Sources of Income Among New York’s 50 Plus Population

Traditionally, individuals have relied upon a combination of personal savings, income from pension plans and Social Security to maintain financial independence as they age. However, these income sources are less certain for a number of individuals given recent changes in employee’s retirement benefits and inevitable changes in Social Security. In fact, an increasing number of employees are shifting from a defined-benefit retirement plan where individuals are assured a fixed amount for the remainder of their retirement years to a defined-contribution, such as 401(k) plans where employees and employers make contributions but the management and eventual amount secured in these plans are the responsibility of the employee. Financial independence in later years is further complicated by the rising cost of health care. As an example, projections by Fidelity Investments indicate a couple 65 years old will need approximately $200,000 to cover 20 years of health costs and that is based on the assumption additional savings would be needed to cover over-the-counter drugs, dental services and long-term care. The minority of retirees fortunate to have health benefits from employers is assuming higher costs and has more restrictions than previous retirees.

Clearly, how older adults secure their financial independence will change over time and, as such, the types of income sources available to individuals as they age is a growing concern.

Seven common sources of income were examined to understand financial independence among individuals 50 years and older. These sources, collected through the American Community Survey (ACS), included income from earnings; investments; retirement; Social Security; Supplemental Social Income; welfare and any other income that contributed to one’s total personal income. This research brief examines income sources of individuals 50 years and older during 2004.

Types of Income Sources

- **Earnings** = income from wages or a person’s own business or farm
- **Investments** = income from an estate or trust, interest, dividends, royalties, and rents
- **Social Security** = income from Social Security pensions, survivor benefits, or permanent disability insurance
- **Supplemental Security Income** = income for impoverished adults 65 years and older
- **Retirement Income** = income from retirement, survivor and disability pension income, other than Social Security
- **Welfare** = income from public assistance programs commonly referred to as ‘welfare.’
- **Other Income** = income from other sources that contribute to one’s total personal income.

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In 2004, the median income for individuals\(^1\) 50 years and older was $20,507 with the most common source of income from earnings. Almost half of New Yorkers in this age group reported having this form of income. Income from investments and retirement contributed to individuals’ financial independence to a lesser extent—about one in four had this type of income. The least common sources of income were from welfare and Supplemental Security Income—two sources targeted to a narrow segment of individuals 50 years and older. Approximately one in four individuals was living at or below 200% of the poverty level.

Financial independence is similar to other areas of well-being and differs by a variety of personal characteristics. Therefore, income sources are examined below by age, gender, race and personal income levels to more fully understand the financial diversity among New York’s older population.

### Income Sources by Age

As might be expected, sources of income used to ensure financial independence change as people become older. Typically, individuals’ total income tends to decrease and earnings received from the workforce often are replaced with Social Security and retirement income.

Personal earnings are the primary source of income among individuals 50 to 64, with almost seven in 10 having this as an income source (Figure 1). This is consistent with the fact that most of these individuals are still in the workforce. About one in ten receive income from retirement savings. Income from investments is available for approximately one in five individuals in this age group. Social Security also is an income source for older individuals in this age group and approximately half of the persons 62 to 64 years receive this form of income (62 years is the earliest age at which benefits are available). While the median income of people 50 to 64 years is $26,748, approximately two in ten individuals live at or below the 200% poverty level (an income of $19,600).

A shift in income sources is readily apparent when we look at the next age group—individuals 65 to 74 years of age (Figure 2). The greater number of individuals in this age group eligible for Social Security coupled with a lower number of individuals in the workforce make Social Security the primary income source among individuals 65 to 74 years old. This is followed by retirement savings and income from investments. One in four individuals receives

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\(^1\) Note this is median income for individual, not household.
income from personal earnings as compared to almost twice as many individuals who are 50 to 64 years old. The median income for people 65 to 74 years is $14,889, reflecting a 44 percent change from their younger peers. The percent of individuals living at or below the 200% poverty level increases among individuals in this group to three in ten. Persons 65 years and older who are impoverished are eligible for Supplemental Security Income and we see five percent of persons between 65 and 74 years receiving this form of income.

An examination of income sources among individuals 75 years and older indicates Social Security, retirement plans and investments continue to be the most common sources of income (Figure 3). Less than 10 percent report income from earnings and the median income decreases to $12,928. The greatest proportion of individuals living at or below 200% of the poverty level is among people 75 years and older with approximately four in ten and 6 percent receive Supplemental Security Income.

