Economic Well-Being and Security of Older Americans: State Approaches and Innovations

By Phoebe Liebig and Caroline Cicero

The time has come for economic well-being and security of older Americans to once again be the central issue in aging policy. Economic security—often defined by levels of retirement income, but more appropriately meaning having sufficient income to cover normal living expenses—has in recent years received less attention than healthcare and long-term care. The implication from gerontologists and policy makers is that older people can meet their basic needs without public subsidies (e.g., food stamps, Medicaid, subsidized housing) (Russell, Bruce, and Conahan, 2006). Now, sea changes in pension plans and the stability of financial markets and questions about the adequacy of savings rates, combined with recent attacks on Social Security, require us to focus anew on the importance of income for economic security of older adults.

Economic security must once again be the central issue.

Measuring Economic Well-Being

Historically, economic well-being in the retirement years has been measured by the types of income sources, segregated by quintiles or quartiles, and by proportions of those in poverty. The relative importance of different sources and shares of retirement income (Social Security, pensions, savings, continued employment, and public subsidies) for different groups of the elderly has been a central focus (see Clark et al., 2004). Because the principal problem of aging was initially cast as poverty (and became a rationale for the enactment of Social Security), studies of the economic status of elders traditionally centered on poverty. Over time, examining the income distribution and median income of people age 65-plus was seen as providing additional insights into their economic well-being. Since the mid 1970s, the trend in median household income of older people has been positive: from $19,086 in 1974 (in 2006 dollars) to $27,798 in 2006 (Federal Interagency Forum on Aging Related Statistics [FIFARS], 2008). Still, 9 percent of elders live in poverty, with another 26 percent in the low-income group (FIFARS, 2008). Many are not poor enough to be eligible for government subsidies, such as affordable housing, viewed as crucial to guaranteeing economic security (Russell, Bruce, and Conahan, 2006; Wallace and Molina, 2008; Wider Opportunities for Women [WOW], 2008).

A national poverty measure was introduced nearly thirty years after Social Security was passed. This index was developed by economist Mollie Orshansky of the Social Security Administration as part of President Lyndon Johnson's "war on poverty" in 1964. Drawing on consumption surveys of the 1950s, it was based on the cost of food necessary to meet *minimum* needs of adults of different ages, such as those 65 and older, multiplied by three. Included were assumptions that households spent one-third of their income on food and older adults' caloric requirements were lower than their younger counterparts. In 2007, the federal poverty guideline for an older person was $10,210 and $13,690 for an older couple (WOW, 2008). The guidelines for different households are used to determine income eligibility limits for government programs and to allocate resources to communities; some federal block grants to states are partially based on state poverty data.

A revised measure was recommended in 1995 by the National Academy of Sciences Panel on Poverty and Family Assistance. Key proposals called for basing poverty on median expenditures for common needs, adjusting thresholds for family size and composition differently from current practice, and recalibrating thresholds for geographic differences in housing costs (Holden and Kim, 2001); however, these recommended changes were not adopted (Liebig, 2006b).

Each year, the value of poverty levels for different households is updated by the Consumer Price Index (CPI) to mitigate the effects of inflation on government benefits (e.g., Social Security, Supplemental Security Income [SSI]), eligibility standards, and federal and state income tax brackets and deductions. The CPI seeks to duplicate a "market basket" of goods and services actually purchased by typical consumers. The "market basket" is updated once every ten years, often lagging behind changes in buying patterns and the introduction of new products (Samuelson, 1995). During the late 1980s, a Bureau of Labor Statistics study compiled an experimental index for people age 62-plus; because of serious flaws, the measure was not adopted. A broader attempt to revise the CPI in the mid 1990s found that inflation was overstated by 1 percent annually. Had this new CPI been adopted, future cost-of-living adjustments for major federal programs, including Social Security, SSI, and veterans' benefits, would have been reduced and, over time, severely so. State programs would also have been affected.

