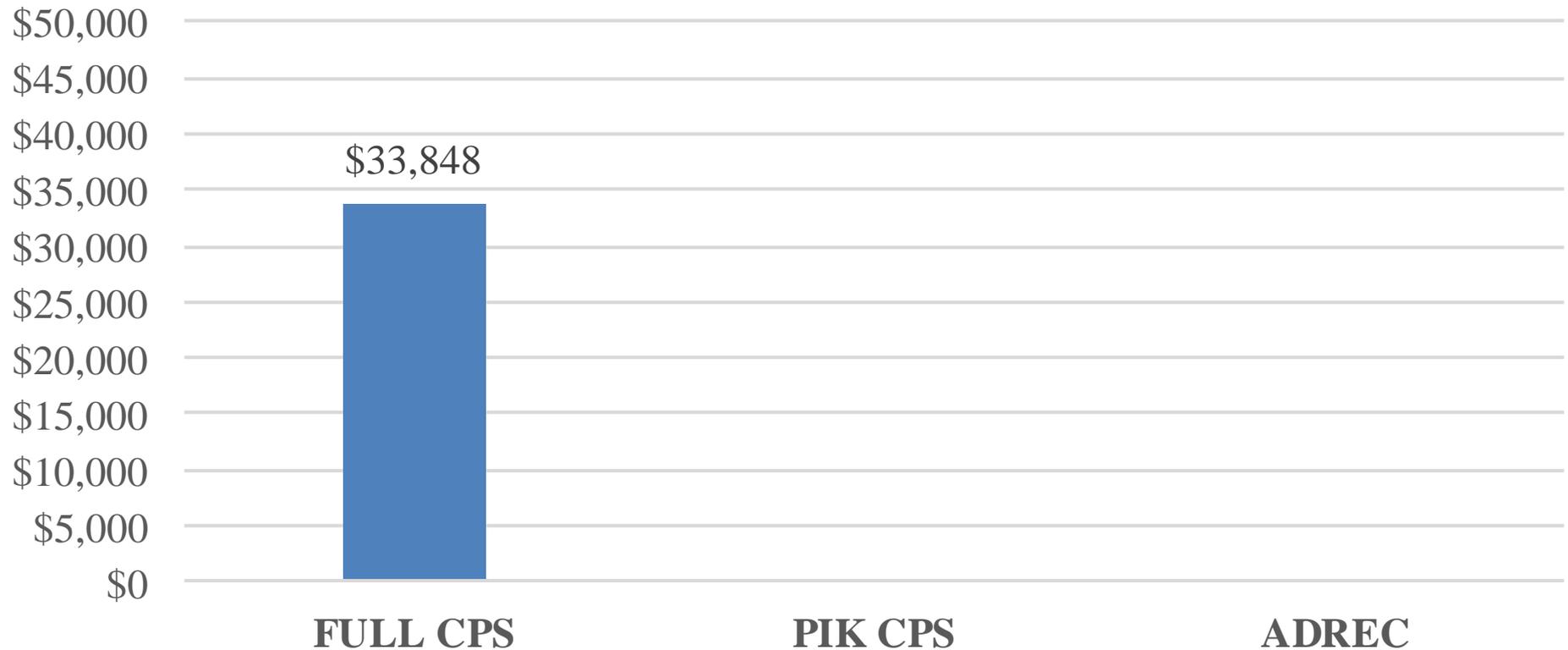


Source: 2013 CPS ASEC-ADREC

What are Distributional Implications?

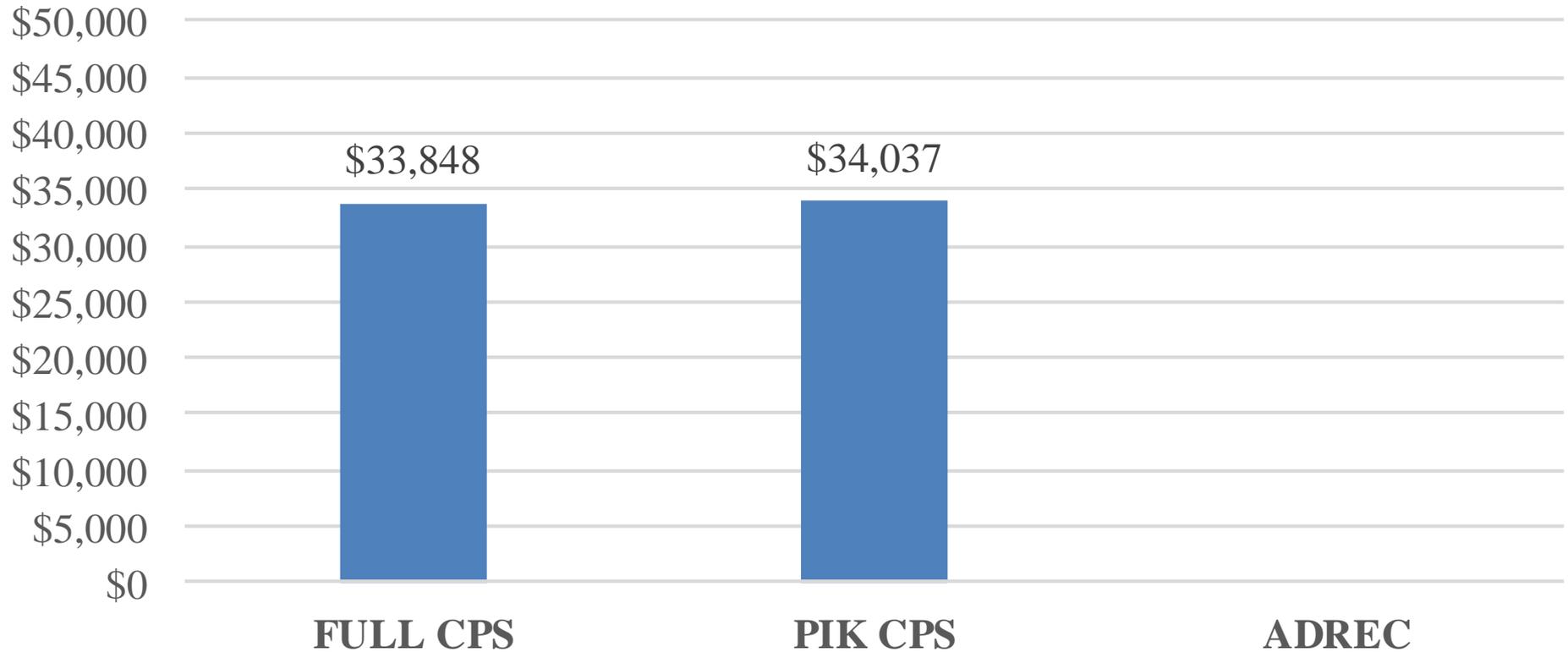
- Median household income
 - Householders age 65+
 - Explore subgroups classified by demographic characteristics of householder
- Poverty
 - Persons age 65+
 - Compare family income to threshold which varies by family size
- Three samples in analysis
 - **Full CPS sample** (N=23,000 persons, 15,000 households)
 - **PIK reweighted sample** (N=21,000 persons, 13,500 households)
 - **ADREC sample** (same as PIK sample but replaced with ADREC income)

Median Household Income (Householder Age 65+)



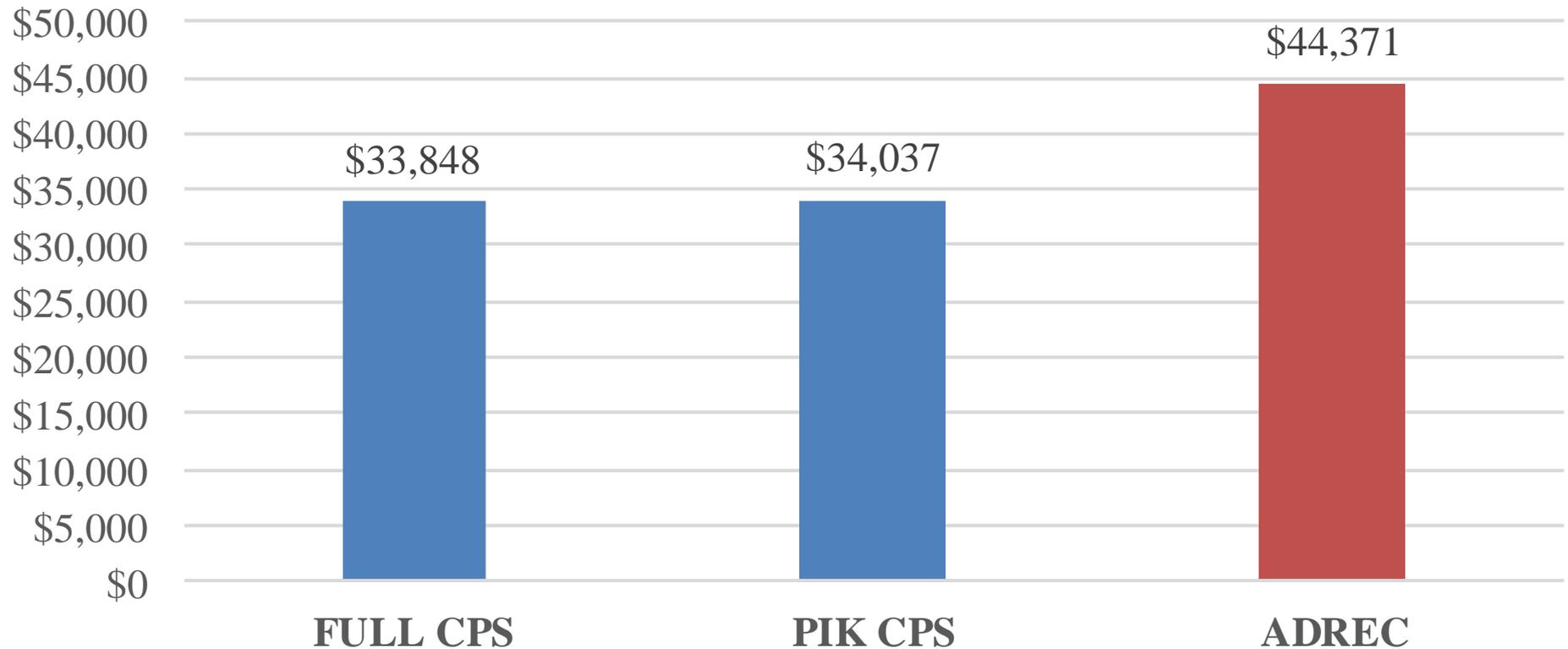
Source: 2013 CPS ASEC-ADREC

Median Household Income (Householder Age 65+)



Source: 2013 CPS ASEC-ADREC

Median Household Income (Householder Age 65+)



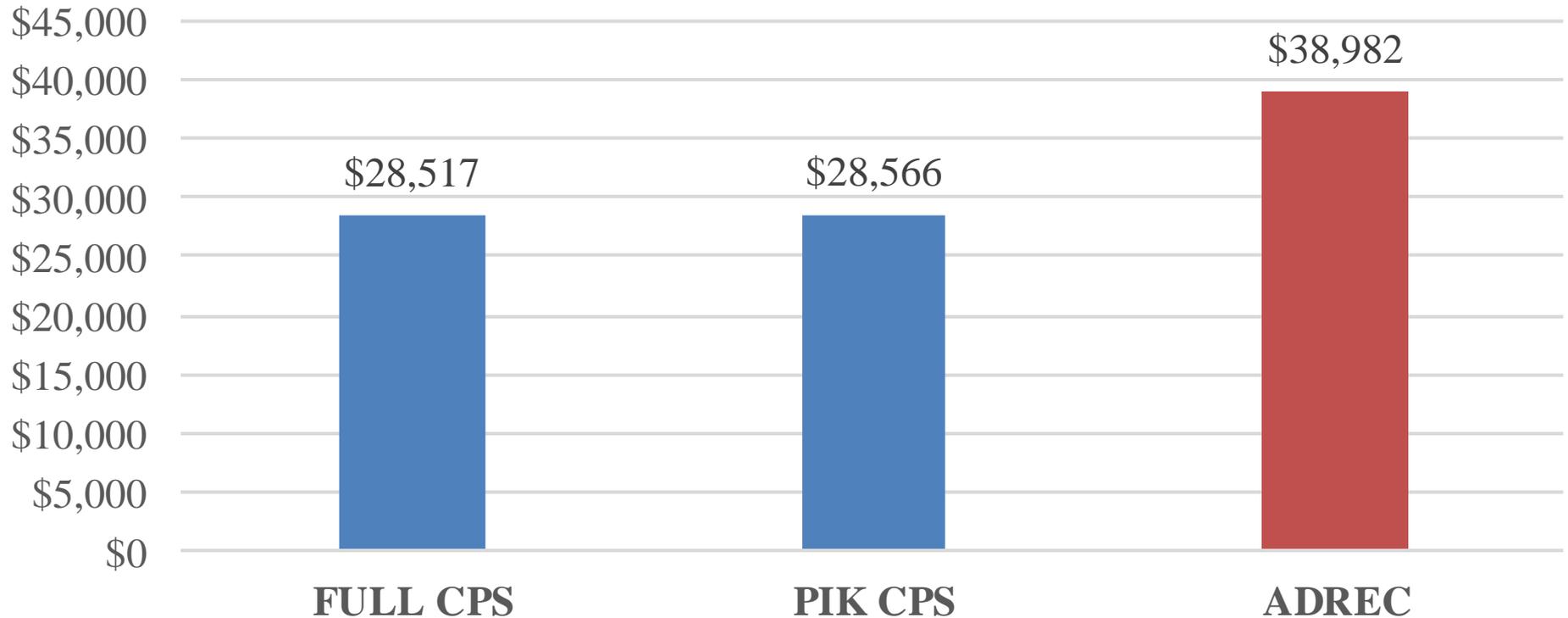
Source: 2013 CPS ASEC-ADREC

Median Household Income (Householder Age 65-74)



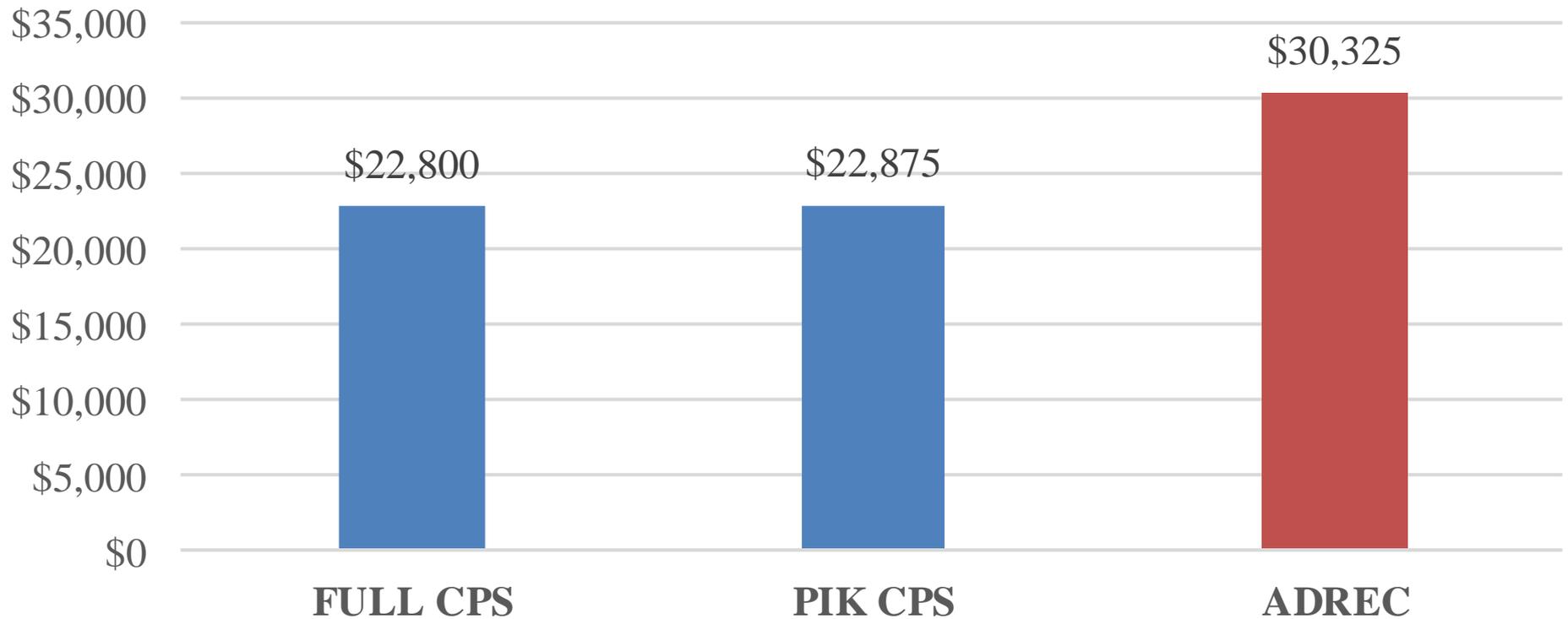
Source: 2013 CPS ASEC-ADREC

Median Household Income (Householder Age 75-84)



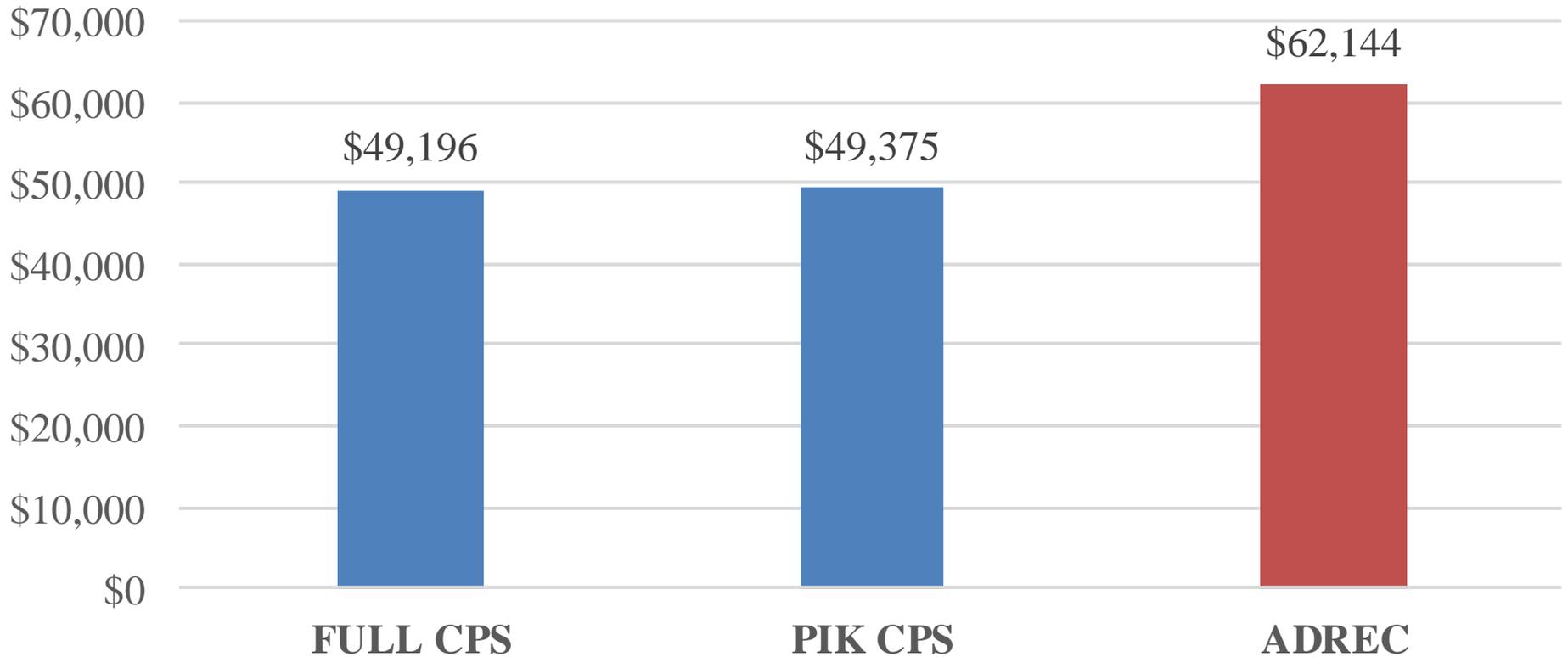
Source: 2013 CPS ASEC-ADREC

Median Household Income (Householder Age 85+)



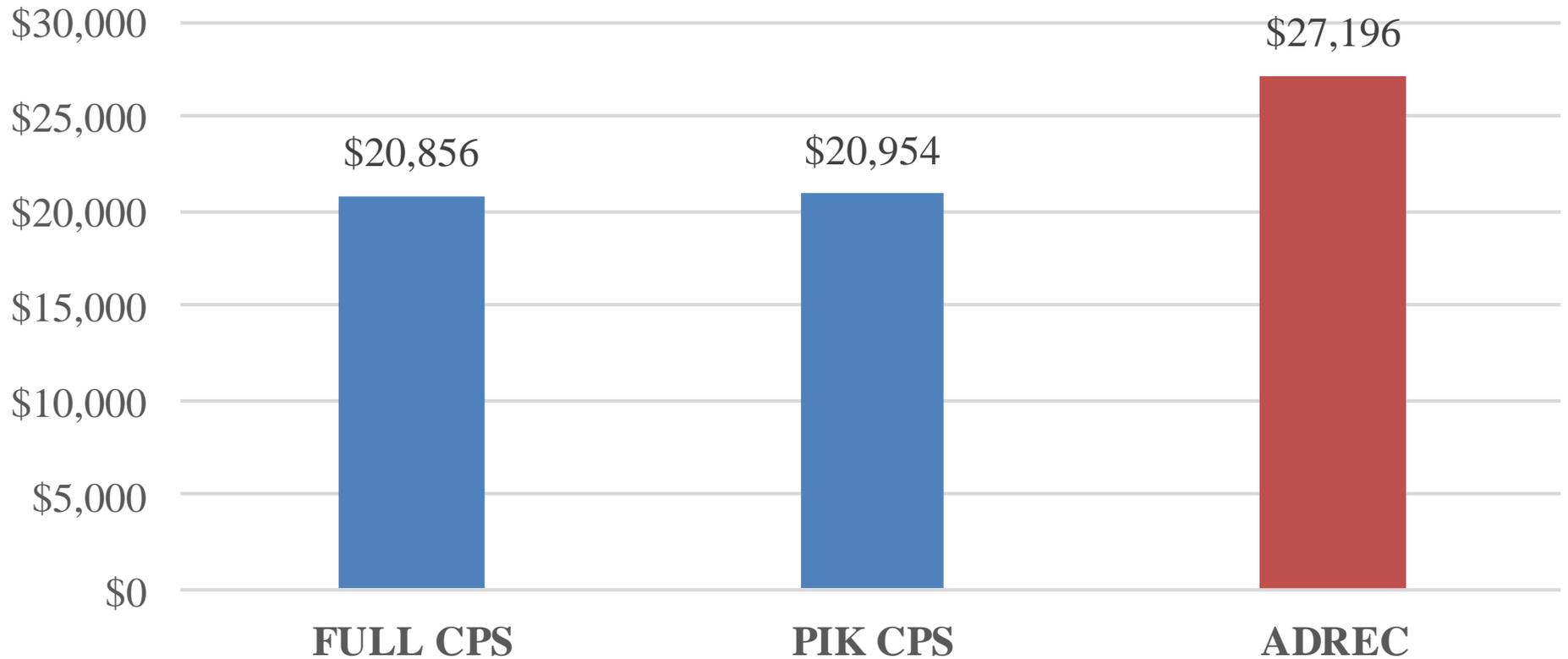
Source: 2013 CPS ASEC-ADREC

Median Household Income (Family Householder Age 65+)



Source: 2013 CPS ASEC-ADREC

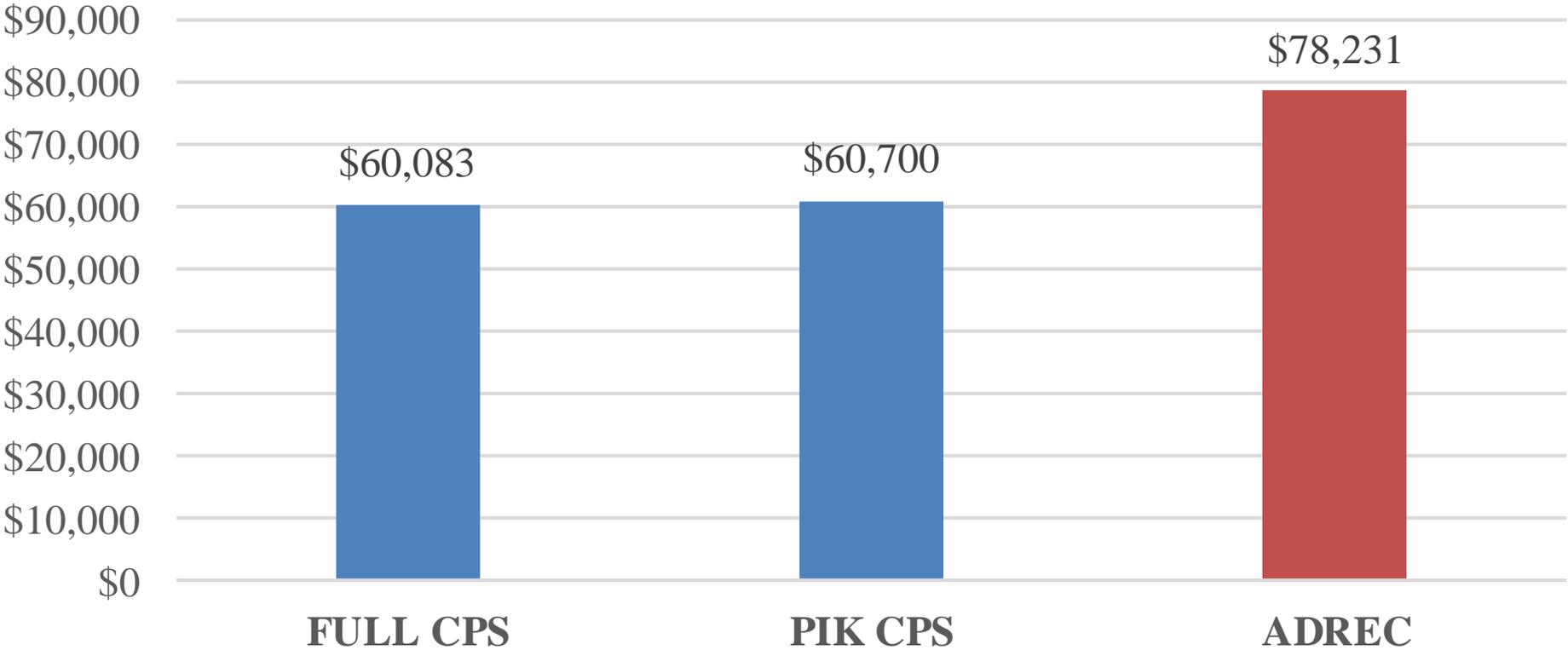
Median Household Income (Non-Family Householder Age 65+)