As might be expected, the proportion of individuals with income from Social Security increases as individuals become older. However, another change in income is that Social Security becomes increasingly important and accounts for a greater proportion of a person’s income among the older age group. Specifically, Social Security accounts for half or more of a person’s income for 32 percent of individuals 62 to 64 years of age and this almost doubles to 63 percent among people 75 years and older. Essentially, Social Security accounts for half or more of one’s income for about two out of every three persons 75 years and older.

The changes we see across age groups and particularly between the youngest and oldest age groups are due, in part, to the fact that the demographics of these groups change over time. In particular, women, who tend to have less time in the workforce and lower earnings than men, also have greater longevity and represent 53 percent of individuals in the 50 to 64 age group compared to 63 percent of individuals 75 years and older.

**Income Sources by Gender**

A review of the various income sources gathered through ACS indicates that both men and women have income from multiple sources, with the most common sources of income from Social Security, earnings, investments and retirement plans. A similar percentage of men and women receive Social Security; however, a smaller percentage of women than men receive income from the other income sources examined. For example, 32 percent of men receive income from investments compared to 24 percent of women. Similarly, a higher percentage of men have
income from earnings, which is consistent with the higher percentage having retirement income (Figures 4 & 5).

The exception to this gender pattern is seen when we look at the percent receiving income from welfare and Supplemental Security Income. Less than two percent of individuals 50 years and older receive income from welfare; however, women exceed men in this area, receiving a median amount of $1,426, which is six percent more than men. A higher percentage of women than men received Supplemental Security Income; however, the median income received was somewhat higher for men than women ($5,796 and $5,350 respectively).

Overall, men earn approximately 52 percent more than women and this difference in earnings influences the amount each group receives from retirement and Social Security. Specifically, the median total income for men is $28,085 with a median of $13,373 from retirement and $10,699 from Social Security. Women have a median total income of $13,552, with $7,311 from retirement and $7,999 from Social Security. Income from Social Security is especially important to women as is evident in the fact that 60 percent of women rely on Social Security for half or more of their total income. This is the case for 45 percent of men.

Factors that contribute to income differences are the amount of earnings paid to individuals while they are employed and the amount of time in the workforce—the latter factor often influenced by the fact that women tend to assume the role of primary caregiver for family members. A defined-contribution retirement plan, such as a 401 (k) is particularly favorable for women since this type of plan allows employees to accumulate more assets in a shorter period of time than the definite-contribution plan, which is influenced by years on the job and top salaries earned during those years.

Two in ten men live at or below 200% of the poverty level compared to three in ten women and the important role of Social Security in reducing poverty is quite clear regardless of gender. It has been estimated that approximately one in two people 65 years and older compared to one in ten would live in poverty without the benefit of Social Security (2)

Without Social Security, approximately one in two people 65 years and older compared to one in ten would live in poverty.
Income Sources by Race

The extent individuals have income from various sources differs by race. This is the case for overall income as well as income from the various sources examined in this brief. As depicted in Figure 6, the greatest variation is seen in income from Social Security, with a difference of 28 percentage points between the highest and lowest groups. Two other income sources with substantial differences are investments (difference of 27 percentage points) and retirement earnings (18 percentage points). Considerable variation is also seen in less common income sources, such as Supplemental Security Income and welfare.

Figure 6. Income Sources by Race

The median income from Social Security ranges from $6,419 to $9,361 and makes up half or more of one’s overall income for most individuals, regardless of race.

One in five individuals who identify themselves as White lives at or below 200% of the poverty level; this increases to one in three for individuals who identify themselves as Asian and one in two for individuals who identify themselves as American Indian or Alaska Native.

Substantial differences also exist for people who tend to be grouped in the same race category. For instance, median overall income is $8,916 for Chinese individuals compared to $22,289 for Japanese individuals and $20,034 for individuals who identify themselves as members of other Asians ethnic groups. This difference may be due to the striking differences in education—most notably the percent of individuals with four or more years of college (20% Chinese; 47% Japanese; and 46% other).
**Income Sources by Income Levels**

Social Security comprises a major portion of one’s income for individuals with incomes under $20,000. However, at the other end of the income continuum, the percent of individuals who rely heavily on Social Security income is negligible (Figure 7).

Individuals with higher incomes tend to draw their overall income from multiple sources. As might be expected, a larger percentage of individuals with high incomes have income from earnings compared to their low-income peers (Figure 8). For instance, a person whose income is $75,000 or more will be twice as likely to have income from earnings as a person whose income is $10,000 to $20,000; similarly, the individual with the higher income is five times more likely to have income from earnings than someone whose income is $5,000 to $9,000.