Roles of the States In a Federal System

Federalism, as embodied in the U.S. Constitution, specifies numerous guarantees to the states and also places restrictions on their activities. Fiscal federalism embodies the allocation of spending and taxing powers among the national and state governments, characterized by grants-in-aid and by a division between revenue-raising powers and responsibilities (known as "tax assignment") (Kenyon, 2006). Over the years, the states have played many roles, particularly as sources of policy innovation, acting as a testing ground for policies subsequently adopted at the national level (Gray and Hanson, 2004). For example, state age discrimination laws predated enactment of the Age Discrimination in Employment Act of 1967 by nearly sixty-five years, with Colorado being the first to lead the way, in 1903. By 1967, twenty-four states had legislated some form of prohibition against age bias in the workplace (Liebig, 2006a). This "bubble up" phenomenon, also known as vertical federalism, became more widely recognized among gerontologists during the late 1980s and 1990s (Liebig, 2006b). Certain states (e.g., California, Massachusetts, Wisconsin) and particular regions (e.g., New England, Pacific Northwest) have earned a reputation as consistent innovators. States also borrow policies from each other but allow for differences in their traditions and historical preferences (Elazar, 2006). This often gradual diffusion of policies, sometimes called "horizontal federalism," might best be described as a lava flow, a phenomenon that is characteristically slow in the beginning but gains speed as more states adopt a particular policy.

States also implement federal policies such as nursing home regulation, screening for receipt of Social Security Disability Income (SSDI) (Liebig and Steinman, 2009), development of affordable housing, and conducting age discrimination investigations. Under the federal principle, states can choose to follow the federal lead, counterbalance or supplement national policies, or break their own ground. State income tax policies, with important effects on economic well-being and security, exemplify these patterns (Liebig, 2006c). States vary widely in providing tax credits (e.g., for renters, senior head of household, age 65-plus), marginal tax rates, especially for very low-income elders, and tax deductions (e.g., fully deductible long-term-care insurance premiums, additional standard deductions for persons age 65-plus) (Russell and Hanson, 2007).

State roles in the income area have generally been overlooked in favor of an emphasis on national programs like Social Security. However, the perception that states play a marginal role tends to ignore both history and current activity. Income maintenance policies for older adults were legislated by thirty states before Old Age Assistance—a forerunner of SSI—was included in the Economic Security Act of 1935. Several states, led by Massachusetts, developed their own employee pension systems before the federal government did. And as noted above, states can choose tax policies that enhance elders' income while also reflecting differences in the respective states' traditional social welfare policies and in regional costs of living. Property tax deferment or reduction is often available to elders according to income levels, and sales tax policies that exempt prescription drugs are particularly beneficial for older adults (Liebig, 2006c).

In addition, forty-four states provide a supplement to federal SSI assistance, but the combined payments are insufficient to meet living standards. The maximum federal monthly benefit for people living independently is $637 for aged or disabled individuals and $1,274 for aged or disabled couples. California's supplement, for example, raises the monthly benefit to $870 and $1,525, respectively (Szymendera and Davis, 2006), barely enough to cover the cost of housing, including utilities, in many parts of the state. A recent development, the Elder Economic Security Initiative, is a particularly compelling example of state activity in the income arena that illustrates "lava flow" and "bubble up" roles. Thus far, this initiative has gained momentum on a handful of state policy agendas, thanks to support from several national and local foundations and a women's advocacy group.

Development of the Elder Economic Security Initiative (EESI)

The Elder Economic Security Initiative (EESI) was based on an earlier initiative—the national Family Economic Self-Sufficiency project—developed under the auspices of Wider Opportunities for Women (WOW). In its nearly two decades of advocacy for self-sufficiency of women and their families, WOW has reframed the debate on social policies and programs centered on poverty to focus on what it takes for families at all stages of life to make ends meet (WOW, 2008).