Source: 2013 CPS ASEC-ADREC

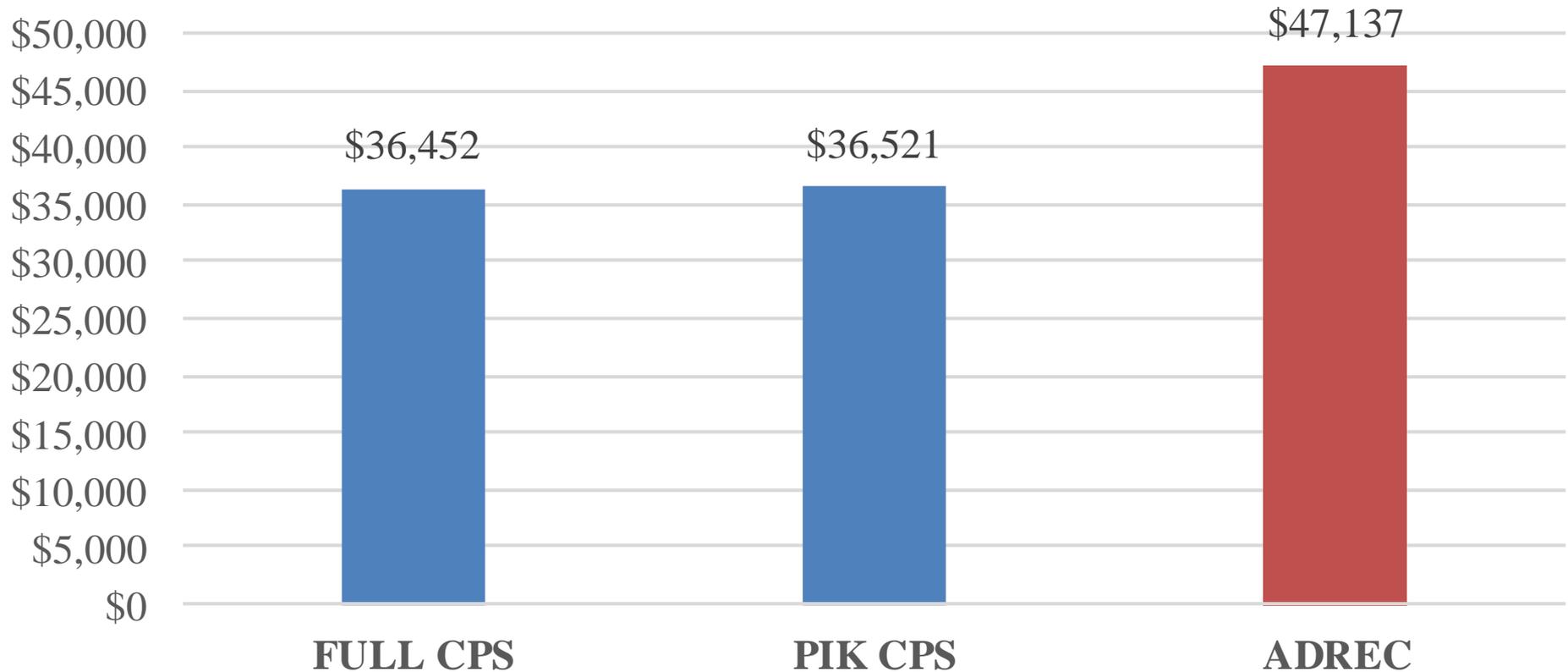
Median Household Income

(College Graduate Householder Age 65+)



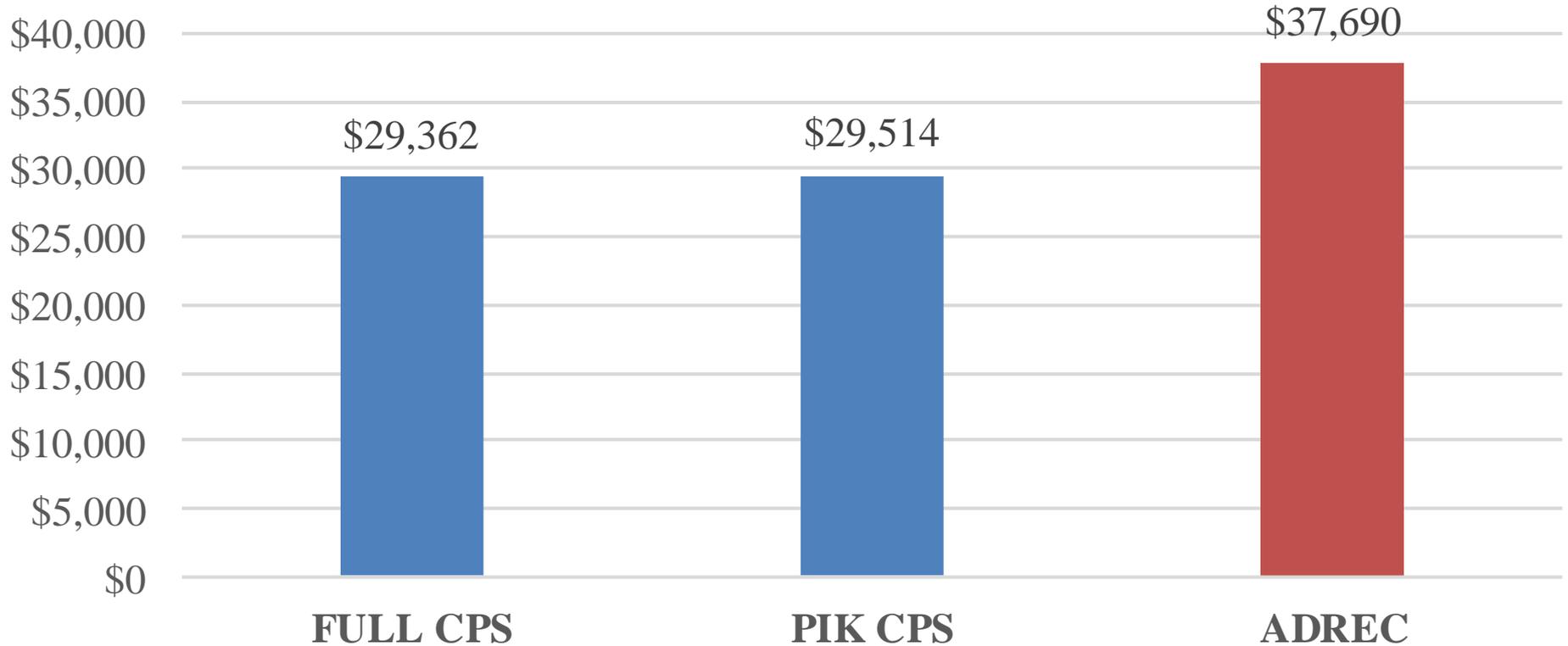
Source: 2013 CPS ASEC-ADREC

Median Household Income (Some College Householder Age 65+)



Source: 2013 CPS ASEC-ADREC

Median Household Income (High School Graduate Householder Age 65+)



Source: 2013 CPS ASEC-ADREC

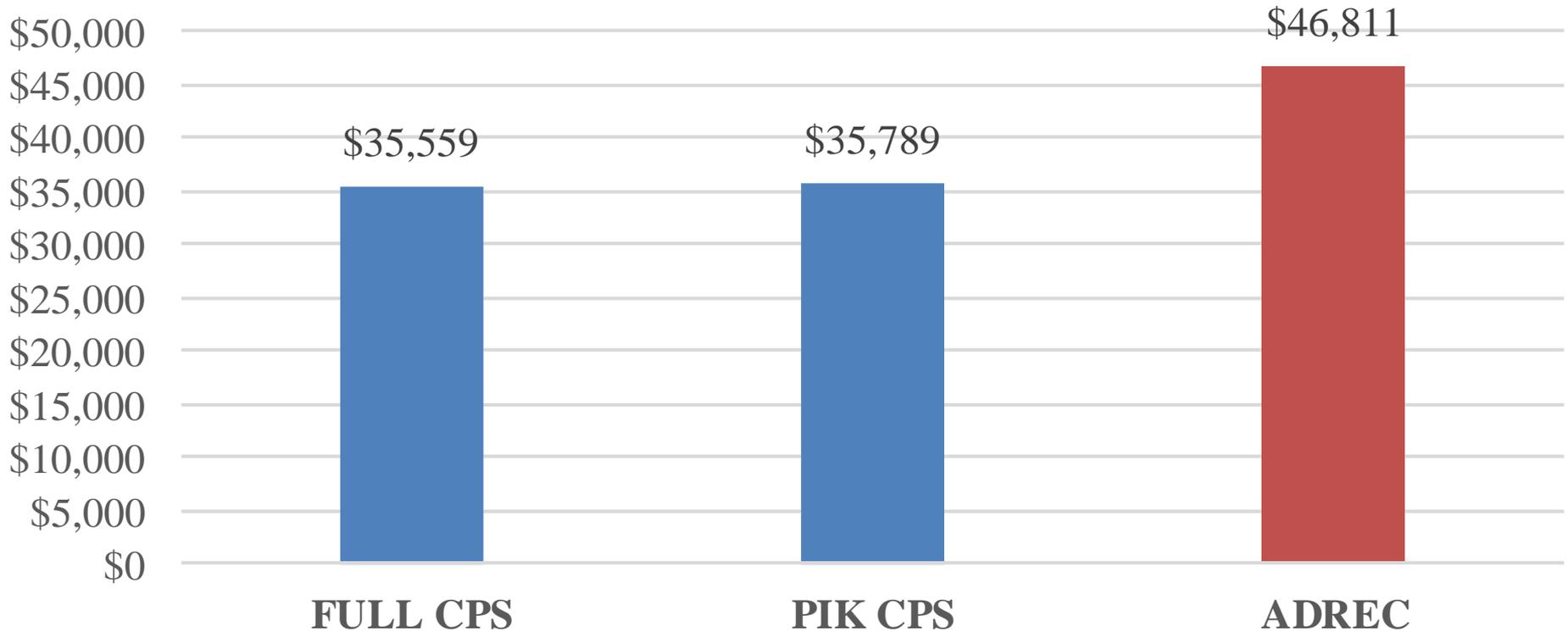
Median Household Income (Less than High School Householder Age 65+)



Source: 2013 CPS ASEC-ADREC

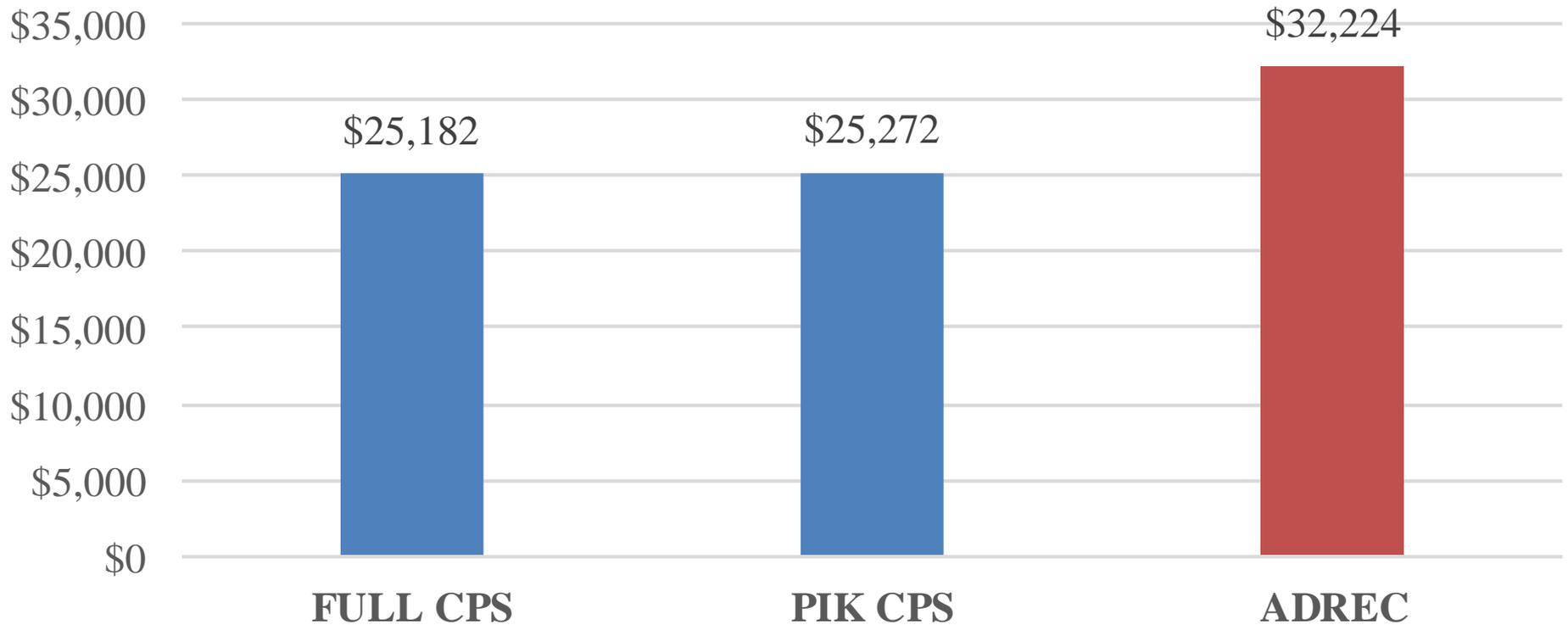
Median Household Income

(White, Not Hispanic Householder Age 65+)



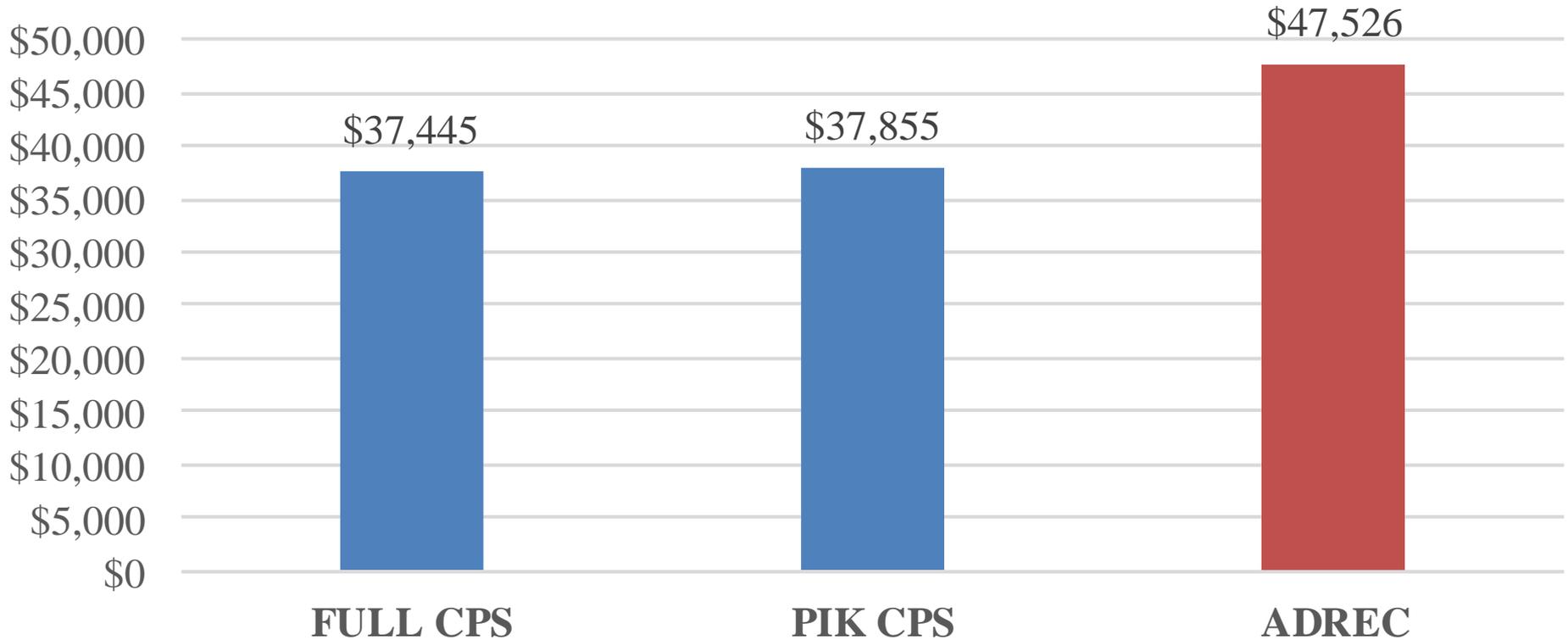
Source: 2013 CPS ASEC-ADREC

Median Household Income (Black Householder Age 65+)



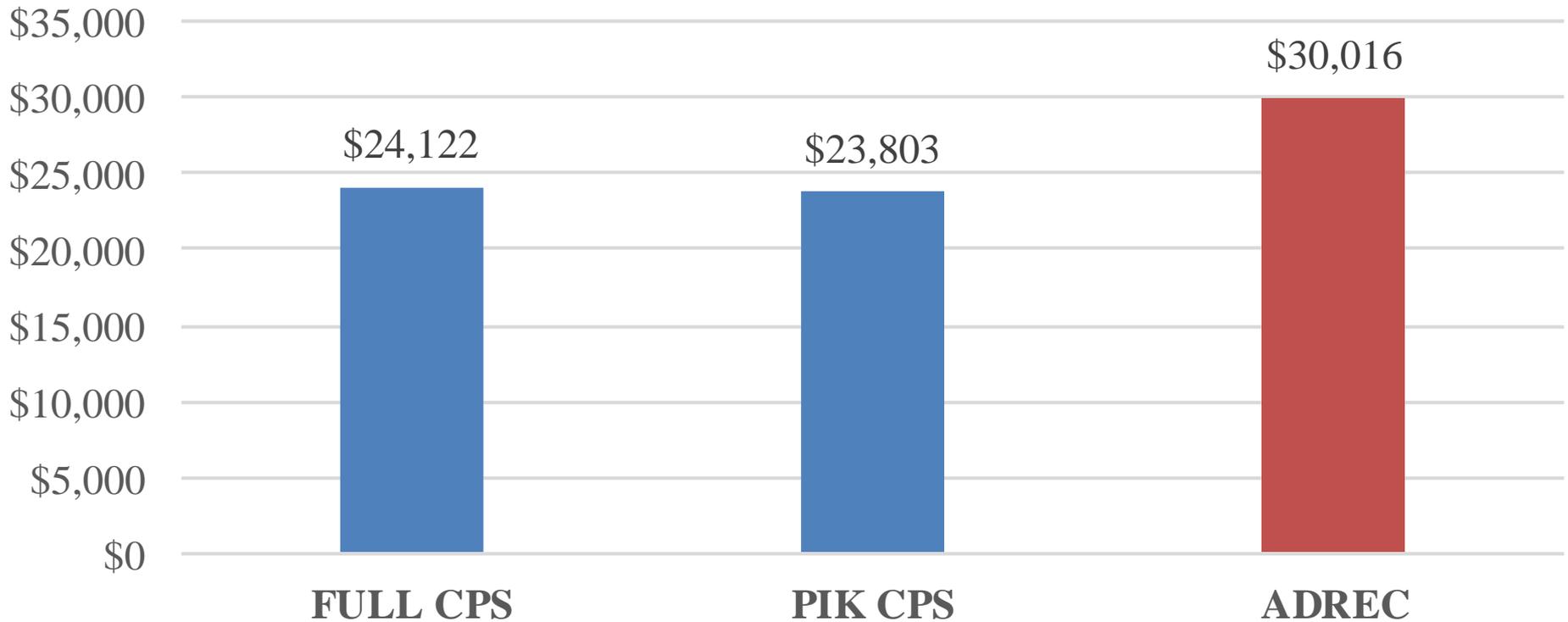
Source: 2013 CPS ASEC-ADREC

Median Household Income (Asian Householder Age 65+)



Source: 2013 CPS ASEC-ADREC

Median Household Income (Hispanic Householder Age 65+)



Source: 2013 CPS ASEC-ADREC

Comparison to 2013 SCF

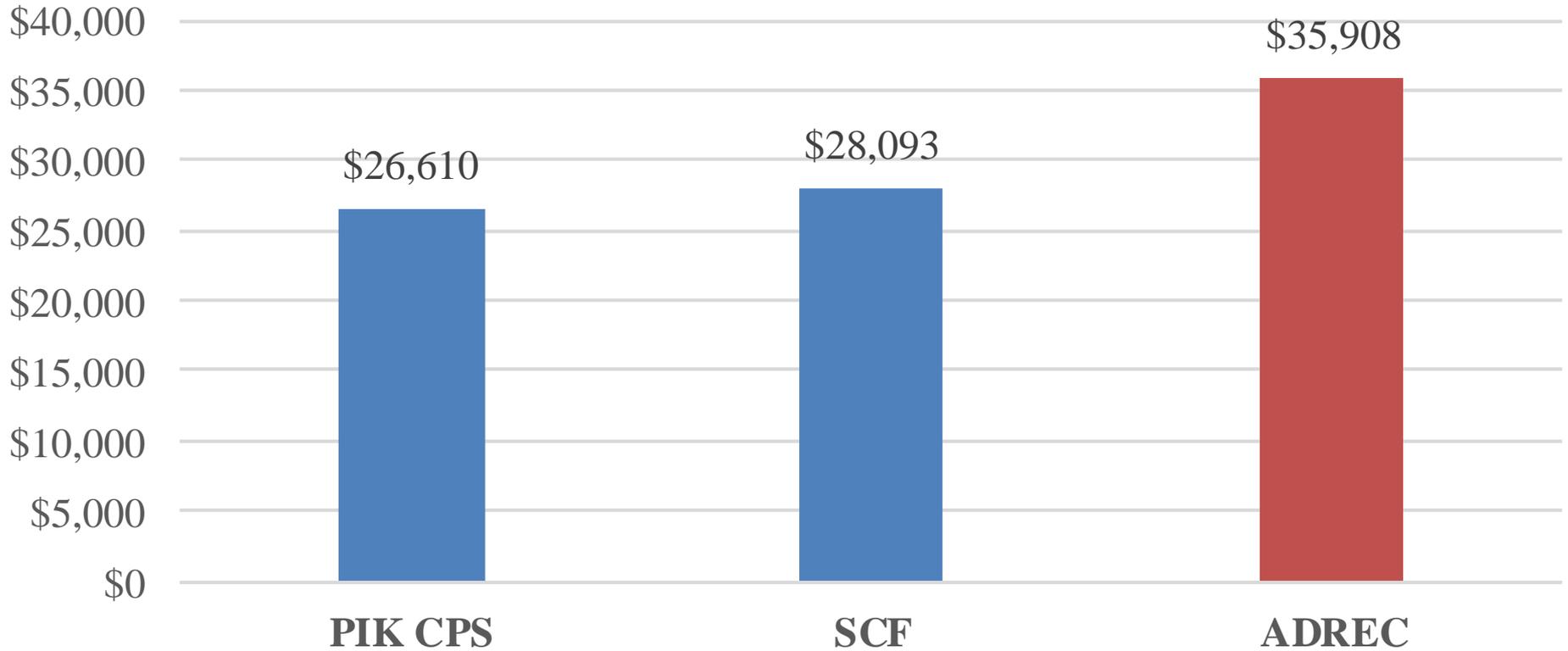
- Designed to collect detailed wealth information
 - Retirement account withdrawals
- Same calendar year reference period (2012)
- More expansive definition of income
 - Capital gains
 - Withdrawals
 - Food stamps
- Generally shows higher incomes than CPS for population 65+

Median Household Income (Householder Age 65-74)