However, the pattern is not as linear or as steep for retirement income. While 39 percent of individuals with an income of $20,000 to $29,999 have income from retirement, the same is true for 22 percent of individuals with incomes of $75,000 or more. This variation is due, in part to the fact that people who are eligible to retire yet have high earnings tend to remain in the workforce. This means they are more likely to receive income from earnings while lower income peers may decide to leave the workforce and rely on income from their retirement or Social Security.

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**Figure 7. Half or More of Total Income from Social Security**

<table>
<thead>
<tr>
<th>Level of Income</th>
<th>Social Security Income Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $5,000</td>
<td>72%</td>
</tr>
<tr>
<td>$5,000 to $9,999</td>
<td>65%</td>
</tr>
<tr>
<td>$10,000 to $19,999</td>
<td>49%</td>
</tr>
<tr>
<td>$20,000 to $29,999</td>
<td>9%</td>
</tr>
<tr>
<td>$30,000 to $49,999</td>
<td>1%</td>
</tr>
<tr>
<td>$50,000 to $74,999</td>
<td>0%</td>
</tr>
<tr>
<td>$75,000 &amp; above</td>
<td>0%</td>
</tr>
</tbody>
</table>

**Figure 8. Common Sources of Income by Income Level**

- Under $5,000
- $5,000 to $9,999
- $10,000 to $19,999
- $20,000 to $29,999
- $30,000 to $49,999
- $50,000 to $74,999
- $75,000 & above
Conclusion
Clearly, the expected changes in Social Security and Medicare, coupled with changes in employer retirement benefits point to the need for greater savings. One way individuals plan to meet their financial needs is to remain in the workforce for a longer period of time and approximately 57 percent of individuals surveyed expect to remain in the workforce beyond age 65 (3). In reality, these expectations tend to be tempered by personal characteristics such as one’s health and education where those who are more educated and at higher income levels are likely to remain in the workforce while those in poor health or in physically demanding jobs are more likely to retire early (4, 5).

Many employers attempting to increase employees’ participation in retirement savings are moving to an automatic 401(k) plan (6). As the name implies, savings are automatically transferred to retirement accounts, requiring employees to opt out instead of opt into these plans. Additionally, phased retirement models are being explored, given the potential benefits realized by employers and employees. For instance, phased retirement helps retain qualified staff, reduces the cost of those staff due to fewer hours worked and decreases the demand for and expense of training. It also provides employees the ability to transition into retirement while supplementing their retirement income. Currently, there are no widely accepted models of phased retirement for people with defined benefit retirement plans due to regulatory and fiscal obstacles (7, 8); however, more feasible models may emerge as organizations, both public and private, move to defined contribution retirement plans.

Even with the savings strategies described above, saving for retirement is prohibitive for some groups, particularly low income earners who need their full income to meet basic needs. Therefore, the saver’s credit is one means that has been implemented to help these families save for retirement. This credit provides matching contributions made to IRA or 401(k) plans, however, the credit can be claimed only against household taxes owed and this does not work as an incentive for most low income families since they owe little or nothing in taxes. A recommendation by researchers and policy analysts is to strengthen the saver’s credit is to make it refundable and allow families to claim the credit regardless of whether they owe taxes (9, 10).

Education about financial planning will be needed no matter what saving strategies are used so individuals of all ages are better prepared to make decisions about investments as well as decisions with respect to drawing down assets. The need for such information is evident in that only 17 percent of employees currently rebalance their 401(k) plans once a year—the minimum recommended. (11).

Finally, state policy planners will need to view proposed changes for Social Security in light of how the changes impact women, minority members and less-educated individuals since these individuals tend to

The Great American Retirement Quiz (12)

What is the most important factor in Americans’ decision to retire?
- a. Employer pressure
- b. Health decline
- c. Family reasons
- d. Qualify for Social Security

Answer: d

If you retire at age 65, what percentage of your life can you expect to spend in retirement?
- a. 16%
- b. 18%
- c. 20%
- d. 22%

Answer: d

What percentage of baby-boomer households is estimated to be accumulating sufficient assets to maintain their current standard of living in retirement?
- a. 40%
- b. 50%
- c. 60%
- d. 70%

Answer: b

What percentage of Americans age 65 and older is living in poverty?
- a. 6.4%
- b. 8.4%
- c. 10.4%
- d. 12.4%

Answer: c
rely heavily on this source of income and may be most vulnerable to those changes.

References