The EESI was first developed as the Elder Economic Security Standard Project by the University of Massachusetts Gerontology Institute (UMGI) in 2005. The basic cost components encompassed housing, food, healthcare, transportation, and other expenses like clothing and household needs, representing 20 percent of living costs. These expenses were summed up to generate basic budget needs for specific types of elder households (e.g., by size, housing tenure, health status) and to measure after-tax income needed to cover today's outlays by elders in the Boston area (AGEnotes, 2008). This research laid the groundwork for subsequent activity at the state level.

In partnership with WOW, the UMGI subsequently undertook the development of a standard for Massachusetts (the MA EESI), as well as twelve separate county EESIs, to reflect intrastate geographic variations in fair market rents, long-term care, and transportation (AGEnotes, 2008). Expenses for basic needs were based on market costs and did not assume any subsidies; payment of income taxes was not included. Because long-term care is not needed by all, these expenses were an "add-on" cost component. Key findings of the MA EESI revealed that older couples and individuals living alone cannot make ends meet at the federal poverty level or at the average Social Security benefit level without subsidies for housing and healthcare, and the state's high housing costs are a heavy burden on elder households, constituting 33 to 52 percent of total expenses (Russell, Bruce, and Conahan, 2006). The umgi and wow disseminated *The Elder Economic Standard for Massachusetts* in December 2006. Shortly thereafter, successful advocacy by the ma eesi network was able to raise the state's asset limit for Medicaid from $2,000—a ceiling not indexed since the mid 1970s—to $10,000 via state legislation and a federal waiver, enhancing access to healthcare for more low- and moderate-income Massachusetts residents.

So far, the umgi team has calculated eesis for Illinois and Pennsylvania, as well as for Wisconsin and three of its seventy-two counties; standards for the other counties will soon be completed. umgi researchers plan to help develop an eesi for the remaining states (AGEnotes, 2008), with additional fundraising help from wow. Some states, however, are moving ahead on their own.

California's EESI (Cal-EESI)

In 2006, before the umgi report was published, California—another innovative state also known for its high cost of living—began to develop a measure of income required to meet the basic needs of older Californians and enable them to "age in place" in their homes and communities. Spearheaded by two advocacy organizations, the Insight Center for Community Economic Development (formerly the National Economic Development and Law Center [nedlc] and hereafter, Insight Center) and wow, the California Elder Economic Security Initiative (Cal-eesi) took shape in fall 2006. ucla's Center for Health Policy Research conducted the tabulations, using the national methodology developed by the umgi.

nedlc (2006) first developed an overall plan establishing a broad-based Steering Committee charged with strategic planning, augmented by subcommittees for input on research, fundraising, marketing, and policy. From its inception, Cal-eesi was designed to combine coalition building, action research, education, and advocacy at the community, state, and national levels. Its goal was to transform how community organizations, decision makers, funders, and public agencies view the needs of elders, so programs would be more responsive to the actual economic needs of older Californians (nedlc, 2006). Besides providing new information about the basic costs that older people face, Cal-eesi was designed to serve as an educational tool for elders, "boomers," and young adults; to construct a foundation for developing a state policy agenda; to create a framework for analyzing impacts of multilevel public policies and policy proposals in various areas (e.g., housing, health, taxes); and to serve as a counseling tool for those working with elders (nedlc, 2006).

A draft was completed by the end of June 2007. A final report, *Elders Living on the Edge: The Impact of California Support Programs When Income Falls Short in Retirement*, plus a series of supporting documents, was produced in February 2008 by wow in collaboration with the Insight Center (wow, 2008). State and county-level data were generated, with plans to develop specific standards for major California cities, including Los Angeles, San Diego, and San Francisco. A hearing was held in Sacramento in April 2008, but follow-up was stymied by continued battles over the state budget among legislators and between the legislature and Governor Schwarzenegger. A hearing also was held in July 2008 by the Ad-Hoc Committee on Ending Poverty in Los Angeles, where rental housing costs have soared as more foreclosures are causing people to lose their homes. Los Angeles and other California cities are always among the ten to twenty American metropolitan areas with the most expensive housing.