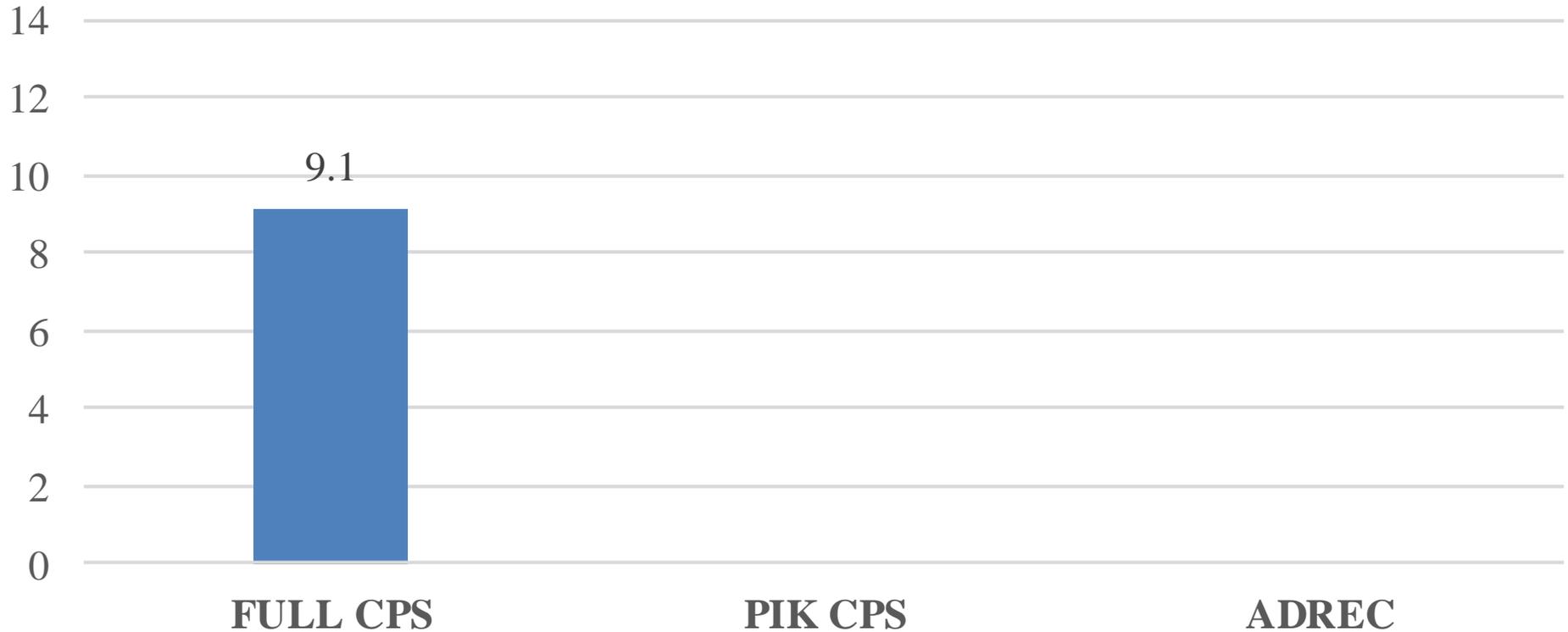
Source: 2013 CPS ASEC-ADREC

Median Household Income (Householder Age 75+)



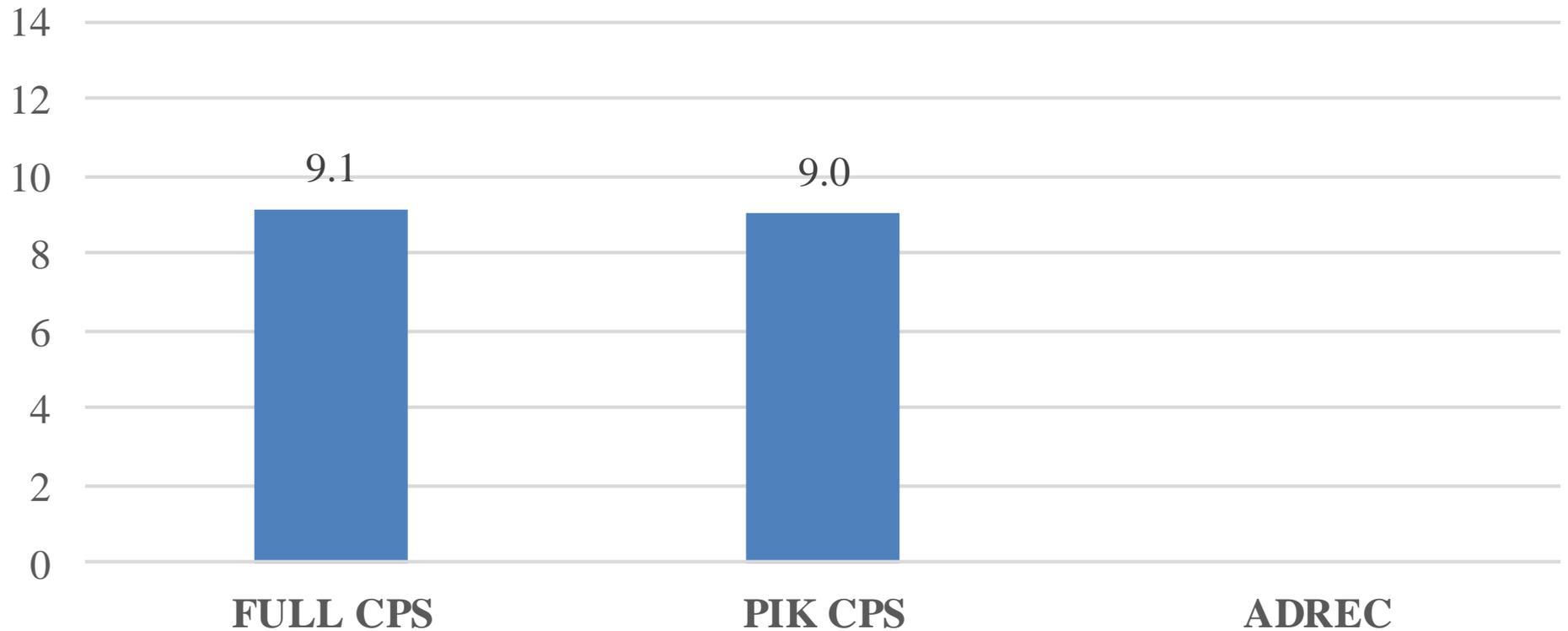
Source: 2013 CPS ASEC-ADREC

Poverty Rate (Persons Age 65+)



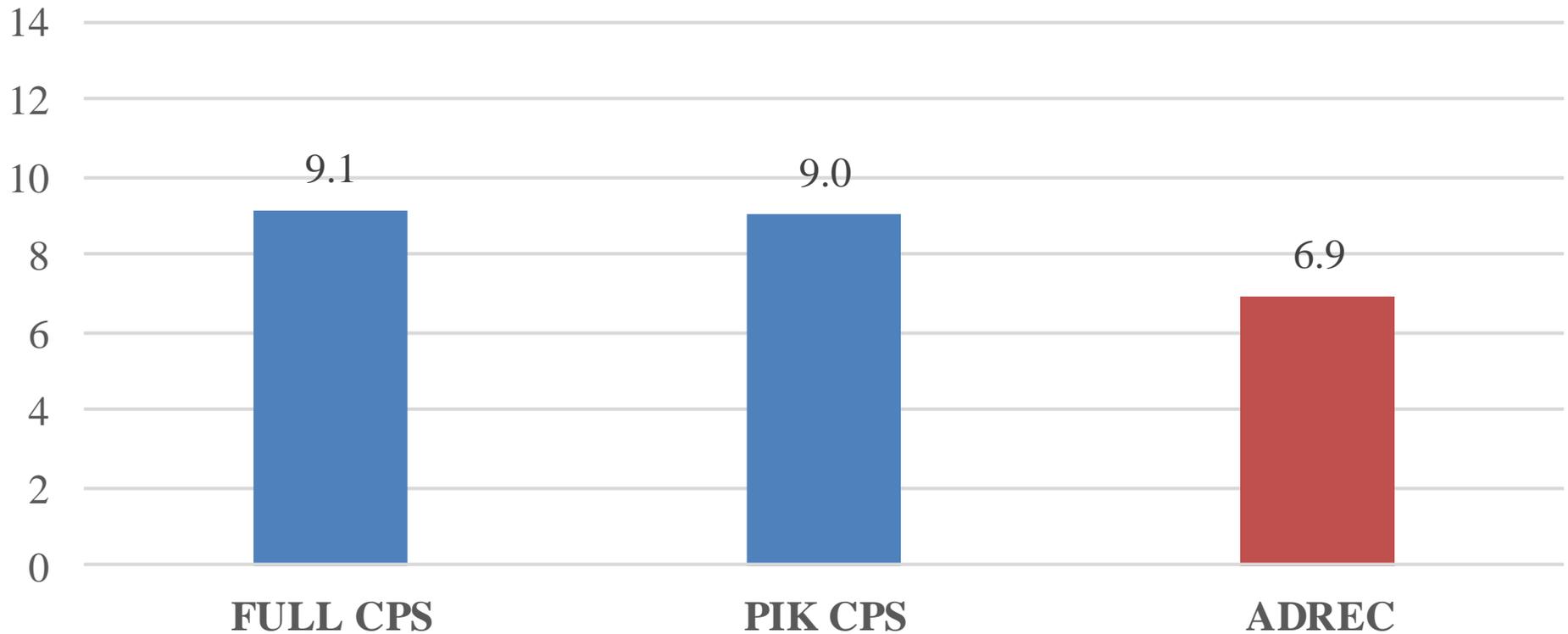
Source: 2013 CPS ASEC-ADREC

Poverty Rate (Persons Age 65+)



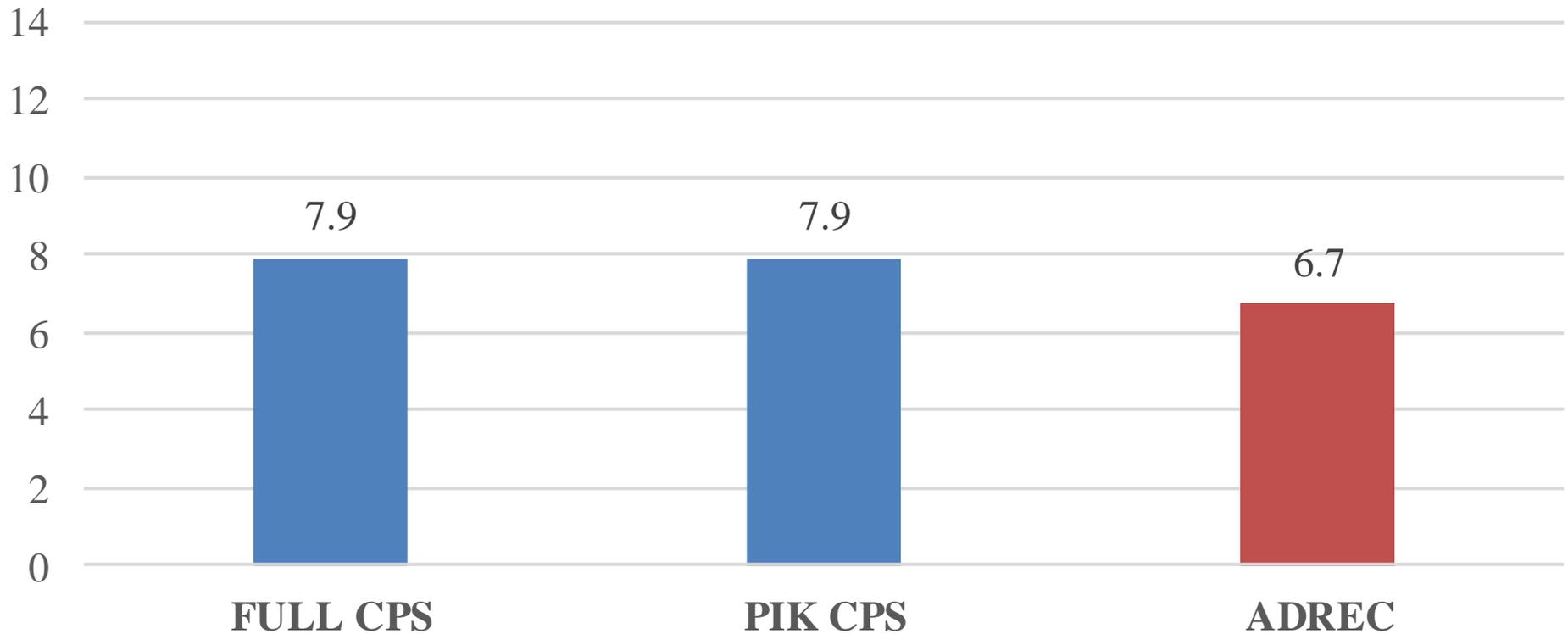
Source: 2013 CPS ASEC-ADREC

Poverty Rate (Persons Age 65+)



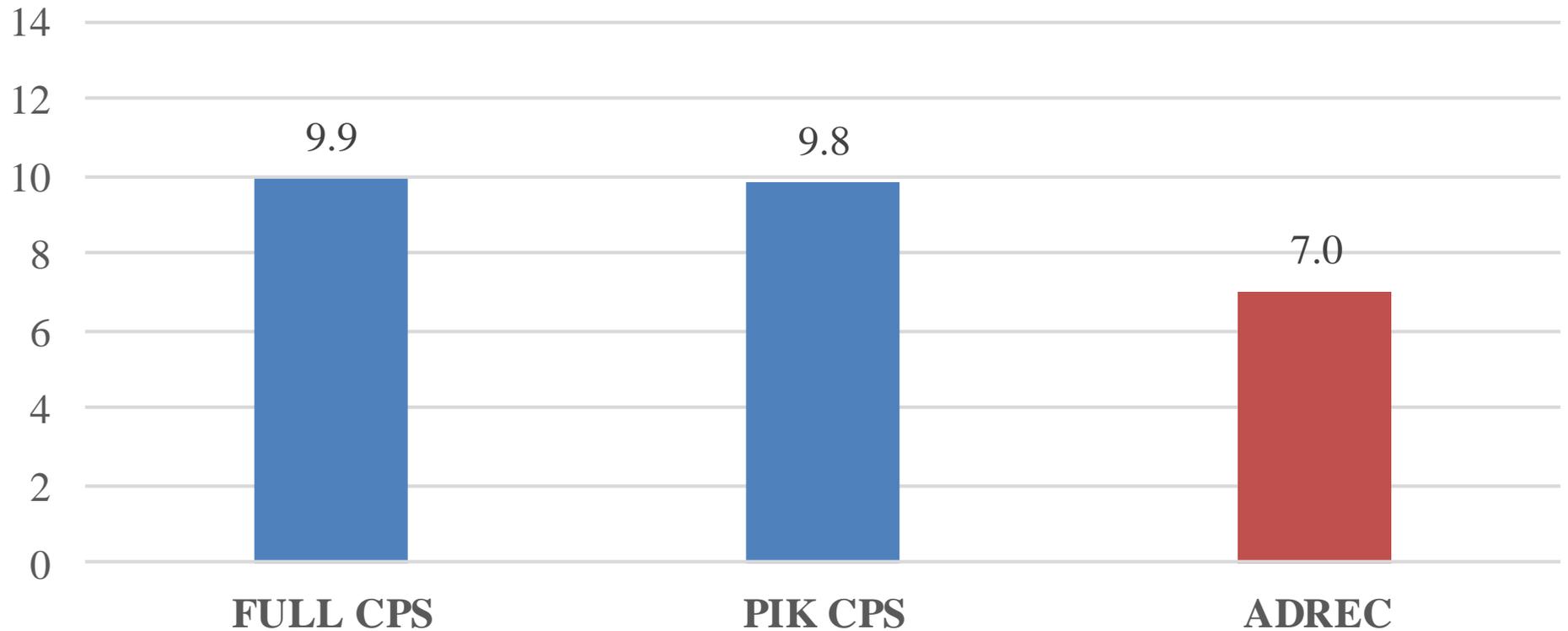
Source: 2013 CPS ASEC-ADREC

Poverty Rate (Persons Age 65-74)



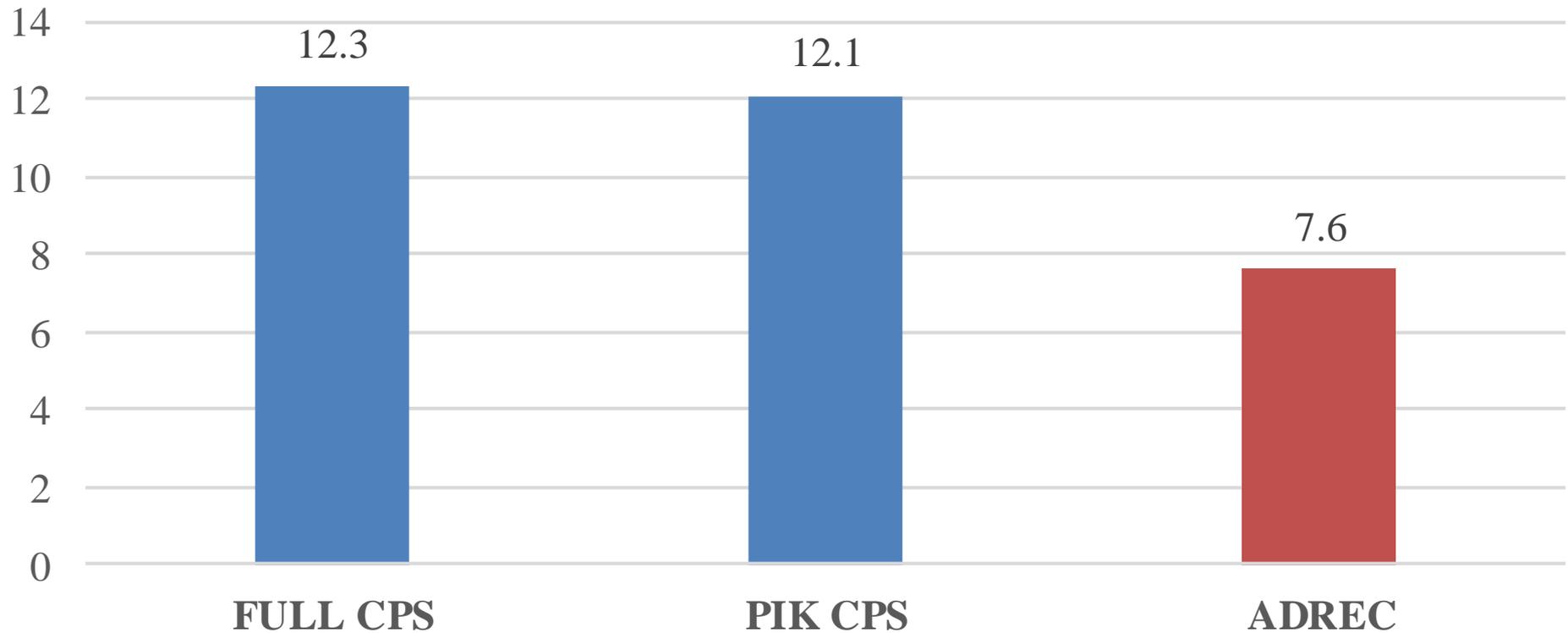
Source: 2013 CPS ASEC-ADREC

Poverty Rate (Persons Age 75-84)



Source: 2013 CPS ASEC-ADREC

Poverty Rate (Persons Age 85+)



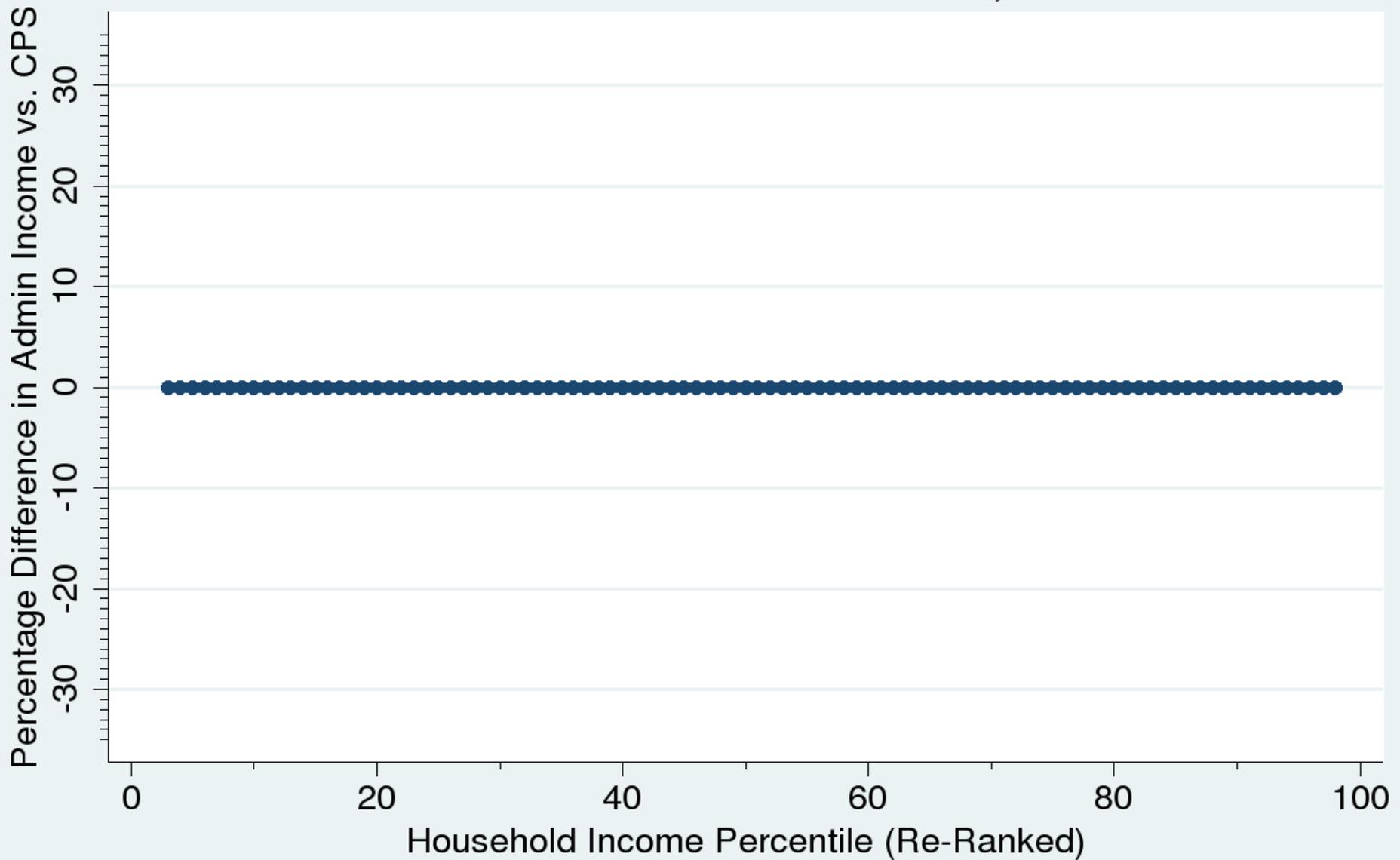
Source: 2013 CPS ASEC-ADREC

Which ADREC Source Is Driving our Results?

- Examine each percentile of the household income distribution
- Replace CPS income sources one at a time
- Rerank households based on modified income
- Compute percent change for each percentile relative to CPS baseline

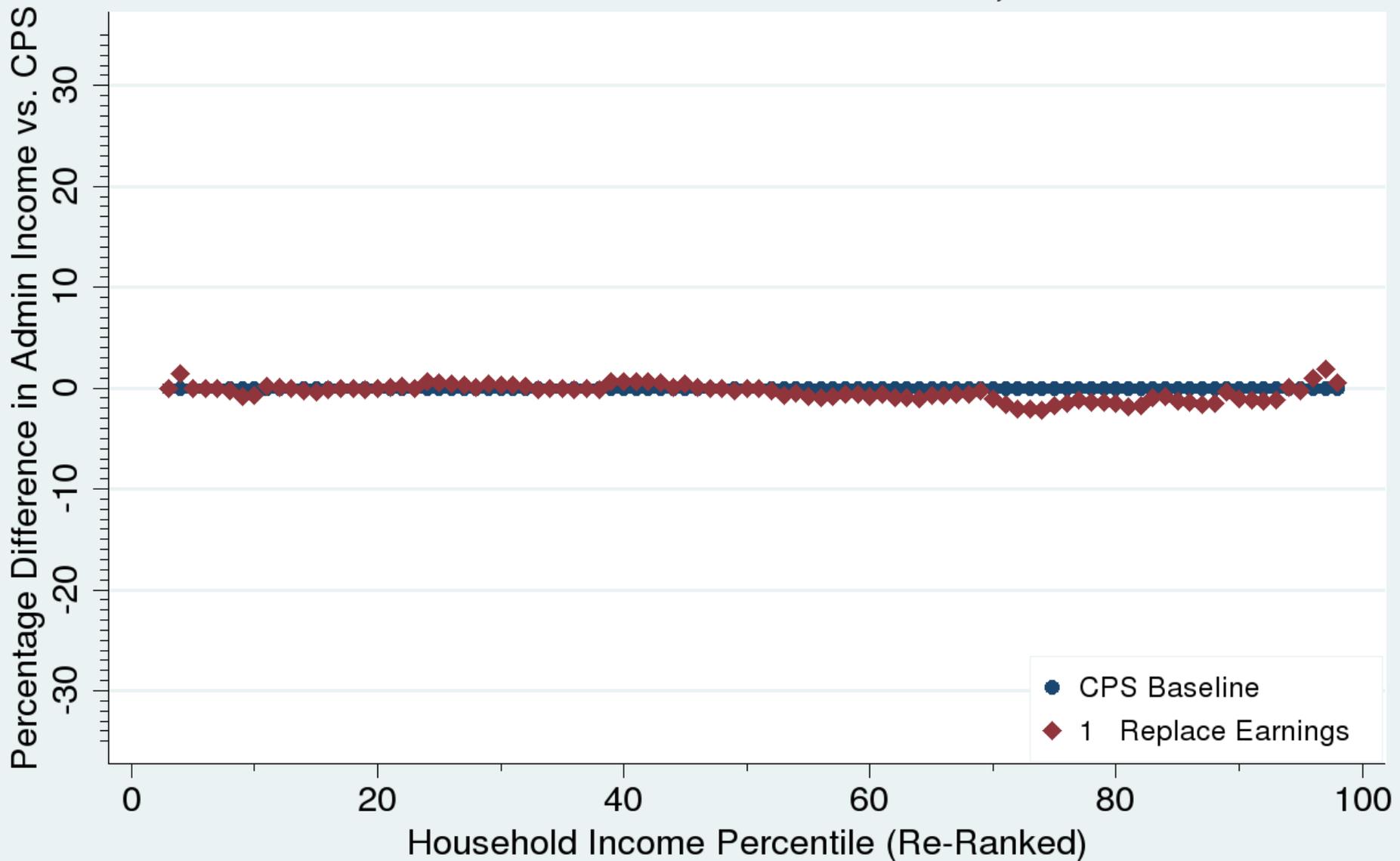
Household Income Percentiles (Admin vs. CPS)

