

INCOME, MATERIAL HARDSHIP, AND THE USE OF PUBLIC PROGRAMS AMONG THE ELDERLY

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Social Security has enjoyed great success at reducing poverty and promoting independence among the elderly. Indeed, the current official Census Bureau estimate of the poverty rate among the elderly is 9.7 percent, lower than for children or for working-age adults. The official poverty rate has been criticized on a number of grounds, however, some of which disproportionately affect the elderly. For example, one criticism of the official poverty measure is that it does not take into account the burden of high out-of-pocket medical spending, which is much more likely to be a problem for elderly households. Indeed, Census Bureau estimates using an alternative poverty measure proposed by the National Academy of Sciences to address many of these criticisms yield elderly poverty rates that are approximately twice the current official measure. These disputes over measurement and the widely different estimates they imply mean that poverty is an imperfect metric for evaluating the economic well-being of the elderly.

An alternative approach to evaluating the economic well-being of the elderly is to analyze material hardship directly. This approach has been applied to the non-elderly population, particularly to single-mother families and former welfare recipients, but much less work has analyzed hardship among the elderly — perhaps because of their lower rates of official poverty.

In this paper, I use data from the 2006 Health and Retirement Study to document patterns of material hardship among the elderly. Hardship is defined here as cutting back on food or medications because of cost; ten percent of elderly reported one or both of these hardships in 2006. I estimate multivariate models predicting hardship as a function of income and other characteristics, including health and cognition, in order to paint a fuller picture of why older individuals — including some with quite high incomes — experience hardship. I also estimate the relationship between income, hardship, and use of three means-tested transfer programs: Food Stamps, Medicaid, and Supplemental Security Income (SSI).

I find that while hardship is more likely among poor individuals and, to some extent, among poor individuals who are already users of transfer programs, the majority of the elderly experiencing hardship are neither poor nor using any of these programs. In multivariate models, health status is a highly significant predictor of hardship; individuals in worse self-reported health or who report more limitations on physical activity are significantly more likely to experience hardship. This result holds whether or not income is included as a control in the models and is also robust to the inclusion of individual fixed effects.

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These findings have important implications for public policy. First, since most of the elderly experiencing hardship are, in fact, not poor and therefore not eligible for means-tested transfer programs, increasing outreach with the goal of enrolling more eligible elderly in these programs has limited potential to reduce hardship. Similar logic suggests that while increasing benefit levels might reduce hardship among those who are already receiving benefits, the potential to reduce hardship by increasing benefits is limited since transfer program recipients make up only about one-quarter of the elderly who experience hardship. Second, the importance of poor health in predicting hardship supports the view implicit in the criticisms of the official poverty measure that high medical spending may effectively reduce the resources available to some apparently high-income households, placing them at risk of hardship. One way to address this problem directly — regardless of any methodological changes in the measurement of poverty — would be for Medicaid and SSI to deduct some or all out-of-pocket medical spending from countable income in determining eligibility for elderly beneficiaries, as the Food Stamp program currently does for applicants ages 60 and older.

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