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Going to Extremes: An International Perspective on the Economic Status of the Untied States Aged

Timothy Smeeding, Barbara Torrey and Lee Rainwater

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GOING TO EXTREMES: AN INTERNATIONAL PERSPECTIVE ON THE ECONOMIC STATUS OF THE UNITED STATES AGED*

Timothy M. Smeeding
Professor of Economics and Public Administration
Syracuse University
and
Overall Project Director
Luxembourg Income Study

Barbara B. Torrey, President
Population Reference Bureau

Lee Rainwater
Professor of Sociology, Harvard University
and
Research Director
Luxembourg Income Study

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ABSTRACT

We title our paper "going to extremes" because among the eight nations studied (Australia, Canada, France, Germany, The Netherlands, Sweden, United Kingdom, United States), the gap between the top and bottom of the aged income and wealth distributions are larger in the Untied States than in other nations. Moreover, the United States seems to perpetually be an outlier in that it has the economically best off aged married couples yet, the economically worst off older single women of the nations studied, indicating a very large risk of economic decline in old age. We suggest two changes in income security policy which would help project those least well off while also preserving incentives for private savings and income support among the aged.

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Introduction

The relative economic well-being of the elderly is an important concern of modern welfare-state societies. The goal of social policy for the aged is to provide a level of economic well-being which allows elderly couples and single persons to achieve a reasonable standard of living free of economic insecurity. Most social welfare states place primary reliance on public social retirement systems supplemented by private savings, part-time earnings, and occupational pensions to reach this goal. The purpose of this paper is to investigate how well several modern nations do in meeting the goal of maintaining economic security for the aged.

Other separate provisions for meeting special needs—for instance, for community and institutional care or for supported housing and related social services for frail elders—also supplement basic income support policies. In all modern countries, some modicum of universal health insurance provides for acute health care needs of the aged. However, these separate and supplemental provisions for economic security are not the primary focus of this paper.

Our basic finding is that not all countries investigated meet the goals of providing adequate economic well-being. In particular the United States is an outlier when compared to seven other modern nations. In fact, the title of this paper—"going to extremes"—captures the major elements of the United States income security system in old age. On average, younger married couples in the United States tend to do quite well relative to those in other nations. On the other hand, older single women tend to do much less well than do their counterparts in other nations. Thus, the United States finds itself at one extreme or another when making cross-national comparisons of economic well-being among the aged.

We begin by reviewing the measures of well-being and data used in this paper. Then, we systematically review the evidence on differences in income levels, income inequality and income composition among the aged in each country. Next, we move to comparisons of low income (poverty status) and to benefit adequacy. We complete our analyses of the economic

portfolio of the aged by looking at home ownership and liquid wealth across the various nations. The final section of the paper reviews our findings and their policy implications. It also suggests two different reforms in United States income security policy for the aged, each designed to help protect those least well off while preserving incentives to save and provide own economic support in old age.

Data, Measures of Well-Being, and Nations Studied

This paper is based on the Luxembourg Income Study (LIS), a data bank containing comparable cross-national household income survey data for a number of countries. The data used in this paper are taken from two waves of LIS, one for the earlier 1980s and the other for the middle 1980s, thus permitting a two point in time trend analysis.[1]

The sources, population coverage, sampling frame, and government participation are briefly reviewed in Appendix Table A-1. The data sets are first prepared at statistical offices or research centers in their own countries and are then sent to LIS where they are standardized to produce comparable definitions of income and income components. The data are then reviewed by the country contacts for accuracy and made available to the worldwide LIS user community via international electronic mail.