Housing as a Major Cal-EESI Issue

Affordable housing is an eesi major component, particularly in states like Massachusetts and California, and metropolitan areas such as New York City. Cal-eesi noted that the true cost of basic needs is twice the federal poverty level for renters and three times for home owners paying off their mortgages (Insight Center, 2008; Wallace and Molina, 2008). A typical older Californian, either owner or renter, may pay four times as much for housing, with housing costs in Los Angeles and San Francisco constituting 53 percent of an older renter's budget with mortgages constituting as much as 70 percent of a homeowner's expenses (wow, 2008).

The Cal-EESI found that while all supports are essential, only housing assistance can guarantee economic security to older Californians (WOW, 2008).

Eligible older Californians, like eligible older adults in other states, can be subsidized directly or implicitly by U.S. Department of Housing and Urban Development (HUD) programs for rental assistance under a voucher system or by funding nonprofit organizations to construct, develop, and operate senior (Section 202) housing for low-income elders. Access to federal funds requires cities, counties, and states to create a consolidated plan based on a needs assessment of housing and community resources and needs. This assessment is the basis for a jurisdiction's action plan to provide for the needs of elders and other target groups. HUD requires citizen input as part of the consolidated plan process. In California, the state-level Department of Housing and Community Development (HCD) is responsible for all statewide housing policy and programming, including the Consolidated Plan.

The HCD has determined that older renters at all income levels have high needs for affordable rental housing (HCD, 2005). It also found that more than 70 percent of older renters and nearly 70 percent of older adult owner-occupied households in California experience a burden with paying for their housing. Among older renters, 68 percent pay more than 30 percent of their income for housing, almost equaled by the proportion (67.6 percent) of older home owners who also pay more than 30 percent (HCD, 2005).

California's Affordable Housing Policies

California, with its more than two million older adults who need housing assistance, has several policies that help promote affordable housing for its older residents. These include requirements for general plans, zoning regulations to support elders with limited incomes, and redevelopment areas. Compliance with these policies is monitored by HCD, which also disseminates timely information and provides technical assistance. All fifty-eight counties and each incorporated city must have a current general plan encompassing seven required elements: circulation, land use, conservation, open space, noise, safety, and housing (Fulton and Shigley, 2005). Each housing element describes the entity's policy, needs assessment results, and implementation strategies for rental, single-family housing, and multiple-family housing. HCD monitors all housing elements to ensure compliance with state affordable housing laws and state zoning and land use regulations. Cities and counties are required to provide low- and moderate-income housing, known as "inclusionary housing."

Housing elements also are required to demonstrate an analysis of special housing needs of groups like older adults, by cataloguing available senior housing and social services and assessing unmet needs (HCD, 2008b). Addressing "unmet needs" includes converting lower-income senior units to market-rate apartments and rental apartments to condominiums, as well as repairing or replacing deteriorated housing in which a predominant number of older adults live. Localities are required to assess elderly households according to percentages of county median income. "Very low" is below 50 percent, "low" between 51 percent and 80 percent, and "moderate" ranges from 81 percent to 120 percent. In addition, housing elements can specify the creation of transit-oriented housing, which benefits elders who no longer drive. These requirements are definitely a "hot potato" issue, causing many cities and counties to balk at the dilution of local control and chafe at HCD's oversight; housing advocates argue that local governments often do not comply with California's affordable housing laws.