Households with householder 65+, 2012



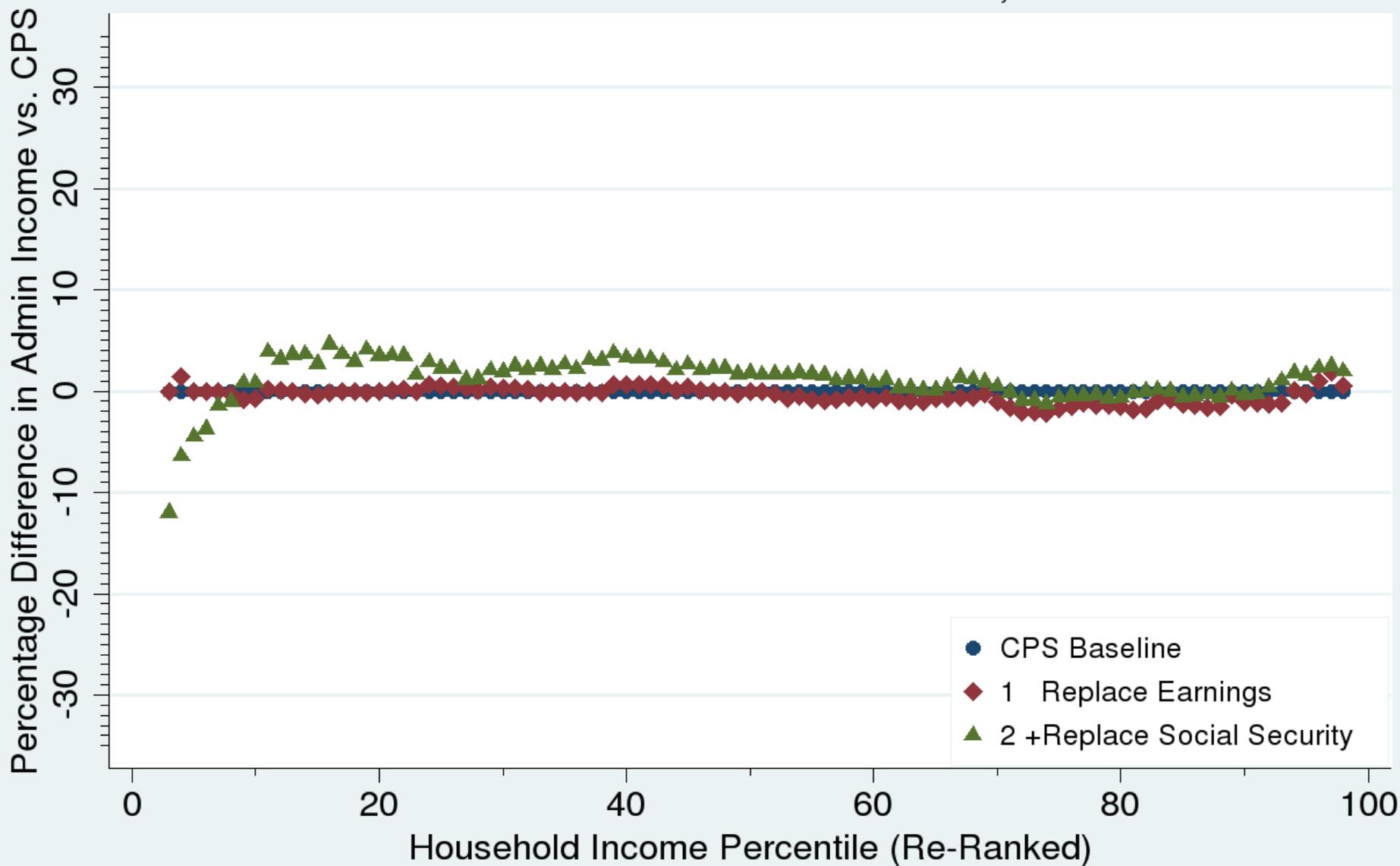
Household Income Percentiles (Admin vs. CPS)

Households with householder 65+, 2012



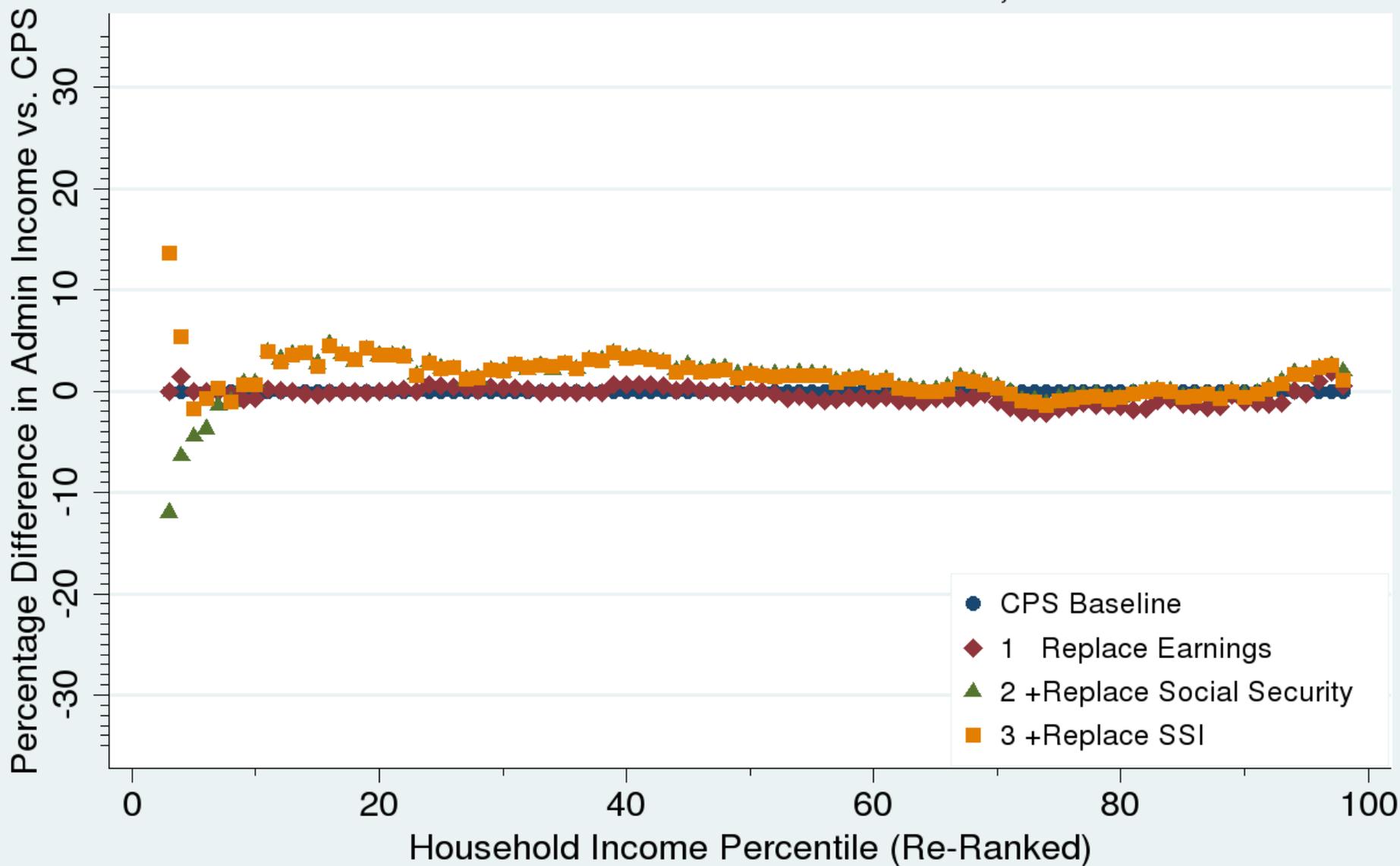
Household Income Percentiles (Admin vs. CPS)

Households with householder 65+, 2012



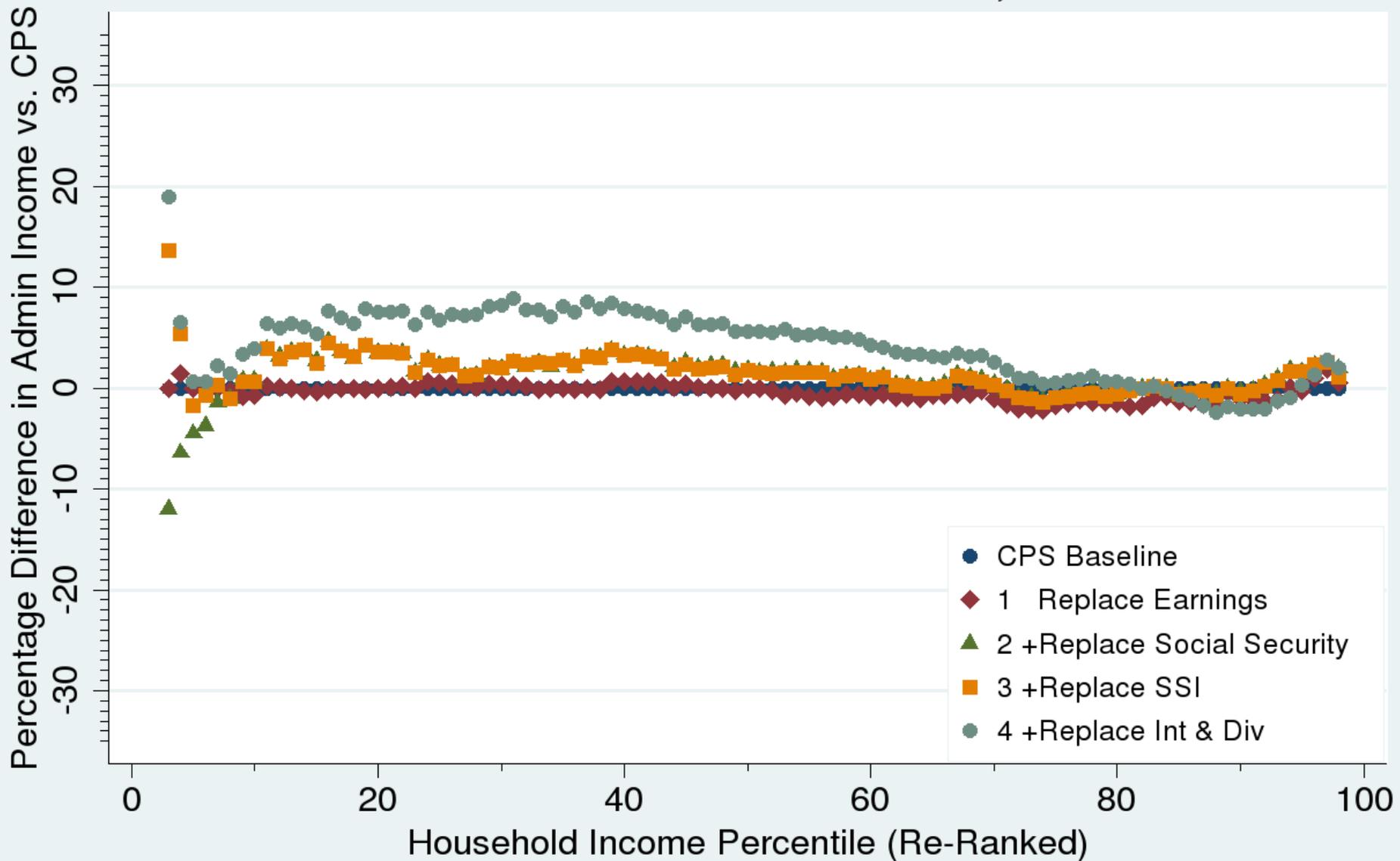
Household Income Percentiles (Admin vs. CPS)

Households with householder 65+, 2012



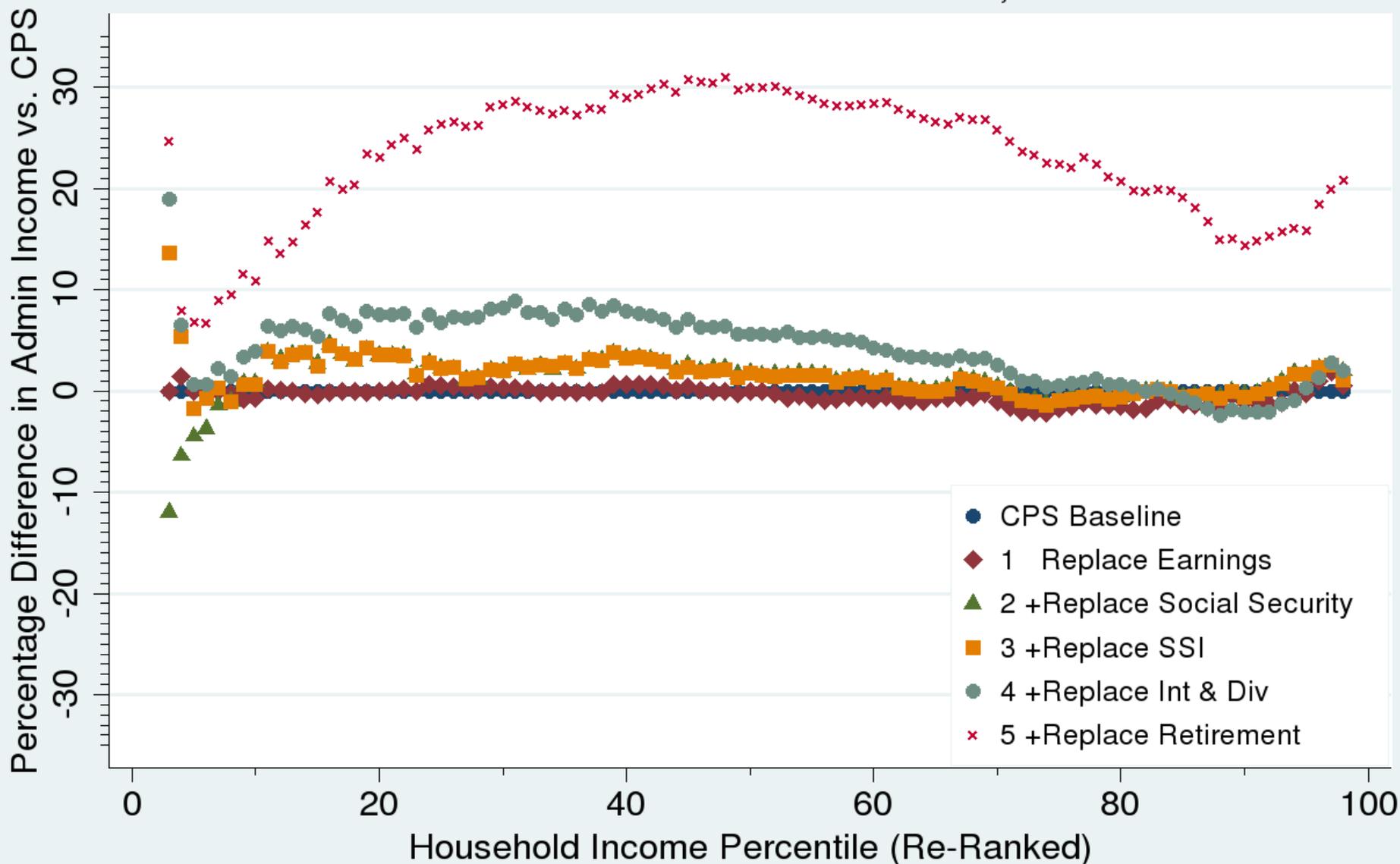
Household Income Percentiles (Admin vs. CPS)

Households with householder 65+, 2012



Household Income Percentiles (Admin vs. CPS)

Households with householder 65+, 2012

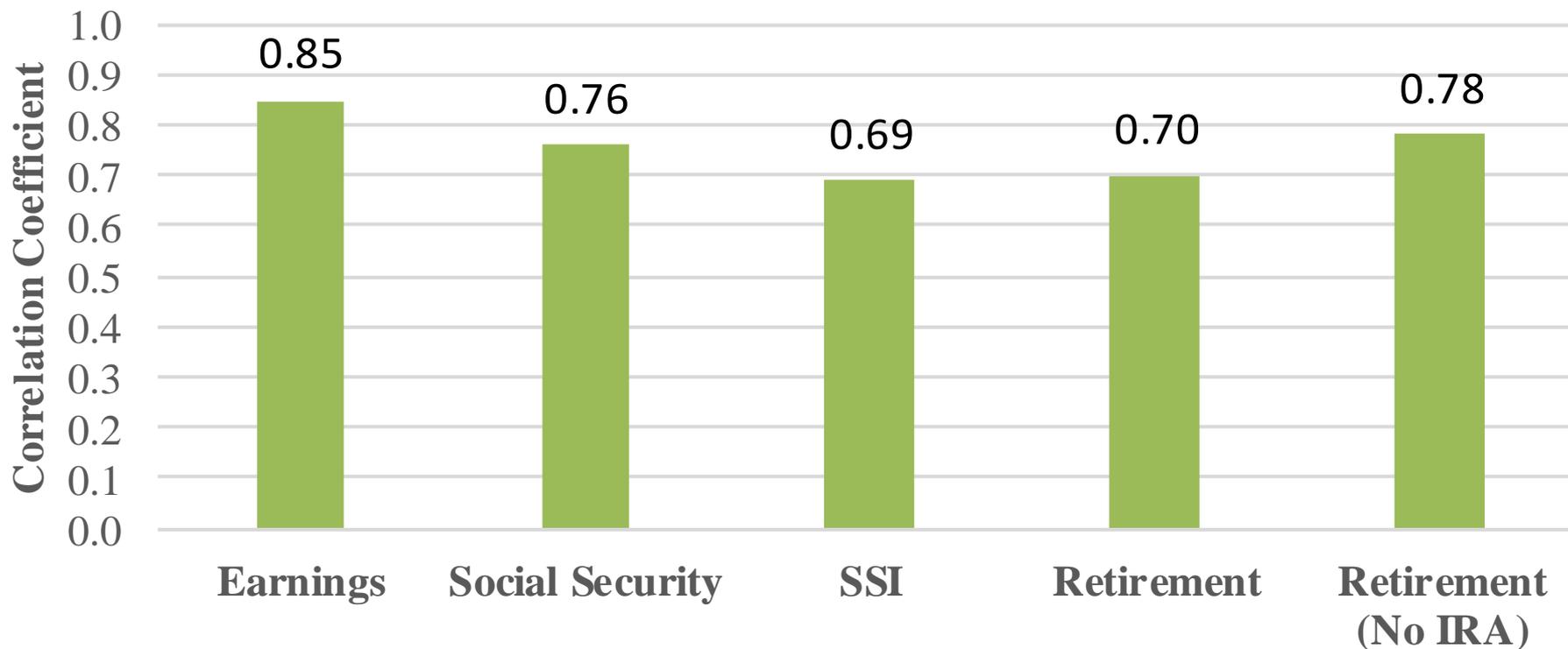


Potential Issues

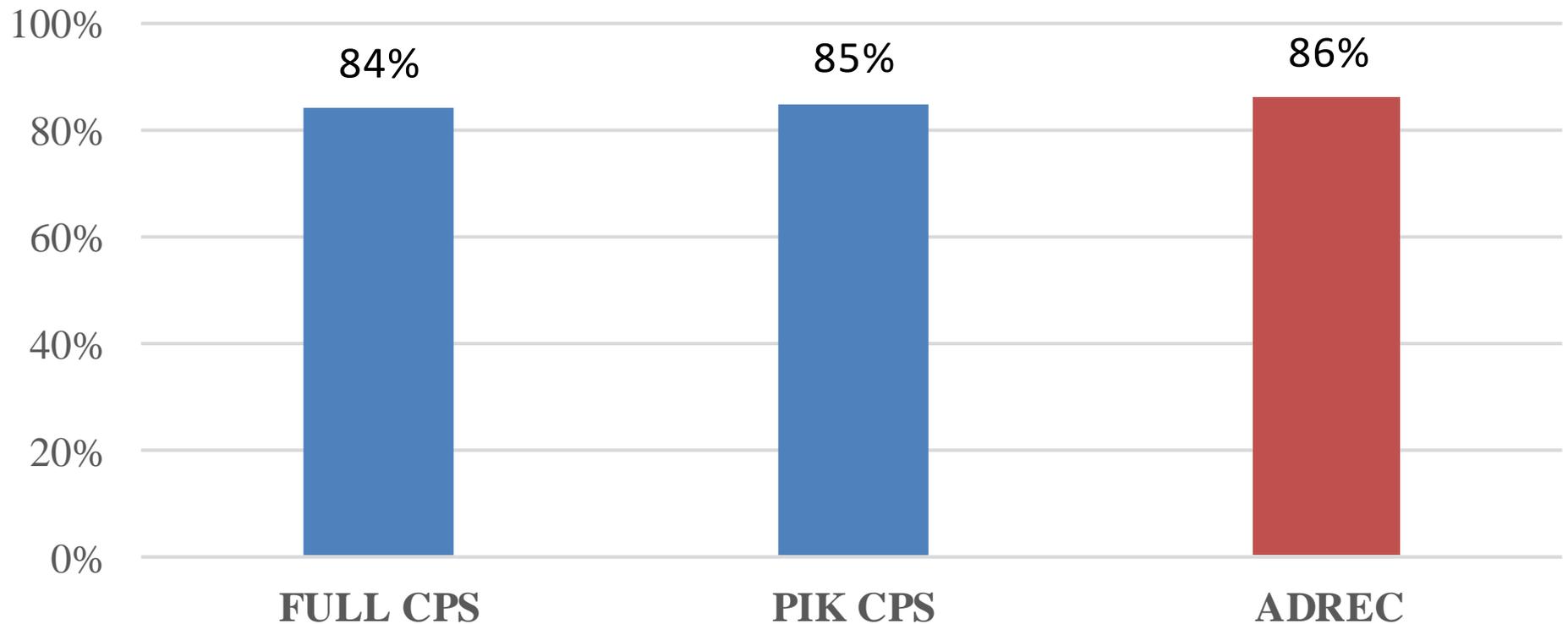
- Quality of ADREC
- Quality of data linkages
- Alternative income concepts
 - Treatment of D.C. withdrawals versus D.B.
 - Haig-Simons
 - Taxable income, Disposable Income (NIPA)
 - Federal Reserve Bulletin
 - CPS Redesign

Correlation of Log ADREC and CPS Income

(Persons Age 65+, Intensive Margin)

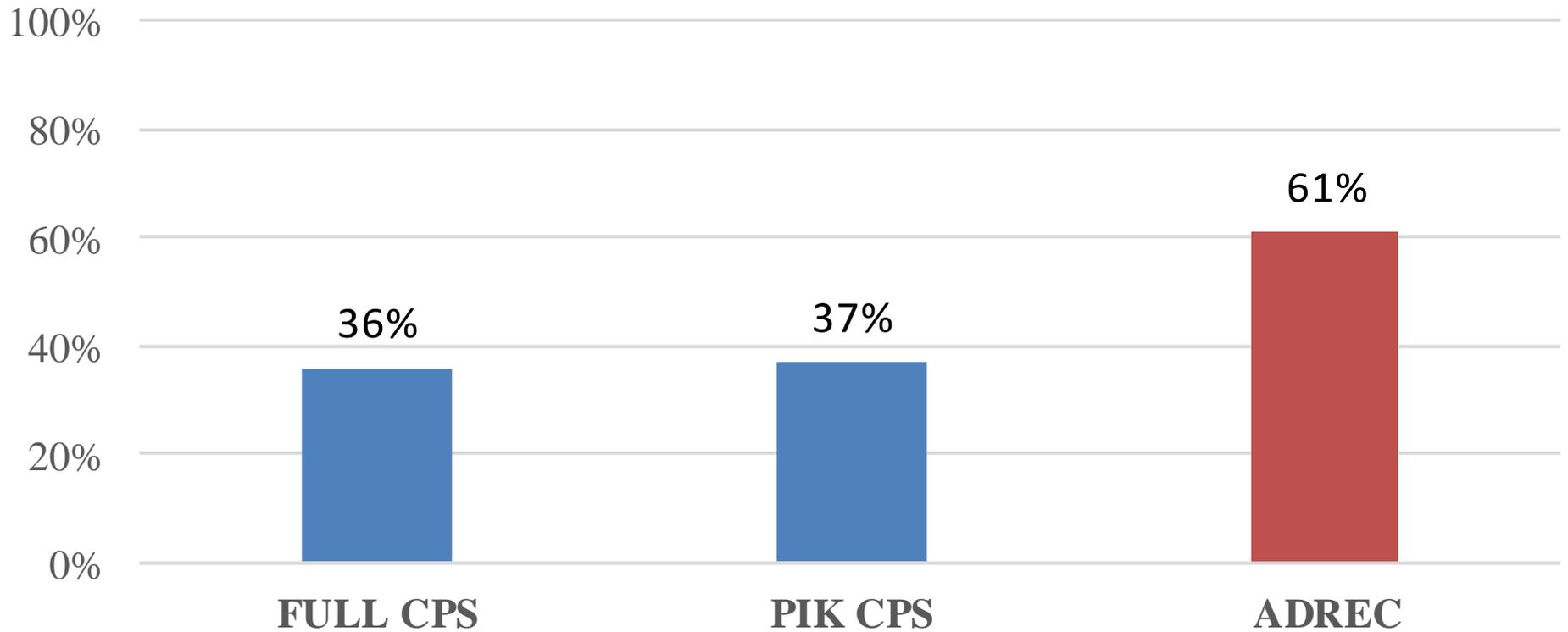


Percent with Any Social Security Income (Persons Age 65+)