While LIS offers a great range of income and well-being concepts and definitions, we use only a few basic measures of economic status in this paper. These include:

a. **(disposable) family income** - all sources of cash income net of direct income and payroll taxes, but including forms of near cash income such as food stamps in the United States, and housing allowances in the United Kingdom and Sweden. Noncash income in the form of health care subsidies are not included. Most often family income is adjusted for differences in family size by dividing family income by an equivalence scale. The equivalence scale employed here is a simple "LIS equivalence scale" which counts the first adult in each household as 1.0 adults, and each additional person as .5 adults.[2]

b. **gross income** - all forms of cash and nearcash income before subtracting direct taxes. We examine the composition of gross income among the aged by breaking it into six separate parts: earnings, property income (interest, rents, dividends and other regularly received types of cash property income), occupational pensions (retirement income other than that from a public social retirement scheme), social insurance transfers (social retirement income or "social security" benefits in the form of retiree, survivor and/or widow benefits), means tested income (in the form of cash and nearcash benefits which are targeted at low-income units), and finally,

all other forms of regular cash income. Capital gains and other forms of one time or lump sum income are not included here.

c. **liquid wealth** - which includes all types of regular property income (as defined above) divided by an assumed interest rate of 5 percent for all nations.

Other concepts, such as poverty measurement are more fully explained in the relevant section of the text. The major demographic unit of analysis used in this paper is the household, or all persons sharing common living arrangements. The only exceptions are in Canada, which uses the "economic family" definition (all related members sharing common living arrangements) and Sweden which counts each couple or persons 18 years of age and older (plus children sharing their living arrangements) as a separate household. Thus two aged unrelated individuals living together would be classified as two one person households and not as one two person household in Canada or Sweden. We base our analyses on all households (or all aged persons in households) headed by a person age 65 or over, and two stylized subgroups among these aged couples living alone and single women living alone. Persons living together as married regardless of legal marriage status are counted as married in The Netherlands and Sweden. In a few cases we further subdivide these groups into those units with heads aged 75 and over. Finally, the terms household and family are used interchangeably in this paper.

The countries examined are: United States, Canada, and Australia—three relatively large, young and diverse nations; one Scandinavian nation—Sweden; and four northern European community countries—France, (the former West) Germany, The Netherlands, and the United Kingdom. Other nations were not counted for various reasons.[3]

These countries can be be grouped either by age structures or social structures. The "oldest" countries, those with 25 or greater percent of households with a head aged 65 or more, are Germany, Sweden and the United Kingdom. France has 22.4 percent of heads aged 65 or more (Table A-2). All four of these have at least 10 percent of all households headed by a person 75 and older. In contrast, Australia and Canada have the smallest fraction of households aged 65 and over (19.3 and 17.4 percent, respectively), and also aged 75 and over (7.0 and 6.9 percent respectively). The two "middle" countries with about 20.2 percent of all household heads

aged 65 and over and about 8 to 9 percent of heads 75 and older are The Netherlands and the United States.

Much more important than age, are differences in income security systems across countries. Most European and Scandinavian systems tend to be universalist in structure, having a generous public pension system which distributes benefits in an egalitarian manner—for example, relatively high minimum benefits and small contribution-related (or prior earnings related) premium. The only major exception is the United Kingdom which permits some substitution of highly regulated private pensions for social retirement pensions. In contrast, the United States and Canada have less egalitarian and less generous social retirement systems with a strong employment-contribution related component. Australia relies entirely on an income tested system with a relatively generous guarantee. All countries, with the exception of Australia, rely to some extent on both means-tested income and occupational pensions to supplement basic social retirement schemes. Earnings and property income play varying roles depending on the nation being studied.

Relative Income and Income Inequality

One way to assess the relative economic well-being of the aged is to compare their median disposable income, adjusted by household size, to the adjusted median income of all households within their nation (Tables 1 and 2). On this basis, United States elderly households headed by a person (age 65 and over) had a relative median income (after taxes and including government cash benefits), in the middle 1980s which exceeds the average relative median income of the aged in four countries but were slightly lower than in France, Germany, and The Netherlands (see Table 1, final column).