Since 1982, California law and zoning regulations have required cities and counties to allow development of second units or "accessory dwelling units" (ADUs), also known as mother-in-law apartments or granny flats (HCD, 2003; Liebig, Koenig, and Pynoos, 2006). These additions to single-family homes enable elders to be cared for by their families; in some cases, the additions can be rented to supplement elders' limited incomes (Liebig, Koenig, and Pynoos, 2006). The HCD requires cities to assess ADU affordability for lower- and moderate- income groups (HCD, 2008a). ADUs provide several advantages for local governments and for elders and people with disabilities. ADUs can increase the property tax base, provide opportunities for infill development and other measures to avoid urban sprawl, and expand the supply of affordable housing options (Cicero and Pynoos, 2008). ADUs also offer aging residents a compromise between aging in place and long-term care (Pynoos et al., 2008) and are responsive to the multigenerational housing preferences of Asian and Hispanic immigrants who have swelled the ranks of non-Anglo Californians (Liebig, Koenig, and Pynoos, 2006).

Another California law promotes development of housing for lower-income people, including older adults, by requiring cities to create redevelopment areas, with a plan for spending state redevelopment funds. Cities must assess needs, prepare a strategic plan, and demonstrate how they will spend those funds. When a city declares a neighborhood or business district as an official redevelopment area, the city can use tax monies from that area to remove blight. The state law requires that 20 percent of those funds be set aside for affordable housing, for older adults, and other target groups.

State and local efforts of this kind in California and across the nation have spread to other localities and states, another example of "bubble up" and "lava flow" policy development. Similarly, state and local policy developments relative to the EESI have affected the national scene.

Policy Developments and the Future of the EESI

In early July 2008, Mayor Michael Bloomberg called for a new federal poverty measure, referencing New York City's adoption of its own EESI; 18 percent of the city's residents live at the federal poverty level. The city's new calculation found that the poverty line was $21,818 for a family of four, not significantly different from the official federal measure of $20,444. However, after adjustments for New York's high housing costs, the new measure rose to $26,138, revealing that 23 percent of the city's residents are poor (Blank, 2008). This action led to calls by the U.S. Conference of Mayors to update the federal poverty index at their annual meeting in September 2008.

Action at the national level took place in mid July. Representative Jim McDermott (D.-Wash.) introduced his proposal for a modernized poverty index in the House Ways and Means Subcommittee on Income Security and Family Support. A hearing was held on July 17, 2008. However, this momentum was caught up in the gathering storm over the failure of financial markets, commanding congressional attention before adjournment for the fall 2008 elections.

Why has this more accurate measure of poverty not already been adopted? Rebecca Blank (2008), an architect of the 1995 National Academy of Sciences panel, suggests that it's a story of politics getting in the way of good statistics. In the 1960s, the poverty index was put under the control of the White House, unlike all other national statistics, which are defined and updated by agencies with a long history of nonpolitical decision-making (Blank, 2008). Since then, no president has wanted to touch this particular third rail. If a new measure shows higher levels of poverty, then policy makers may feel constrained to take steps to expand current programs to cover more people, an action that flies in the face of a more than decade-long effort to reduce the numbers of people receiving welfare. A new measure could also exert pressure to expand housing programs for persons currently at 130 to 150 percent of poverty. On the other hand, if a new federal measure were to show lower rates, policy makers might be accused of minimizing the problem of poverty.

The likelihood of Congress enacting a new federal poverty measure in 2009–2010 is not great, given a new president, overarching concerns about the nation's current financial difficulties, continued war in Iraq and Afghanistan, and a habit of political gridlock. If history is instructive, more state EESI action will most likely be required before sufficient "bubble up" pressure is generated to make the passage of a new federal poverty measure a reality. It is not easy to predict what the required number of adoptions might be, but probably at least 30 percent of the states would have to adopt their own EESI before Congress would be moved to establish a new national poverty index. In the meantime, state and local affordable housing policies for low- and especially moderate-income older adults may prove to be key to ensuring a decent standard of living for older Americans.

Phoebe Liebig, Ph.D., is professor emerita, and Caroline Cicero, M.S.W., M.P.L., is a doctoral student and research assistant, Leonard Davis School of Gerontology, U.S.C. Fall Prevention Center of Excellence, both at the University of Southern California, Los Angeles, Calif. Dr. Liebig has been a member of the California EESI steering and research committees.

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