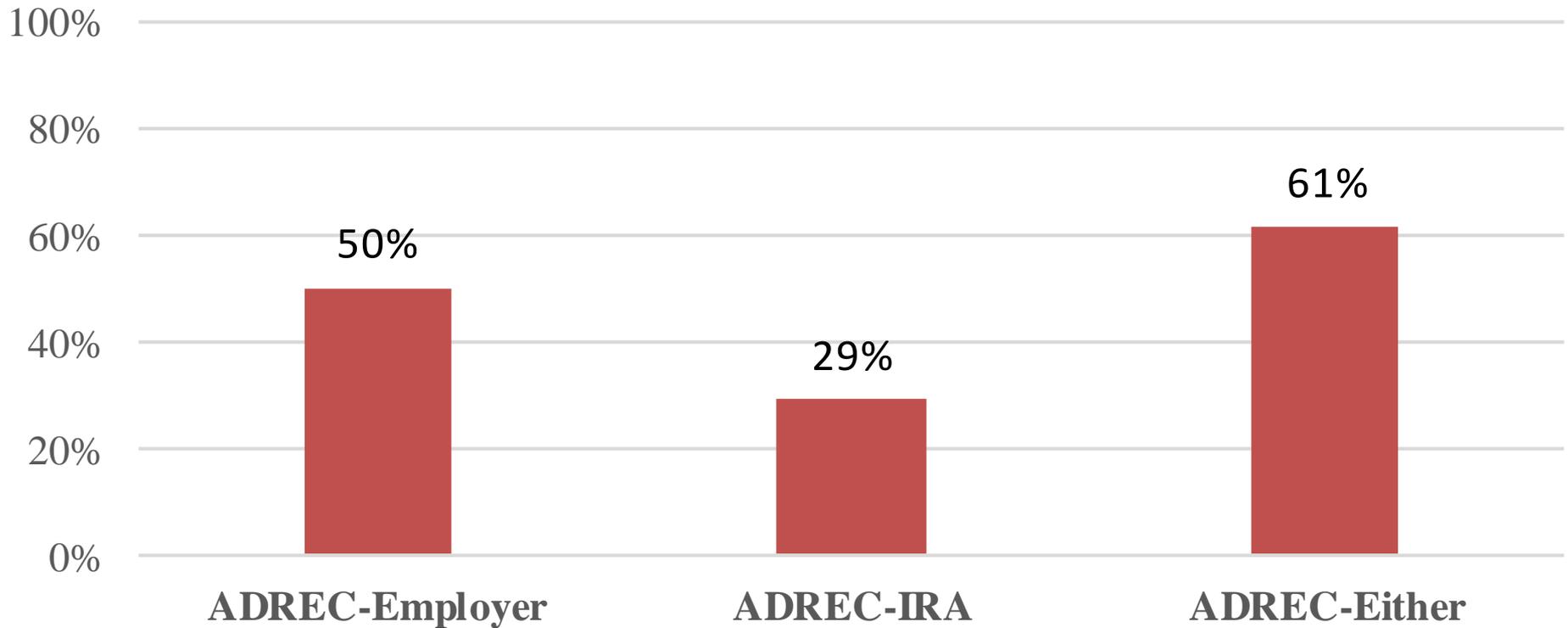
Source: 2013 CPS ASEC-ADREC

Percent with Any Retirement Income (Persons Age 65+)



Source: 2013 CPS ASEC-ADREC

1099-R Income Receipt (Persons Age 65+)



Source: 2013 CPS ASEC-ADREC

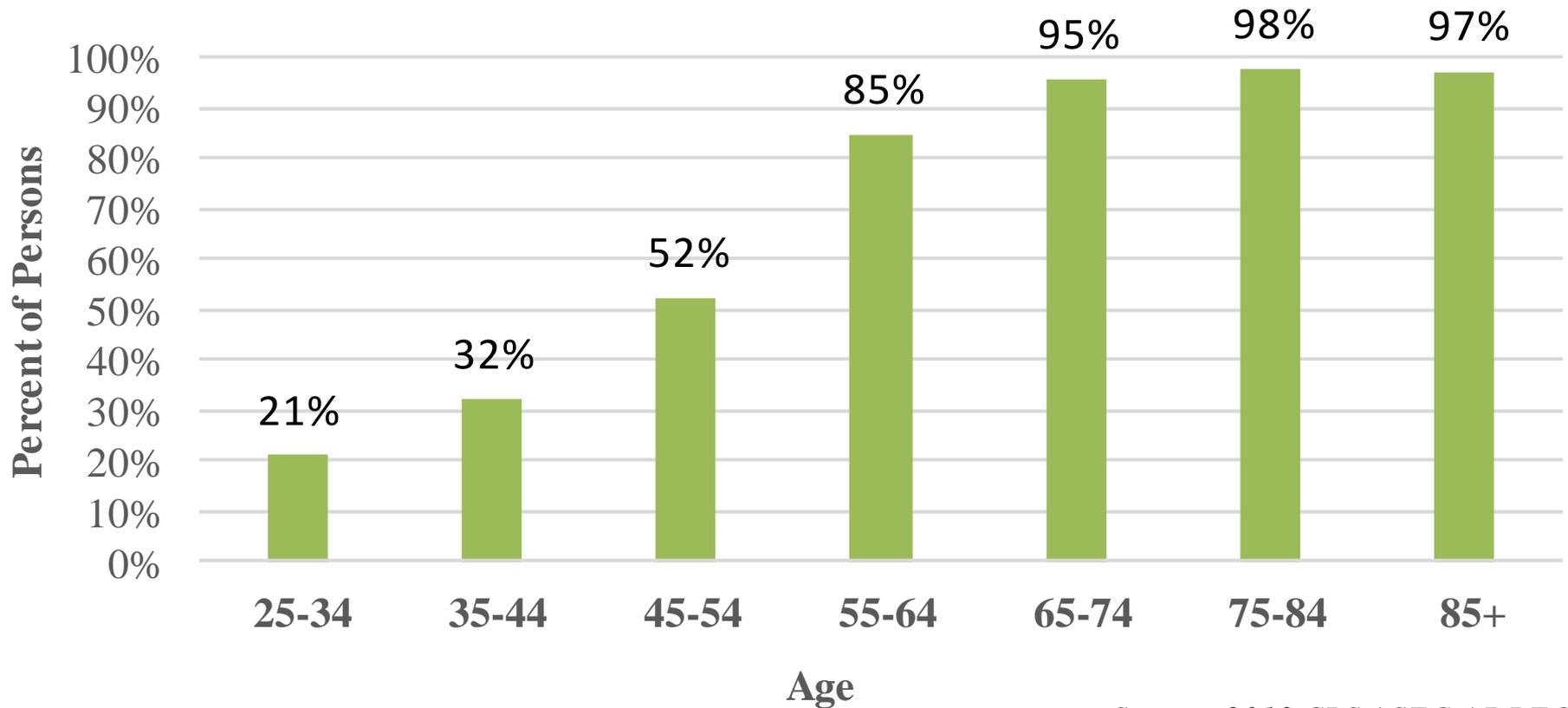
What Explains Retirement Income Underreporting?

- Demographic variables explain about 5 percent of variation
- Survey design features another 2 percent
 - American Community Survey shows similar false negative rate
- Nature of 1099-R income matters the most—14 percent
 - IRA versus Employer-sponsored
 - Amounts
 - Volatility

Concern about Single Year 1099R Distributions

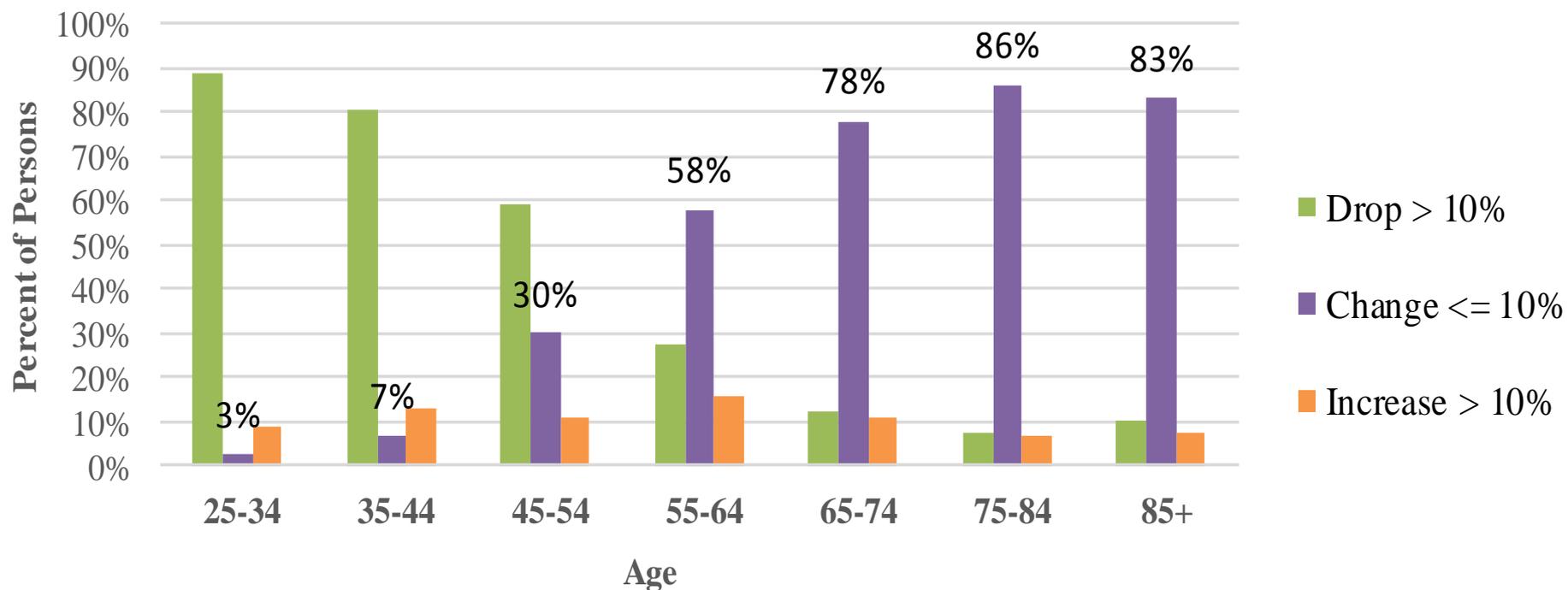
- Are these mainly lump-sums or recurring payments?
- Indirect rollovers or other amounts we would want to exclude?
- Compare TY 2012 and TY 2013 1099R distributions for those receiving a TY 2012 distribution
 - Look across age distribution
 - Compare results for employer-sponsored and IRAs

Any 1099R Employer Income in 2013 (Conditional on Employer Income in 2012)



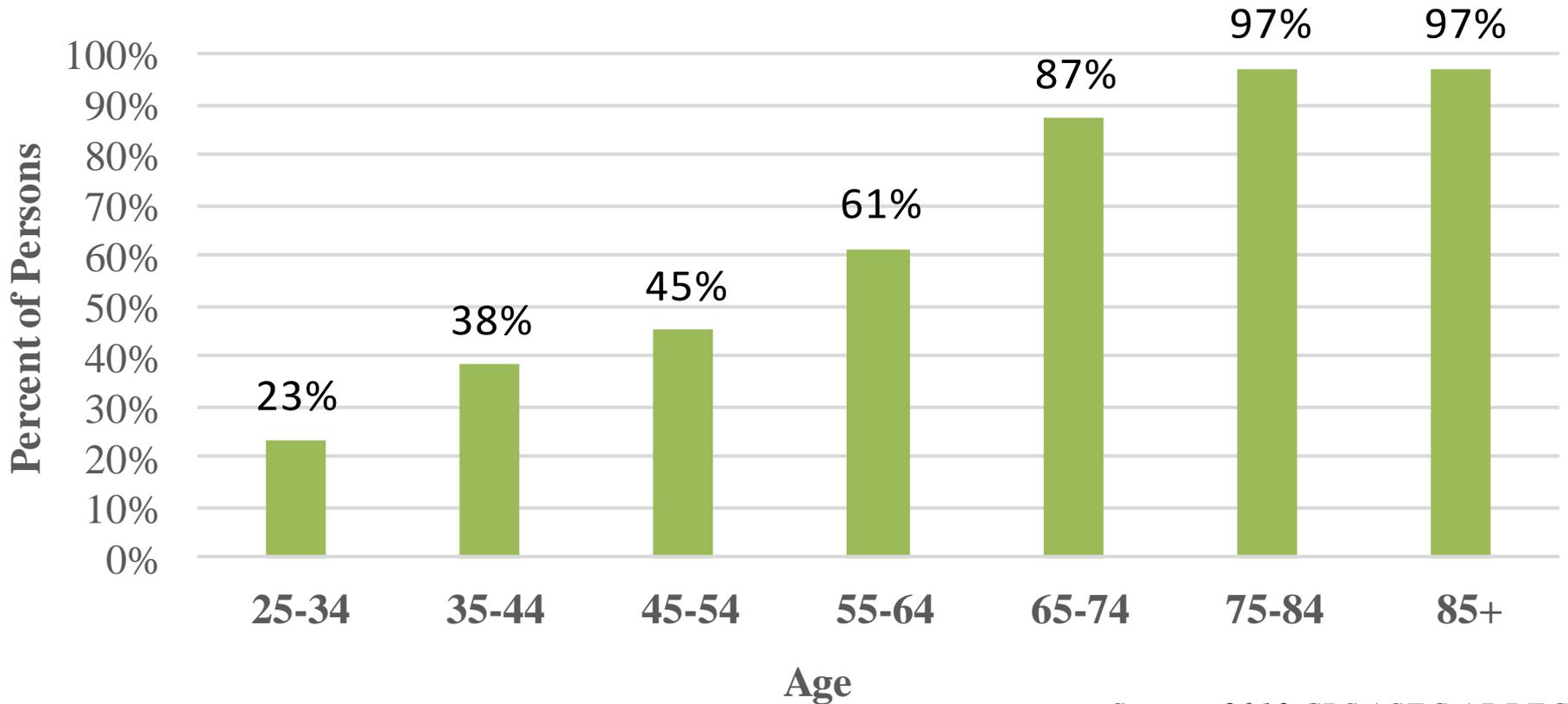
Source: 2013 CPS ASEC-ADREC

Size Distribution of 2012-2013 1099R Employer Change (Conditional on Employer Income in 2012)



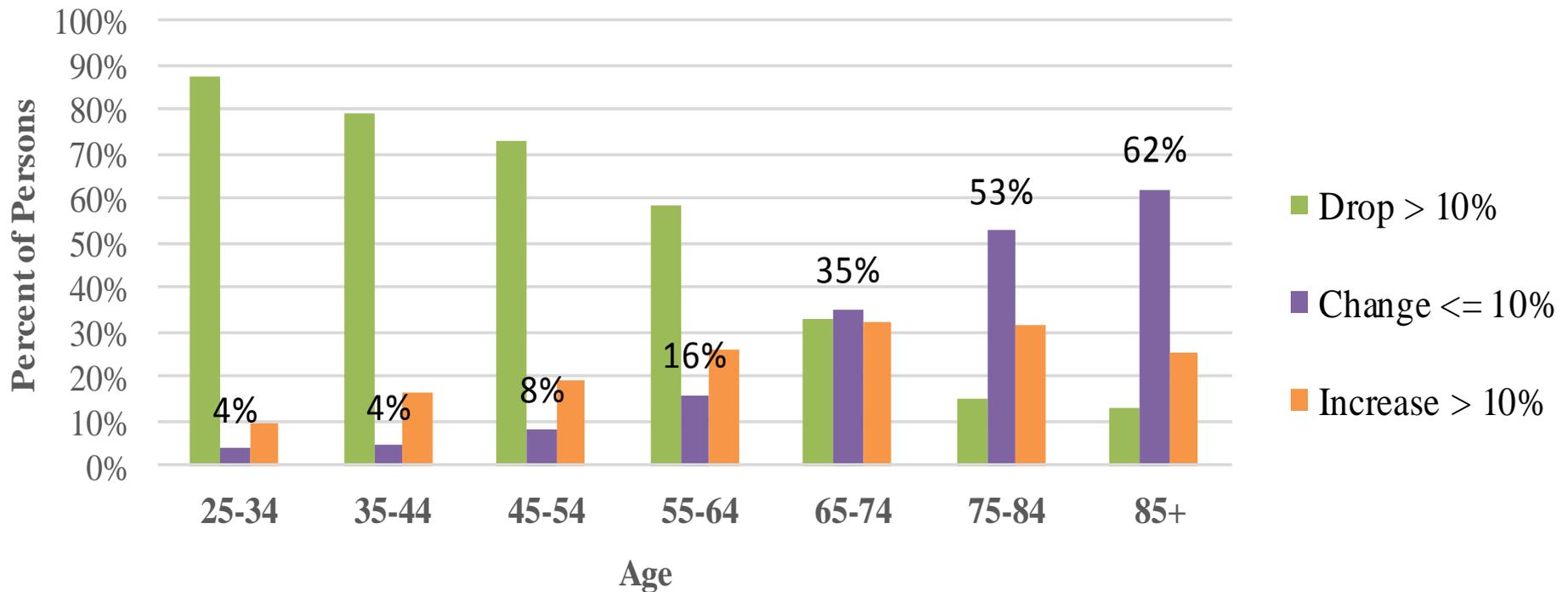
Source: 2013 CPS ASEC-ADREC

Any 1099R IRA Income in 2013 (Conditional on IRA Income in 2012)



Source: 2013 CPS ASEC-ADREC

Size Distribution of 2012-2013 1099R IRA Change (Conditional on IRA Income in 2012)

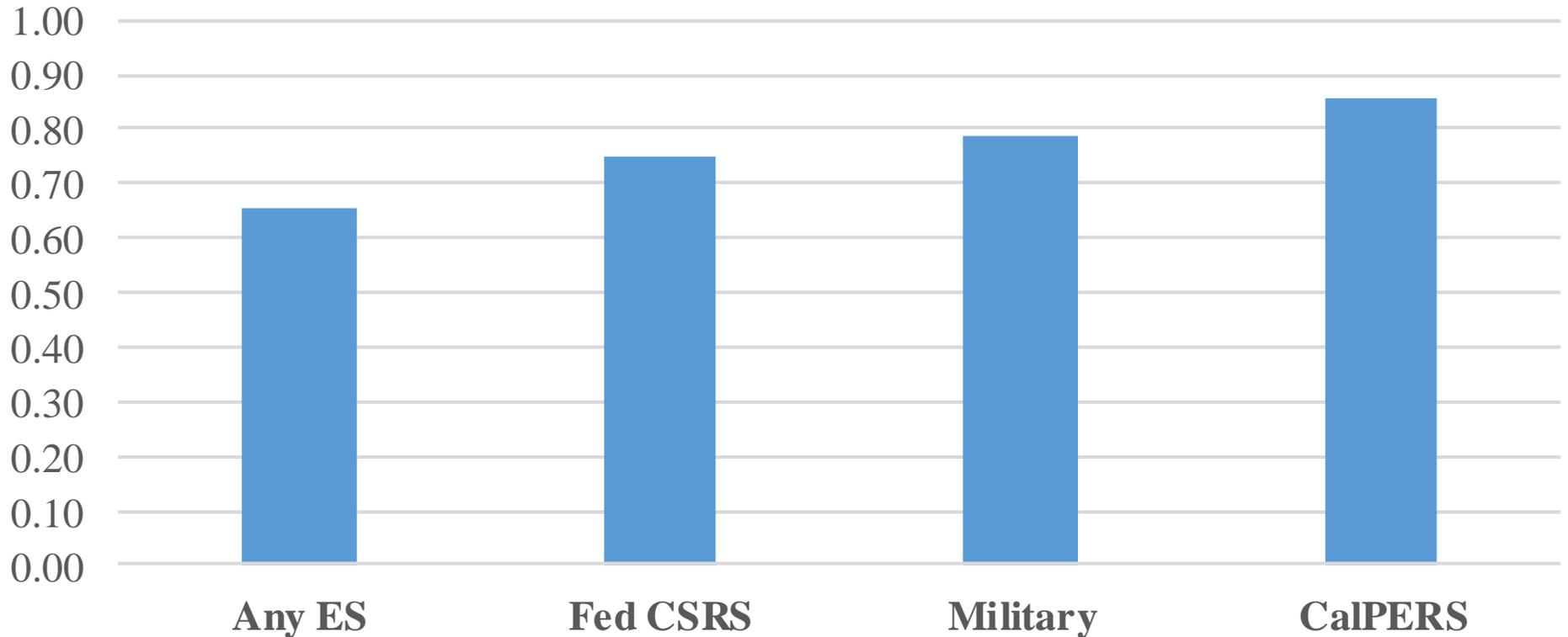


Source: 2013 CPS ASEC-ADREC

Underreporting of Defined Benefit Income?

- Examine Specific Government Retirement Plans
- Traditional DB plans, satisfy money income concept
- Examine CPS responses for persons age 65+ who receive 1099-R distribution from:
 - Civil Service Retirement System
 - Military Retirement Fund
 - CALPERS

Reported Receipt Among 1099-R Annuitants (Age 65+, Excludes Imputations)

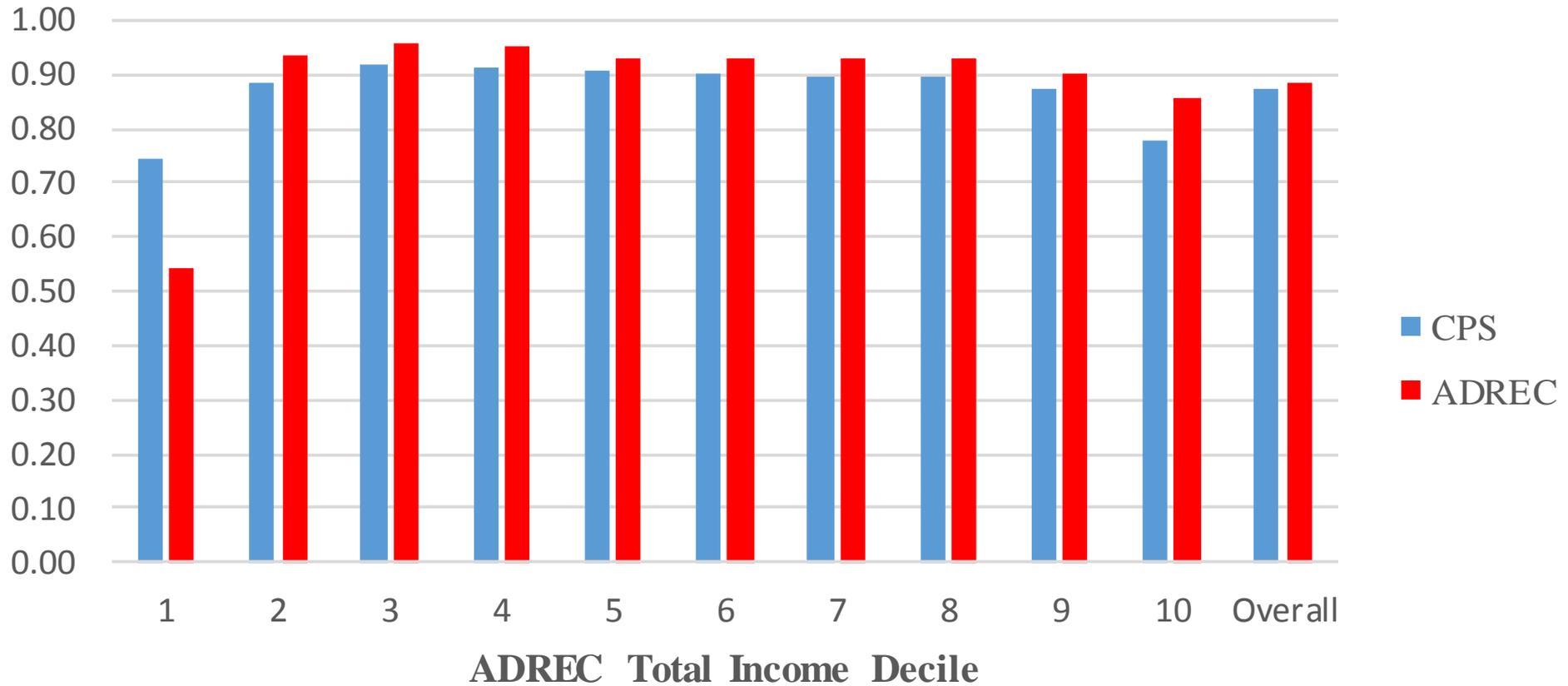


Source: 2013 CPS ASEC-ADREC

Relative Importance of Different Income Sources

- *Income of the Aged* chartbook for population 65+
- Previous edition also based on 2013 CPS-ASEC
- Focus on *aged units*
- How does increase in ADREC retirement income affect relative importance of all income sources?

Social Security Receipt Rate (Among Aged Units)



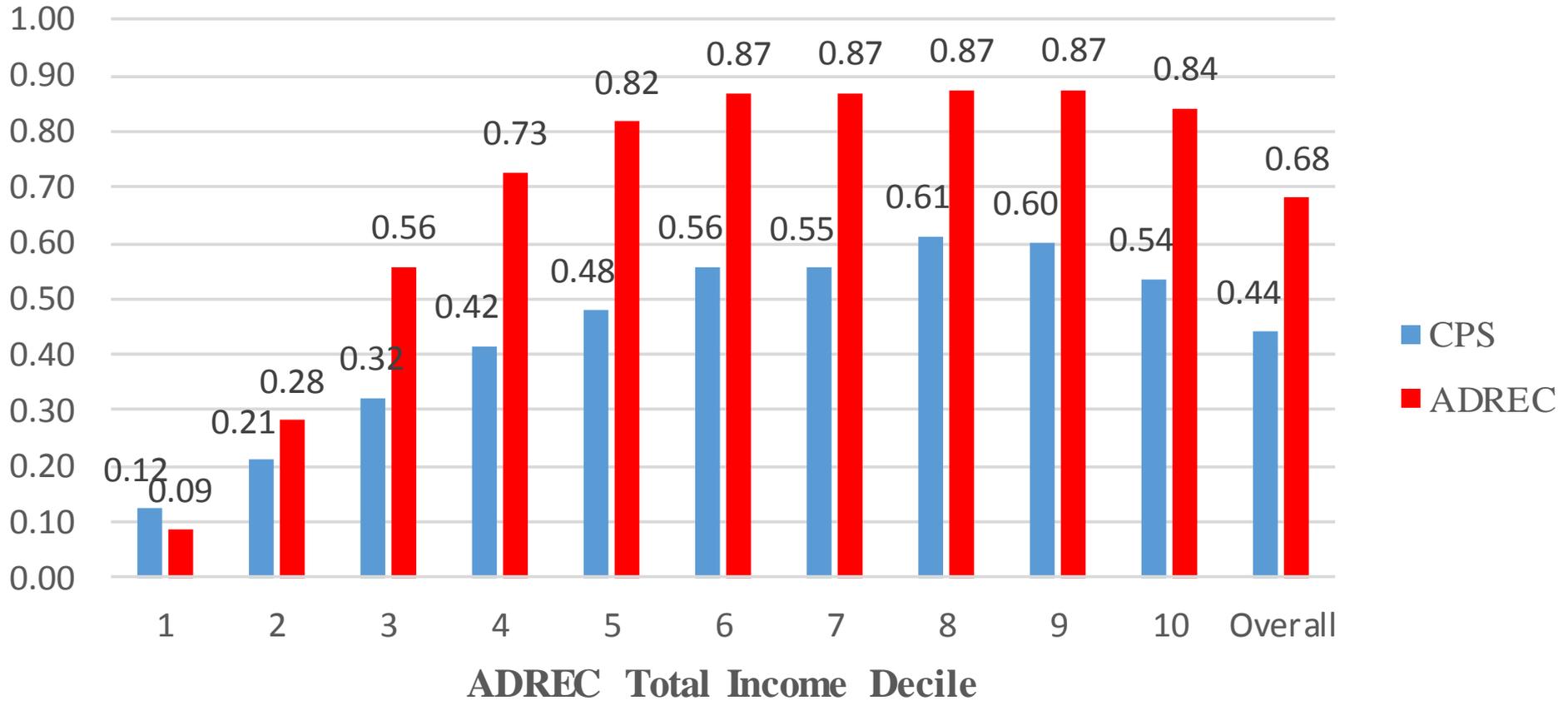
Source: 2013 CPS ASEC-ADREC

Social Security Unconditional Mean Amounts (Among Aged Units)



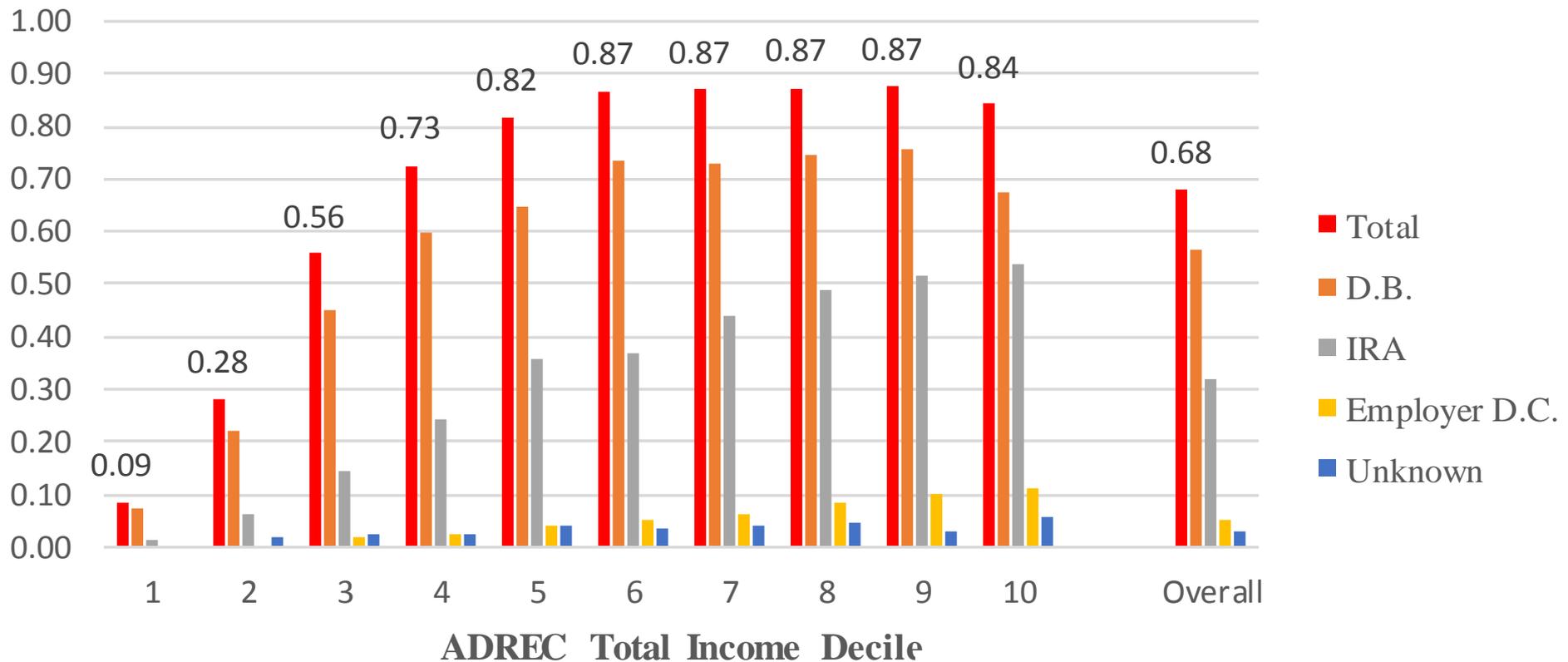
Source: 2013 CPS ASEC-ADREC

Retirement Income Receipt Rate (Among Aged Units)



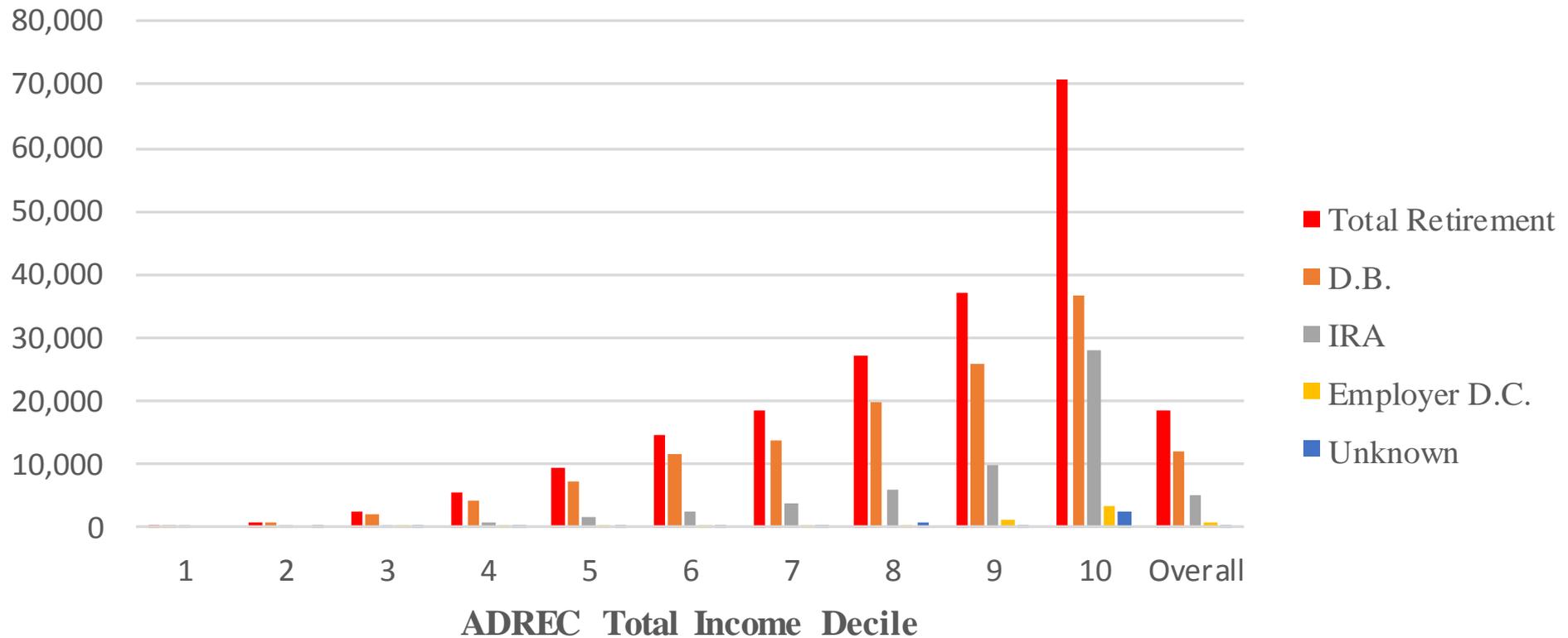
Source: 2013 CPS ASEC-ADREC

ADREC Retirement Income Receipt Rate by Type (Among Aged Units)



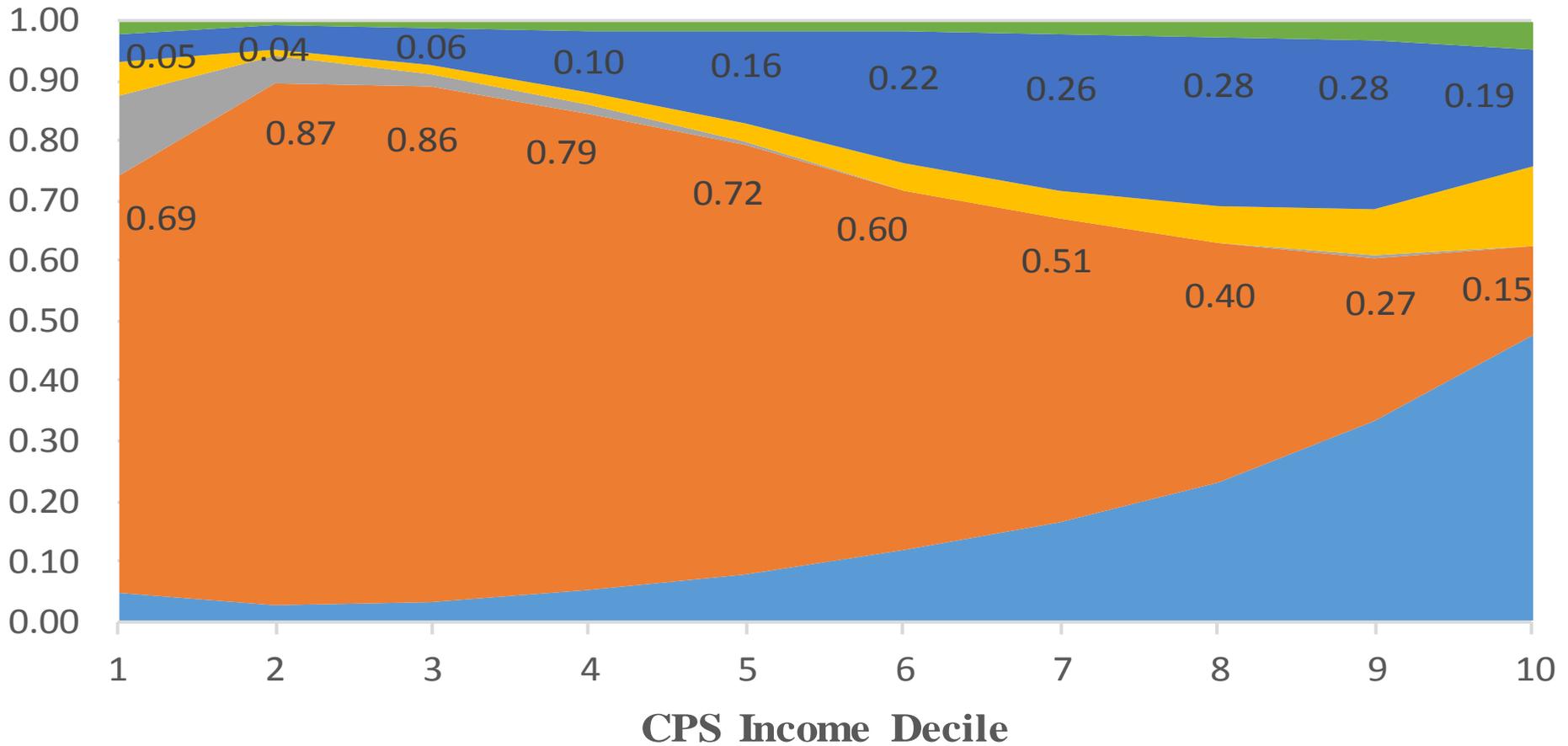
Source: 2013 CPS ASEC-ADREC

ADREC Retirement Income Unconditional Mean Amounts (Among Aged Units)



Source: 2013 CPS ASEC-ADREC

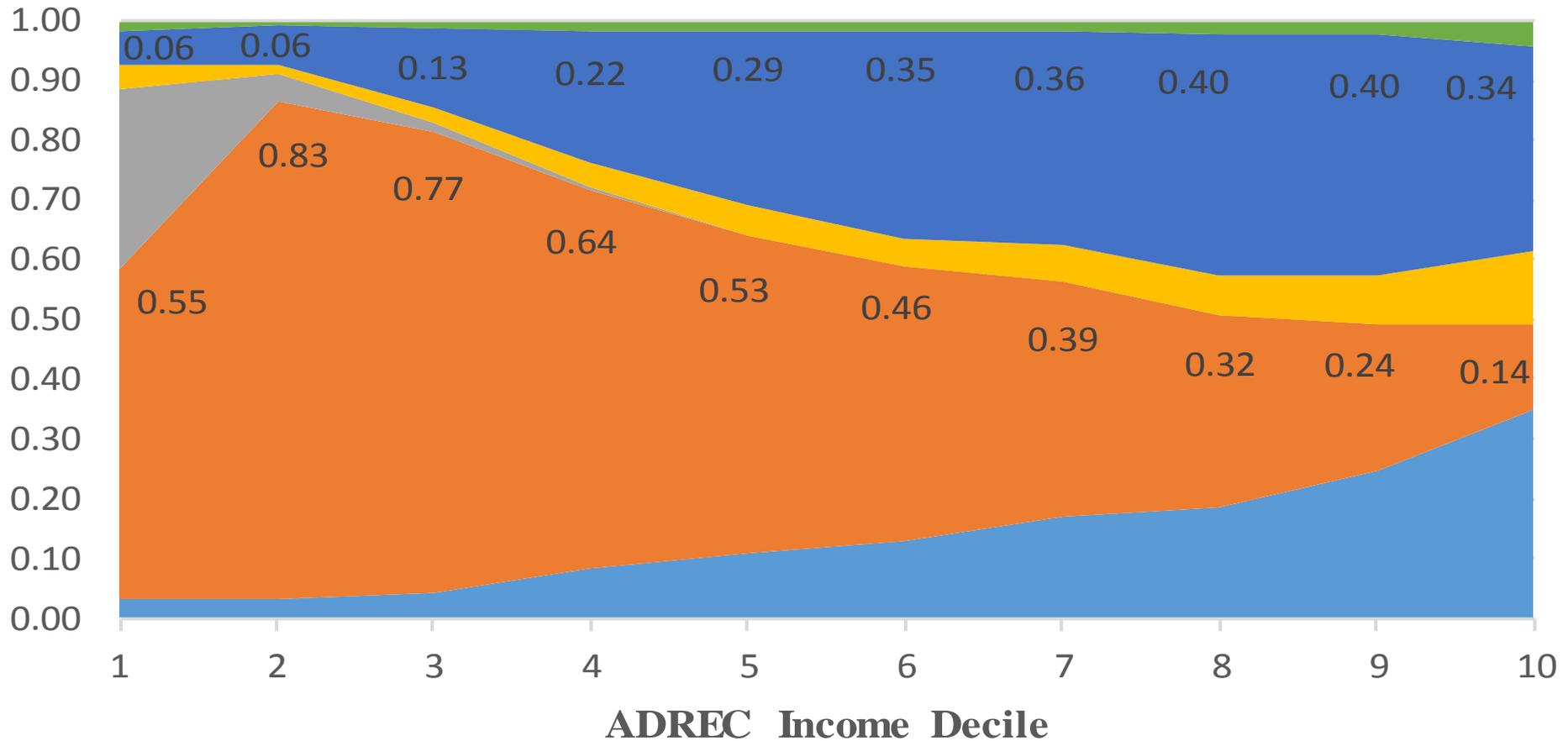
CPS Income Shares Across Deciles (Among Aged Units)



■ Earnings
 ■ Social Security
 ■ SSI
 ■ Int/Div
 ■ Retirement
 ■ Other

Source: 2013 CPS ASEC-ADREC

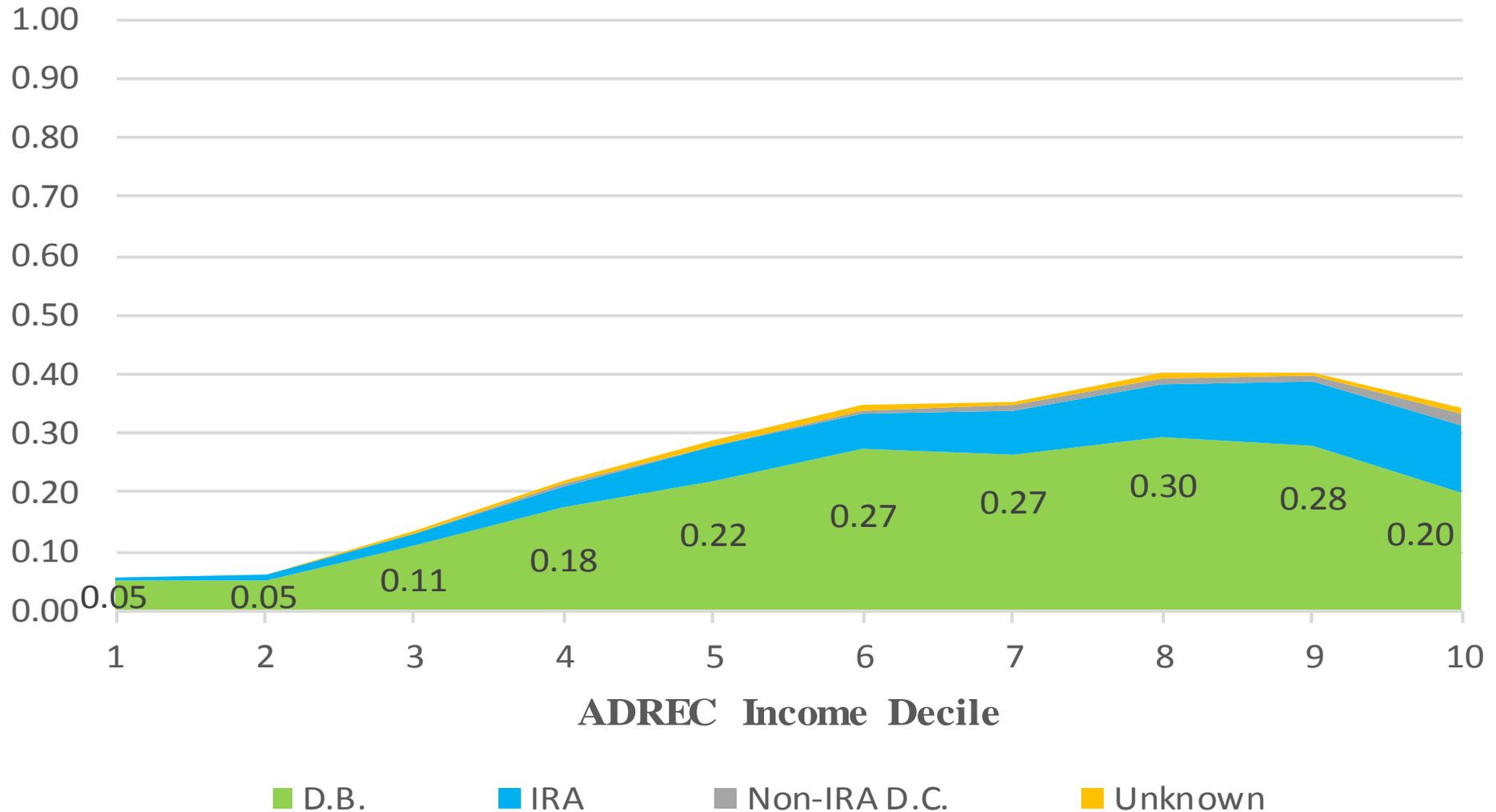
ADREC Income Shares Across Deciles (Among Aged Units)



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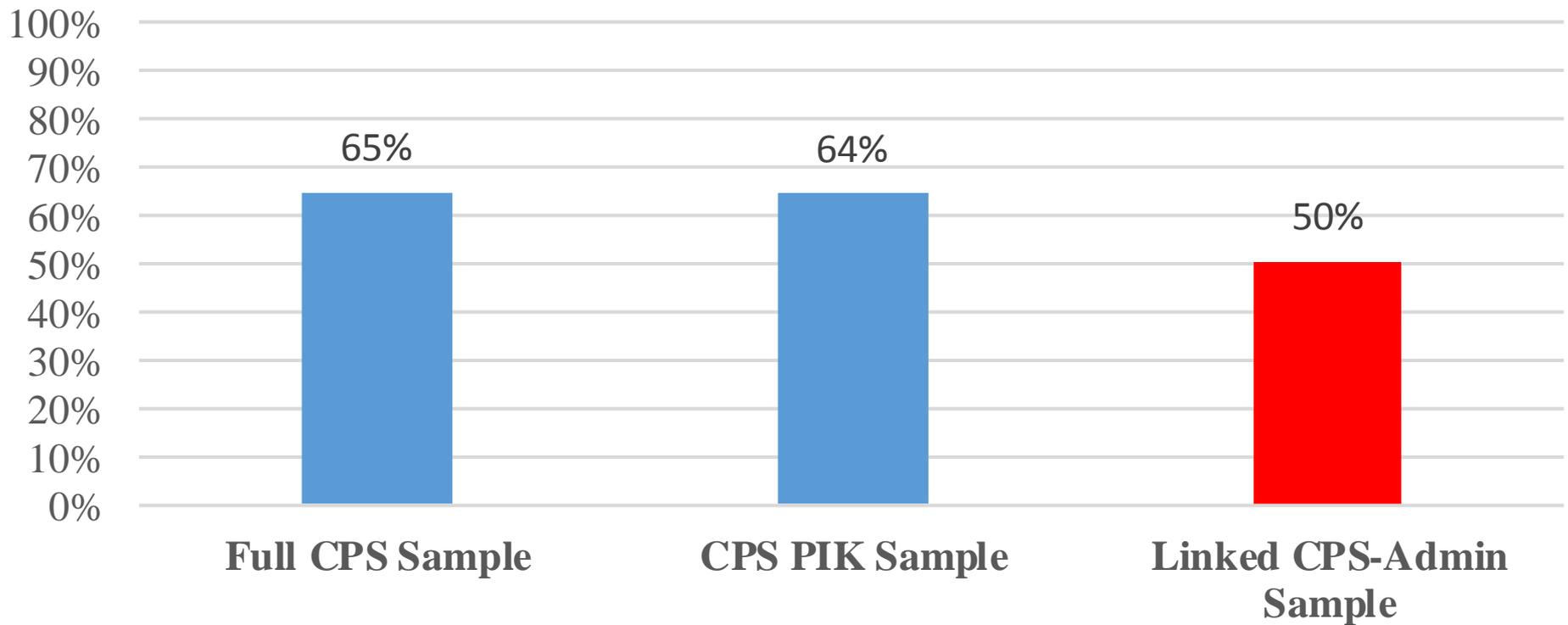
Source: 2013 CPS ASEC-ADREC

ADREC Retirement Income Shares Across Deciles (Among Aged Units)



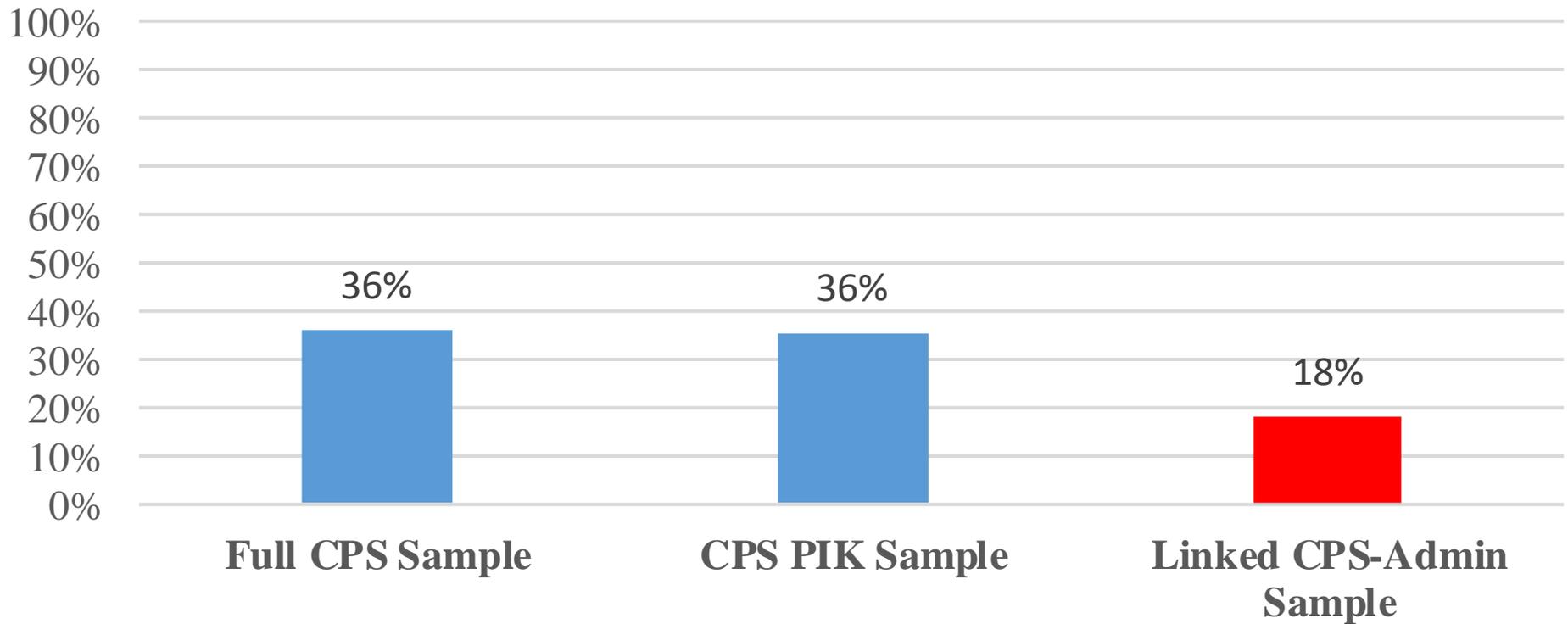
Source: 2013 CPS ASEC-ADREC

Percent of Aged Unit Beneficiaries with Social Security at least 50 Percent of Income



Source: 2013 CPS ASEC-ADREC

Percent of Aged Unit Beneficiaries with Social Security at least 90 Percent of Income

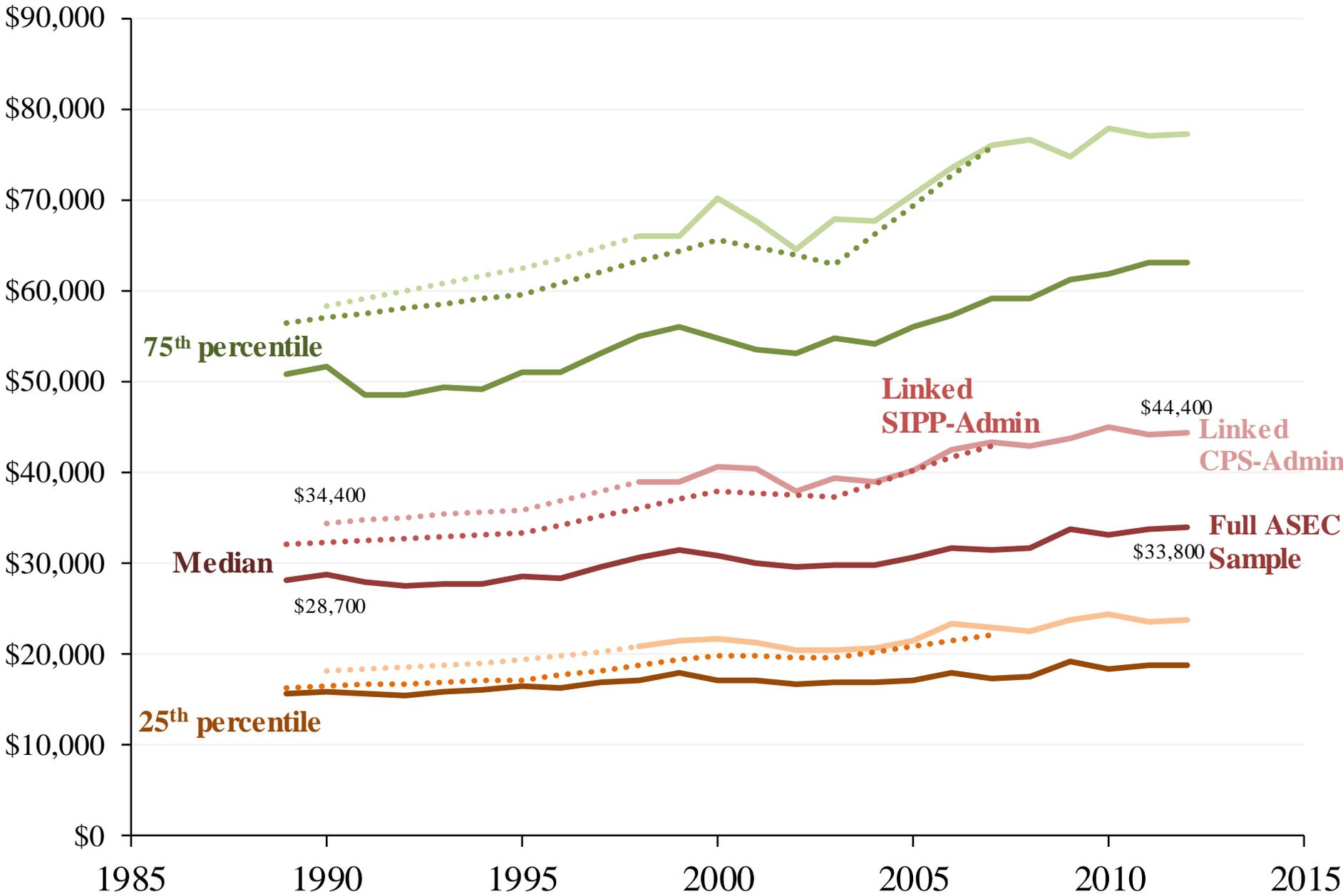


Source: 2013 CPS ASEC-ADREC

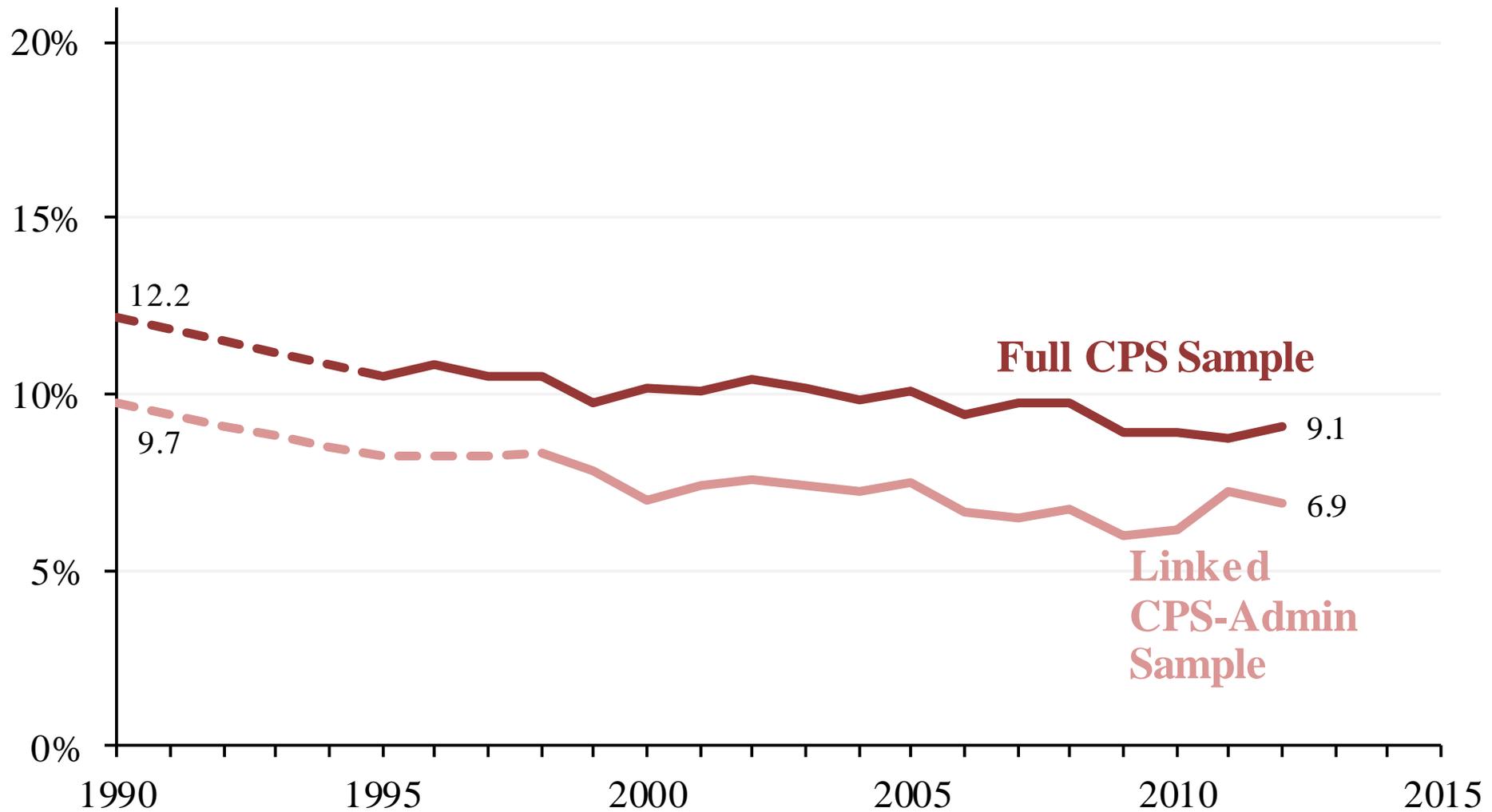
Long-run Trends

- Use archived ADREC to construct consistent measures of income and poverty over time and compare to survey values
- Income quantiles (1990, 1995, 1998-2012)
 - CPI-U-RS used to put in 2012 dollars
- Poverty rates 1990,1995,1998-2012

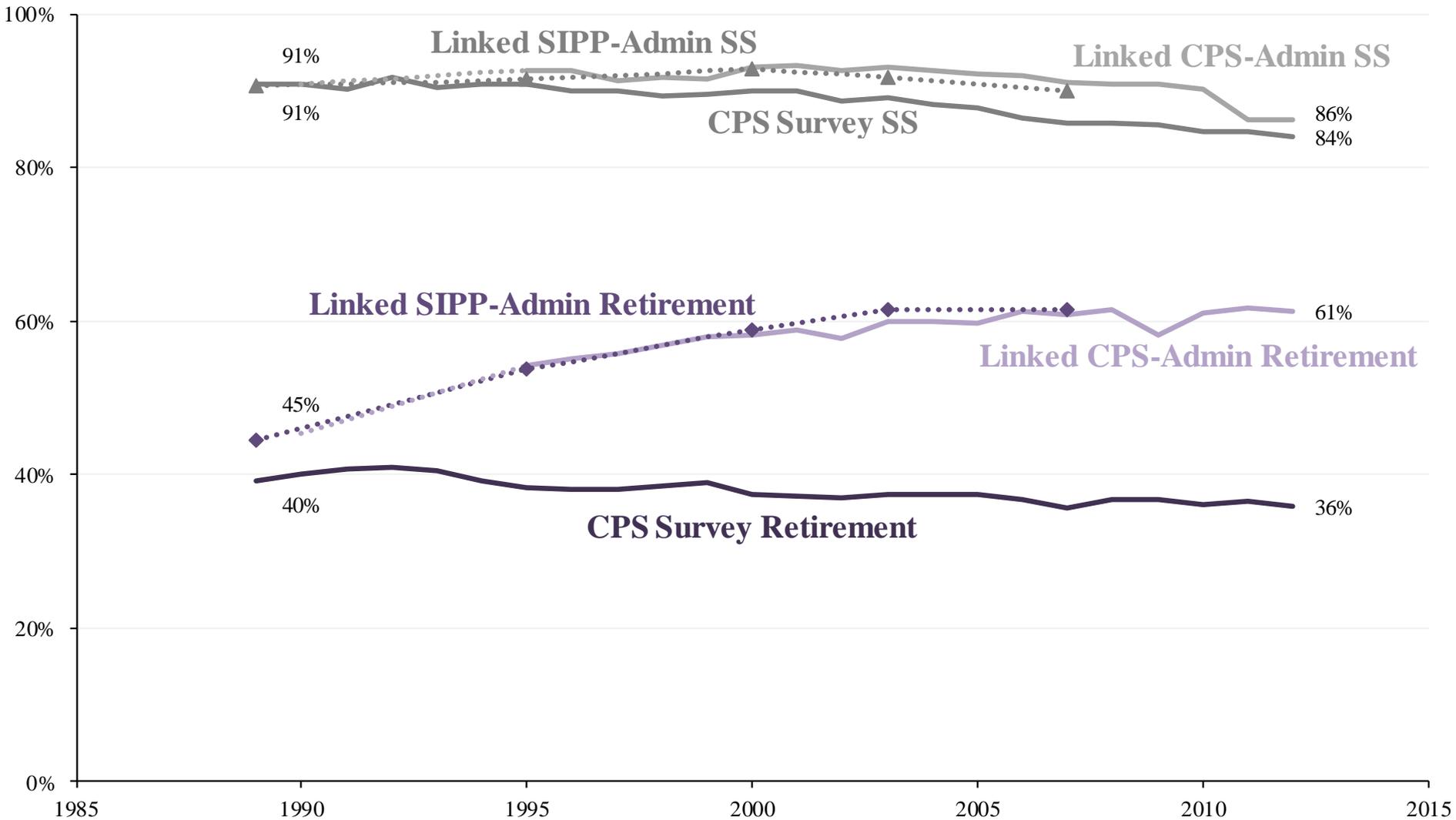
Income Quartiles, Aged 65 and Over



Poverty Rates, Aged 65 and Over



Aged 65 and Over



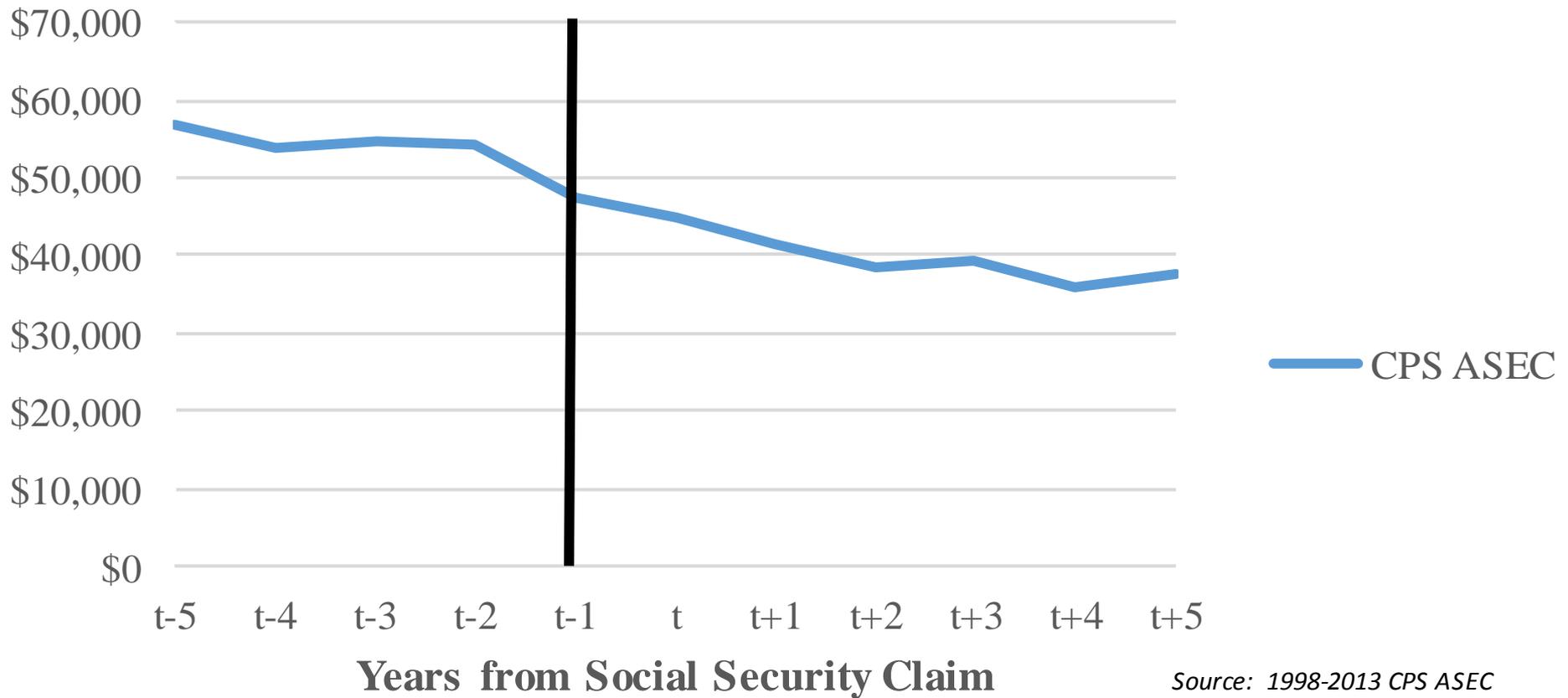
Retirement Transition

- Relative metric
 - How well are pre-retirement living standards maintained?
 - Retirement Consumption Puzzle
- Absolute metric
 - Do we observe increases in poverty?
- Synthetic cohort approach (enhanced with ADREC)
 - Compare two income measures
 - Observe living arrangements

Sample Construction

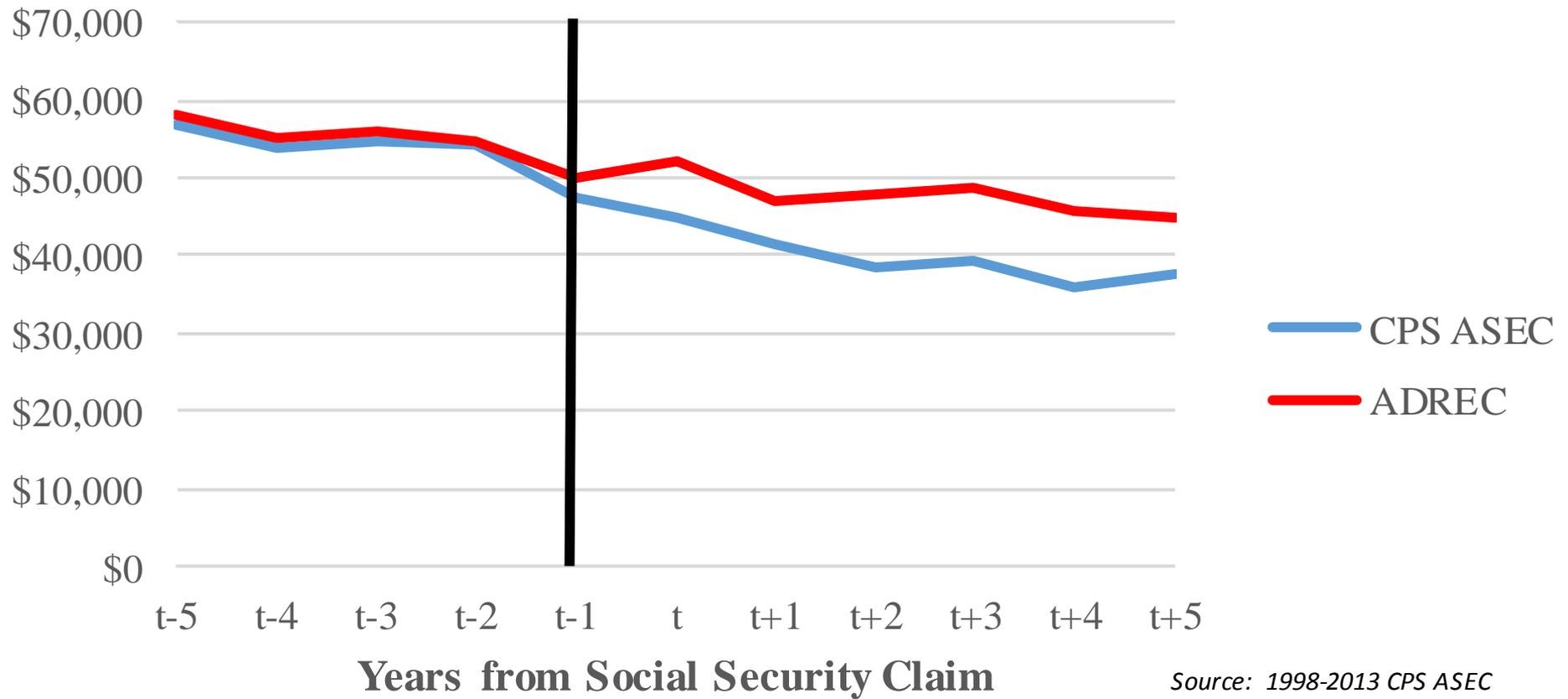
- Pool 1998-2013 linked CPS-ASEC samples
- Individual-level analysis
- First claimed Social Security between 2003-2007
- Aged 60 to 70 when first claimed
- Did not claim SSDI
- Survived at least 5 years after claiming
- Income treatment of married couples and single individuals

Median Incomes for Men (Years Surrounding Social Security Claim)



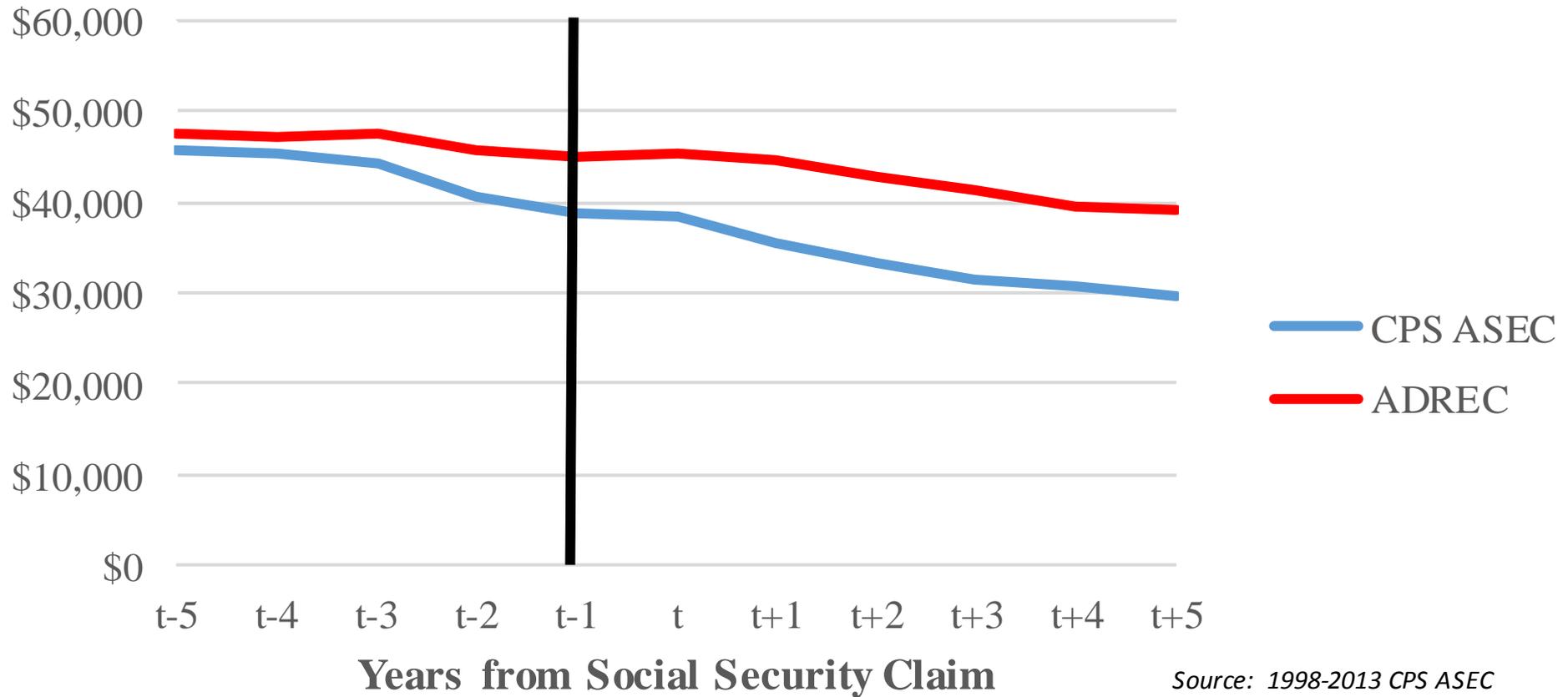
Source: 1998-2013 CPS ASEC
linked to administrative records

Median Incomes for Men (Years Surrounding Social Security Claim)



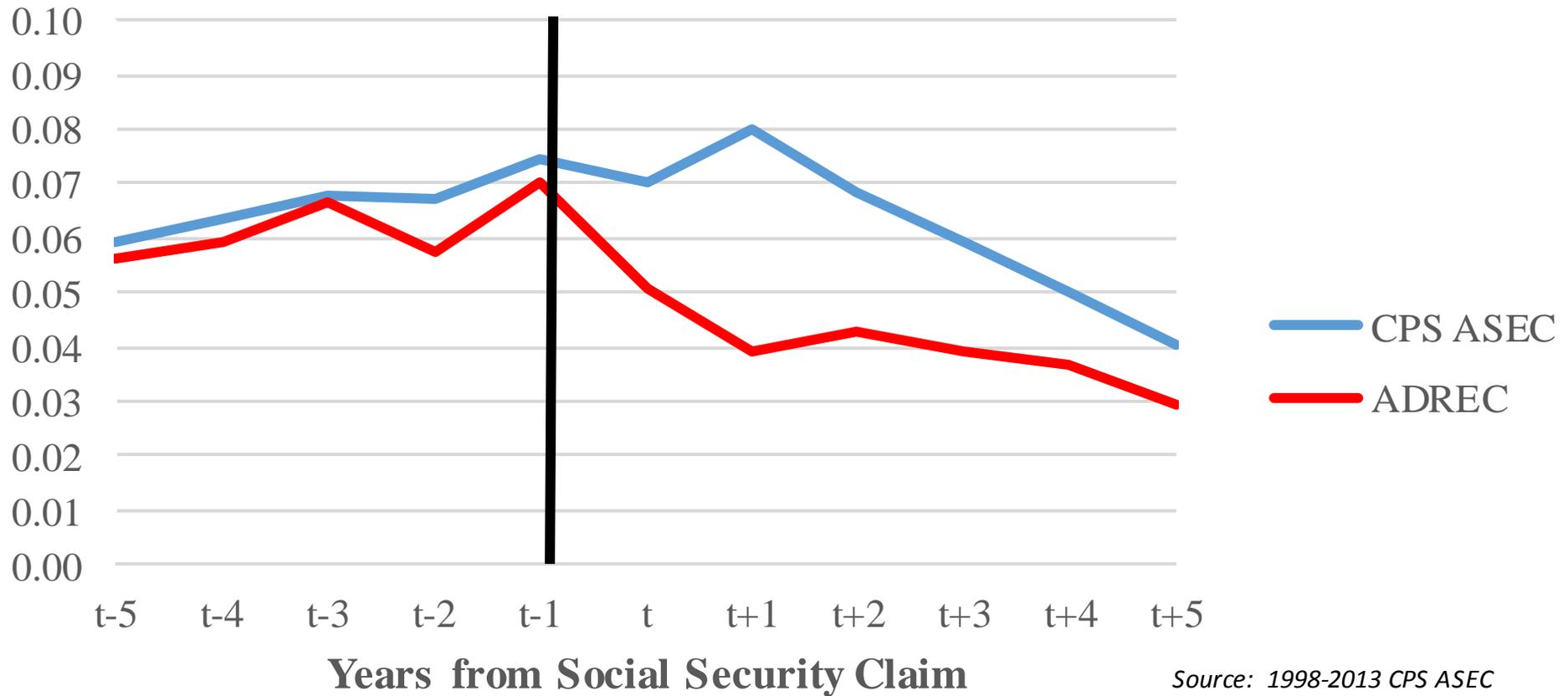
Source: 1998-2013 CPS ASEC linked to administrative records

Median Incomes for Women (Years Surrounding Social Security Claim)



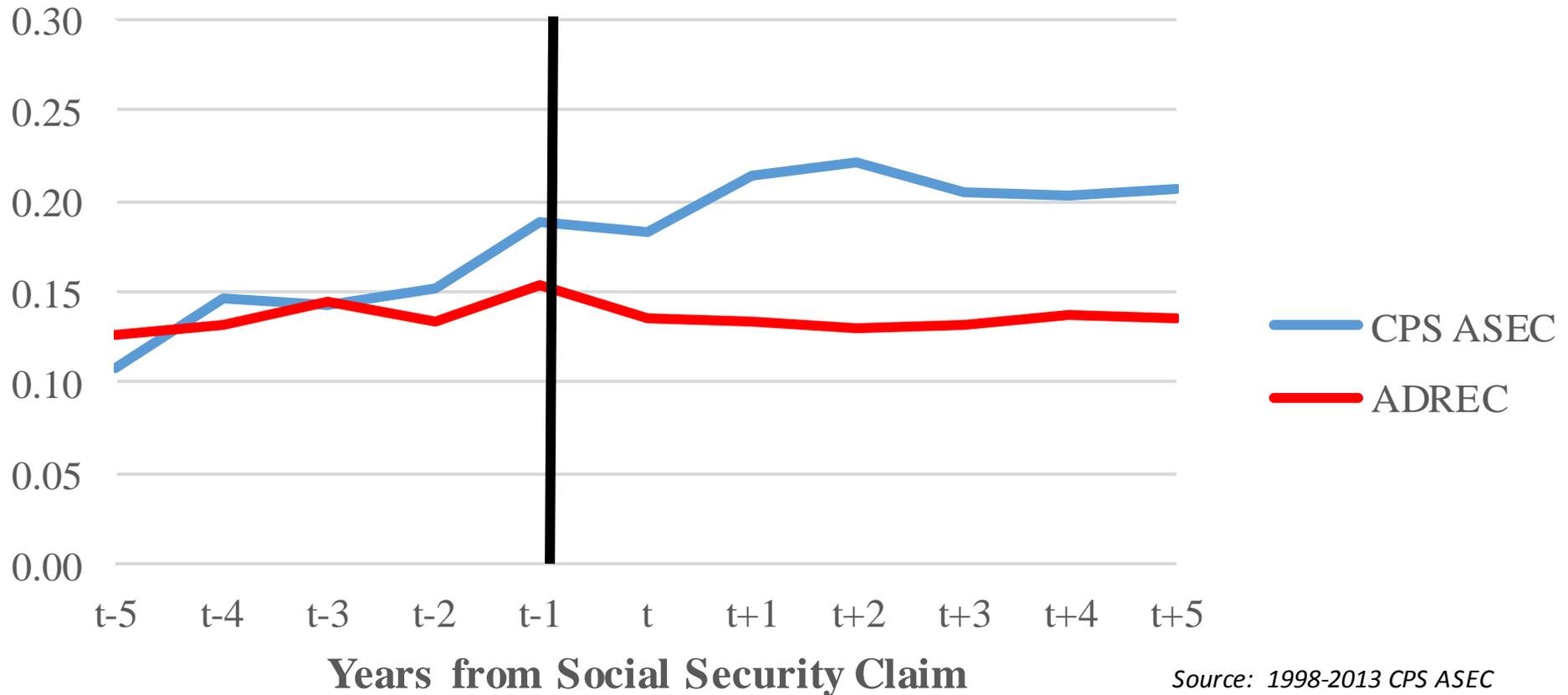
Source: 1998-2013 CPS ASEC linked to administrative records

Proportion of Men Below 100% Poverty (Years Surrounding Social Security Claim)



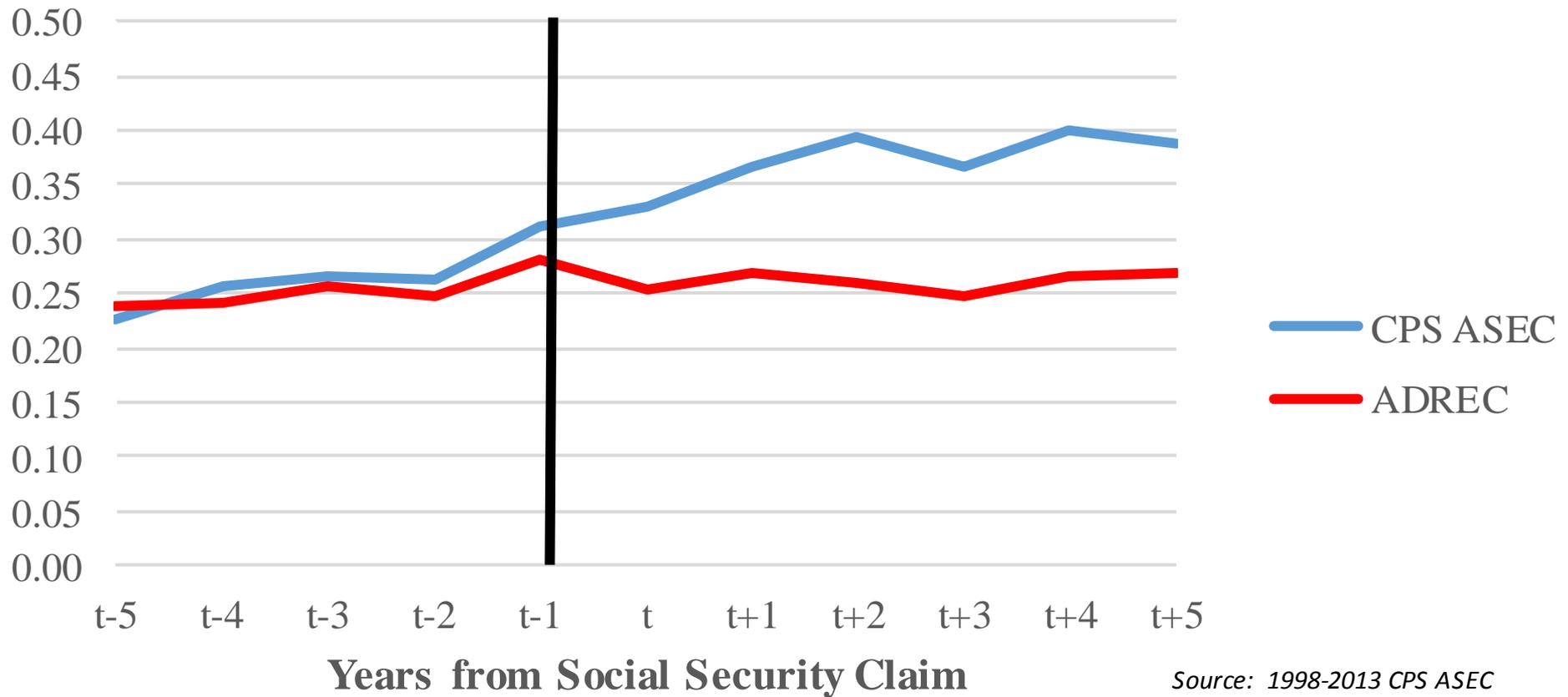
Source: 1998-2013 CPS ASEC
linked to administrative records

Proportion of Men Below 200% Poverty (Years Surrounding Social Security Claim)



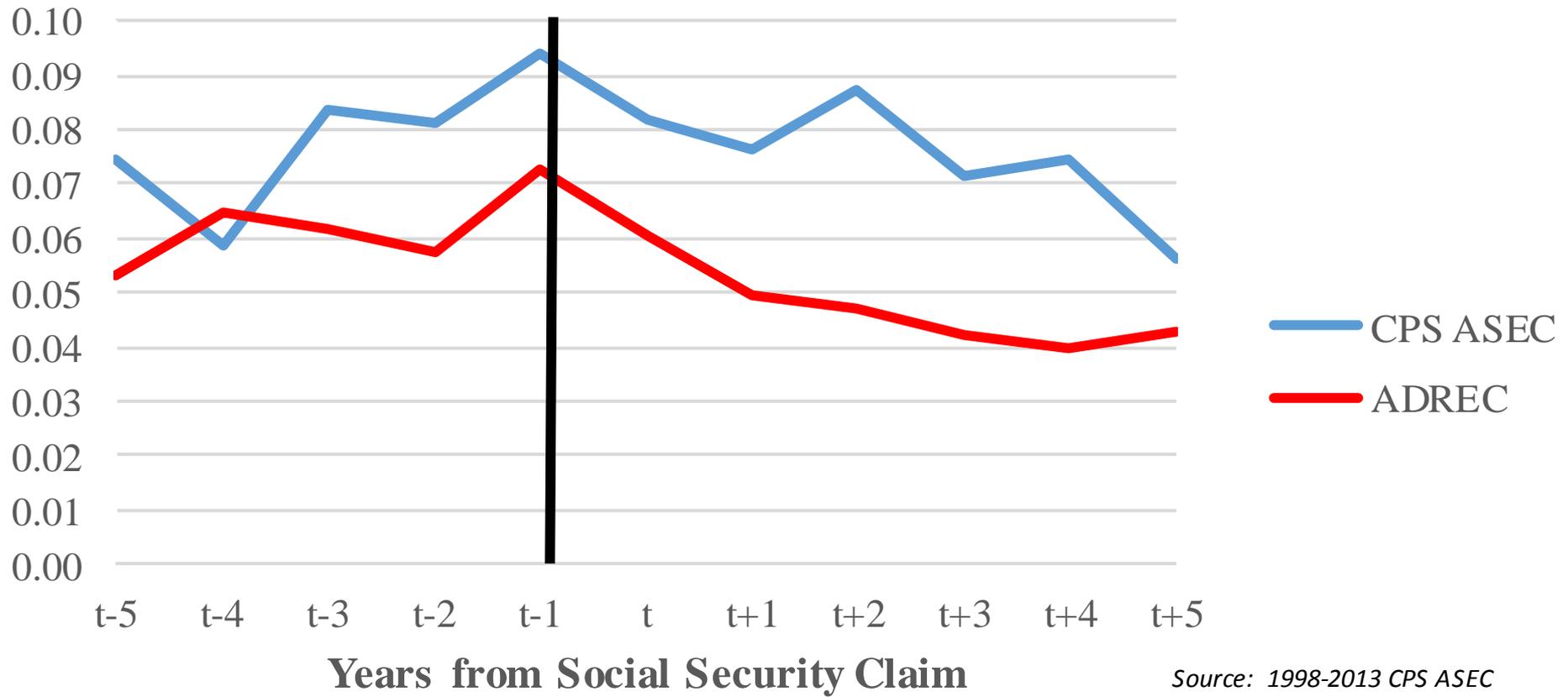
Source: 1998-2013 CPS ASEC linked to administrative records

Proportion of Men Below 300% Poverty (Years Surrounding Social Security Claim)



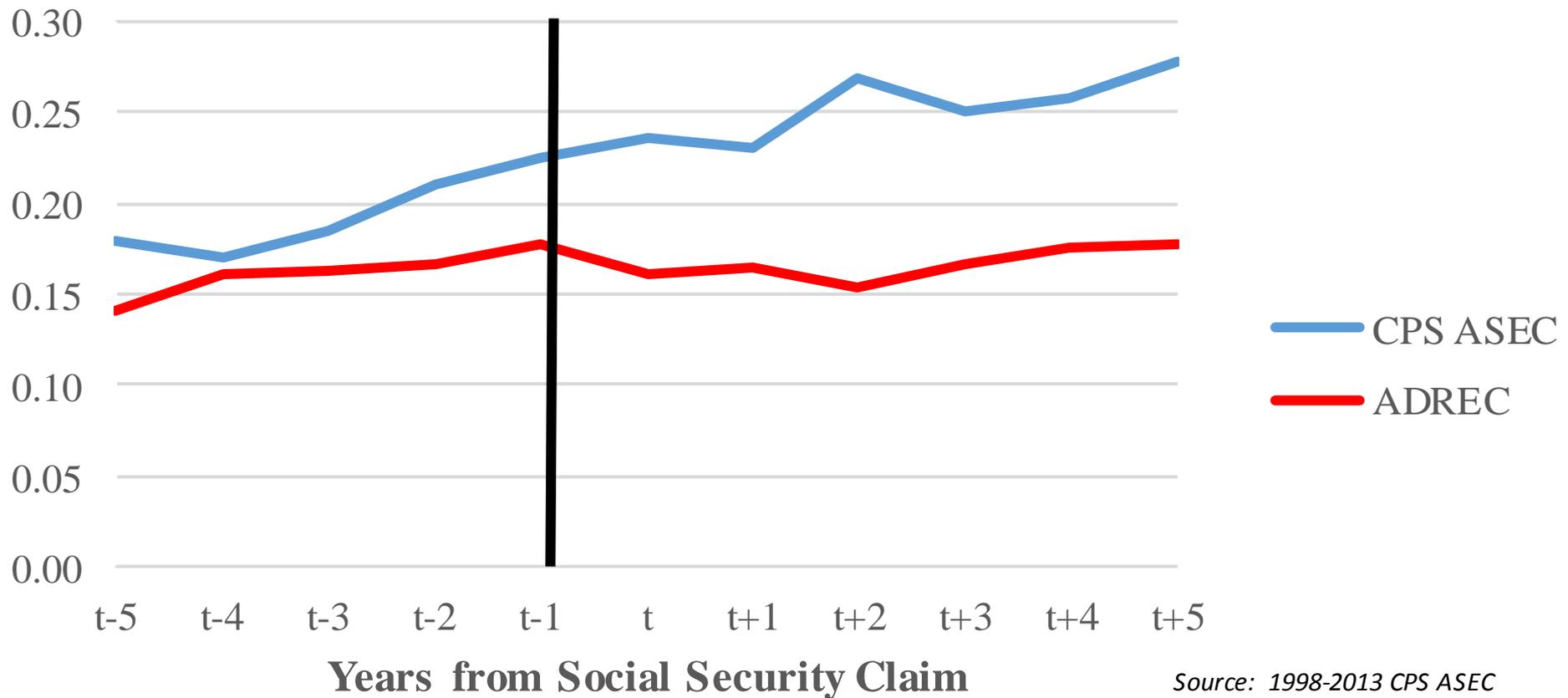
Source: 1998-2013 CPS ASEC
linked to administrative records

Proportion of Women Below 100% Poverty (Years Surrounding Social Security Claim)



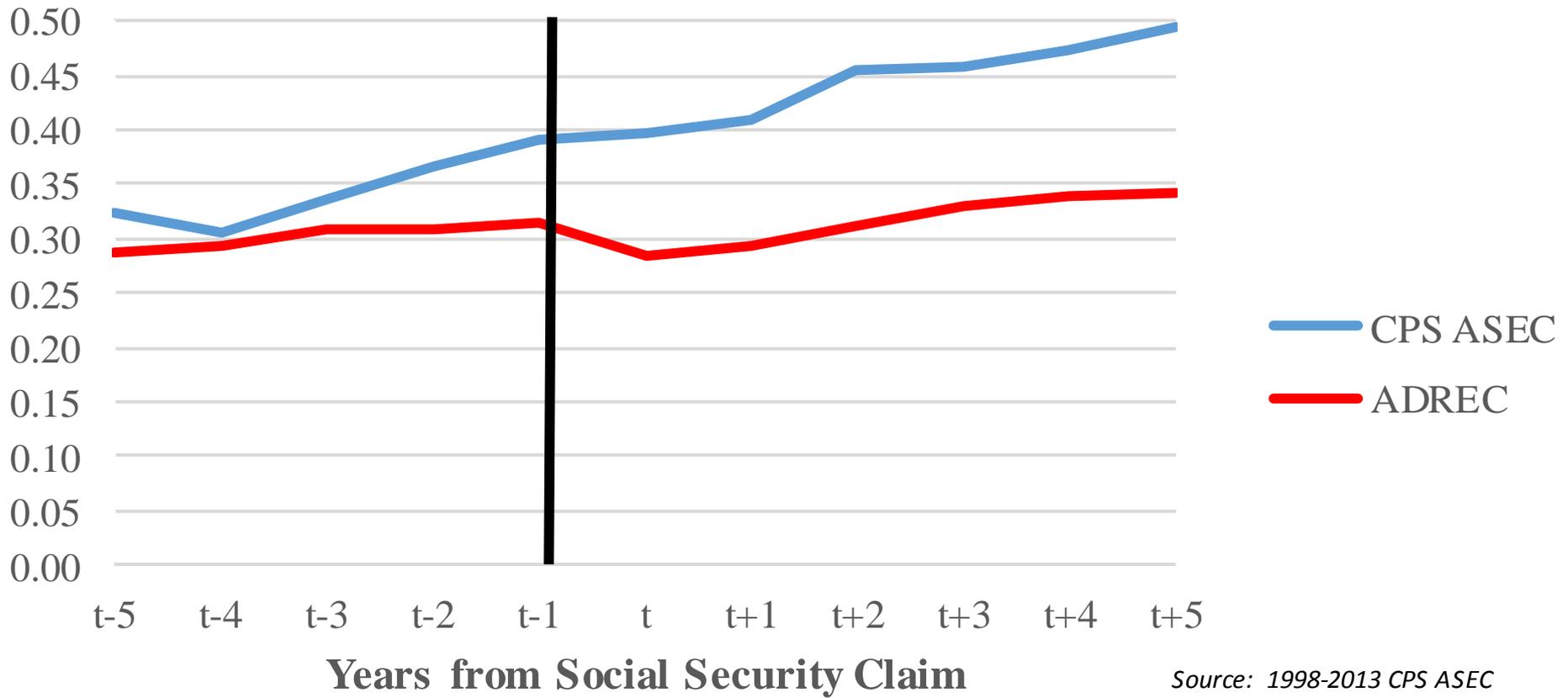
Source: 1998-2013 CPS ASEC
linked to administrative records

Proportion of Women Below 200% Poverty (Years Surrounding Social Security Claim)



Source: 1998-2013 CPS ASEC
linked to administrative records

Proportion of Women Below 300% Poverty (Years Surrounding Social Security Claim)



Source: 1998-2013 CPS ASEC
linked to administrative records

Summary of Retirement Transition

- Incomes fall much more in survey than in ADREC
- Income declines start several years prior to claiming, no abrupt changes at retirement
- No evidence that poverty rises in either series
- 200 and 300 percent poverty rises much more in survey than in ADREC

➔ Inconsistent with Retirement Consumption Puzzle

Caveats to Our Overall Findings

- Only examine incomes of the population aged 65 and over through 2012
 - Cannot easily extrapolate findings to future retirees
- Income may not capture all aspects of material well-being (rising debt levels)
- Analysis of retirement transitions cannot answer whether people “run out of money” many years later

Thank You and Contact

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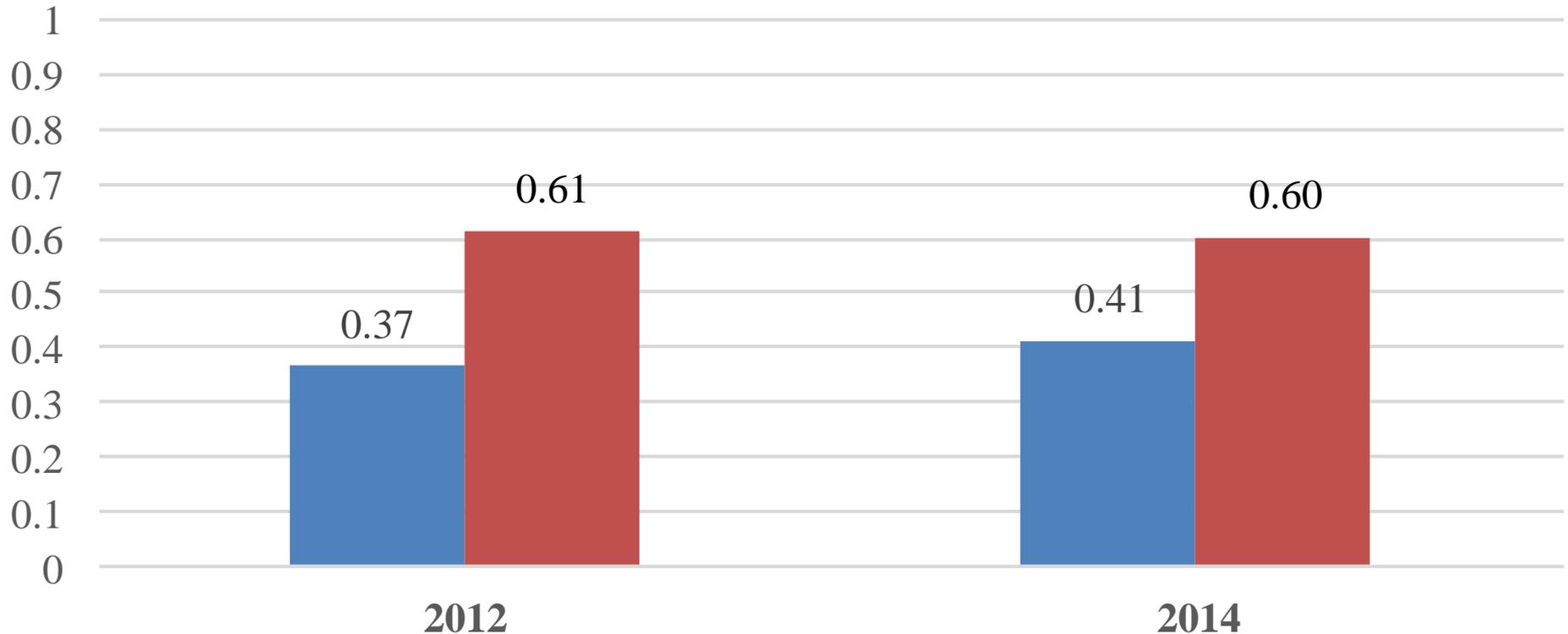
C. Adam Bee

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Coda: Preliminary Look at Retirement Income in CPS Redesign

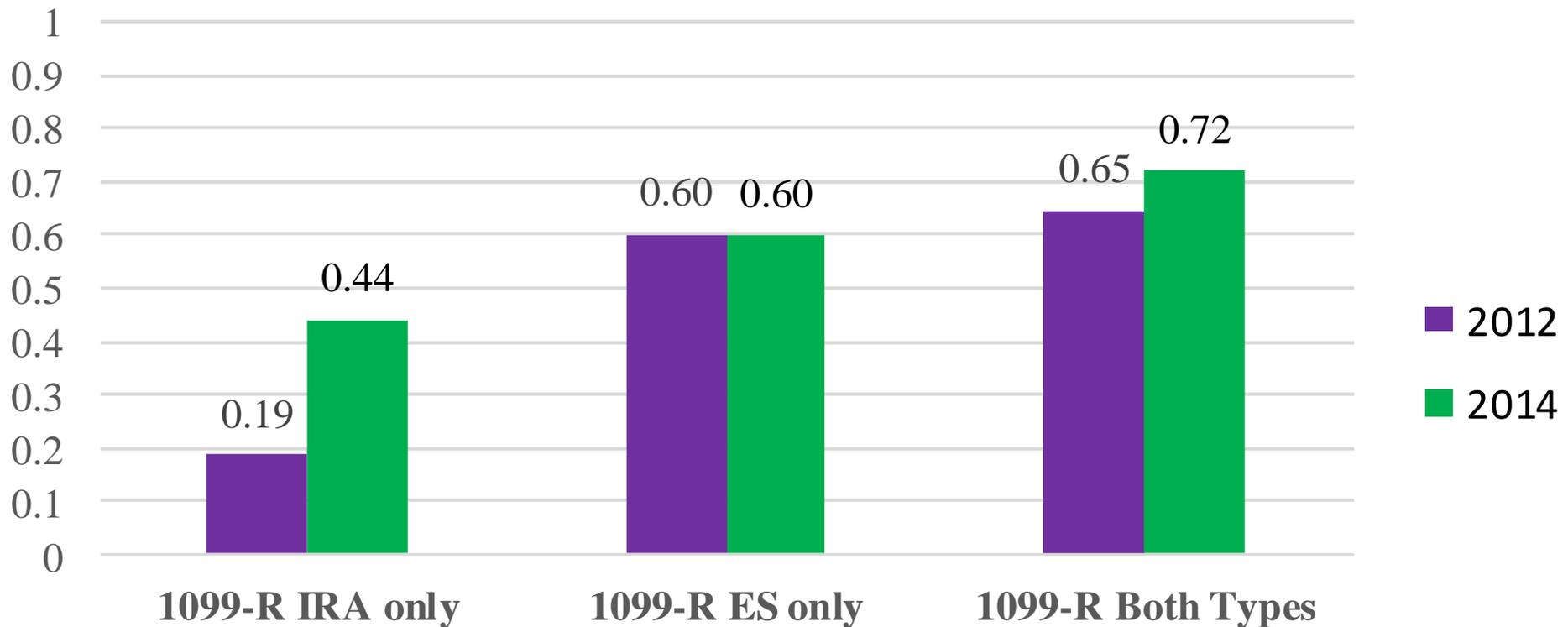
- Compare 2015 ASEC (redesigned) to 2013 ASEC
- New income questions
 - Separate questions for IRA withdrawals, pensions, annuities, etc.
 - Asked receipt first for all sources then later ask amounts
 - Older respondents receive retirement questions earlier in interview
- Some boost in survey income relative to ADREC but still significant discrepancy, especially at extensive margin

Survey and ADREC Retirement Income Receipt (Age 65+, Traditional and Redesigned CPS ASEC)



Source: 2013 and 2015 CPS ASEC-ADREC

CPS ASEC Retirement Income Receipt (Age 65+, Among Those with 1099-R Income)



Source: 2013 and 2015 CPS ASEC-ADREC