Among the 65 and over group in Table 1, the United States aged couples were the most affluent group by far (109.2 percent versus an average of 93.0 percent) as compared to the rest of the countries. This group also experienced the largest overall period-to-period income increase (16.6 percent) among the countries studied. United States elderly women living alone have incomes which are far below the "other country" average (61.7 percent versus 72.9 percent) with only Australian single women being worse off at 56.2 percent.

TABLE 1

MEDIAN DISPOSABLE FAMILY INCOME FOR ELDERLY FAMILIES AGE 65 AND OVER AS A PERCENT OF OVERALL MEDIAN FAMILY INCOME,[a] BY TYPE OF FAMILY

	Female, One-Person[b]	Married Couple[c]	Total, All Elderly[d]
United States			
1979	60.2	92.7	77.7
1986	61.7	109.2	85.3
percent change 1979-86	1.6	16.6	7.6
Canada			
1981	59.0	82.7	72.9
1987	70.0	87.9	80.3
percent change 1981-87	11.0	5.2	7.4
Australia			
1981	58.2	71.7	67.2
1985	56.2	70.0	65.9
percent change 1981-85	-2.0	-1.8	-1.3
Germany			
1981	78.0	88.8	87.3
1984	83.3	103.4	90.9
percent change 1981-84	5.3	14.6	3.6
Sweden			
1981	80.9	92.3	84.6
1987	72.7	96.7	81.7
percent change 1981-87	-8.2	4.4	-2.9
The Netherlands			
1983	91.0	87.6	93.7
1987	82.3	97.2	88.3
percent change 1983-87	-8.7	9.6	-5.4
France			
1979	79.2	97.8	90.9
1984	86.4	99.5	92.5
percent change 1979-84	7.2	1.7	1.6
United Kingdom			
1979	63.5	71.7	68.6
1986	68.2	83.3	76.9
percent change 1979-86	4.7	11.6	8.3
Average of All Nations, Second Period Only	72.9	93.0	83.2

[a]Family income after equivalence adjustment.
[b]Includes single female families age 65 and above.
[c]Includes married couples with household head age 65 or above with no other family members present.
[d]Includes all families with household head age 65 or above.

TABLE 2

MEDIAN DISPOSABLE FAMILY INCOME FOR ELDERLY FAMILIES AGE 75 AND ABOVE AS A PERCENT OF OVERALL MEDIAN FAMILY INCOME,[a] BY TYPE OF FAMILY

	Female, One-Person[b]	Married Couple[c]	Total, All Elderly[d]
United States			
1979	56.5	79.6	67.3
1986	58.0	84.4	69.0
percent change 1979-86	1.5	4.8	1.8
Canada			
1981	57.9	71.1	64.6
1987	65.9	78.3	74.6
percent change 1981-87	8.0	7.2	10.0
Australia			
1981	57.0	66.7	63.5
1985	56.5	69.2	64.8
percent change 1981-85	-0.5	2.5	1.4
Germany			
1981	73.9	82.0	82.0
1984	78.5	95.3	86.7
percent change 1981-84	4.6	13.4	4.8
Sweden			
1981	75.5	81.7	78.3
1987	72.4	82.7	74.4
percent change 1981-87	-3.1	0.9	-4.0
The Netherlands			
1983	87.4	80.3	88.0
1987	83.7	89.2	85.4
percent change 1983-87	-3.6	8.9	-2.6
France			
1979	76.8	96.9	84.8
1984	83.6	97.4	87.7
percent change 1979-84	6.8	0.5	2.9
United Kingdom			
1979	62.5	65.4	65.4
1986	67.2	76.6	73.4
percent change 1979-86	4.7	11.2	8.0
Average of All Nations, Second Period Only	70.7	84.1	76.6

[a]Family income after equivalence adjustment.
[b]Includes single female families age 65 and above.
[c]Includes married couples with household head age 65 or above with no other family members present.
[d]Includes all families with household head age 65 or above.

Just looking at simple adjusted median incomes in these two tables, we begin to see the basic pattern of differences between the United States aged and their counterparts in other nations. One does not need cross-national comparisons to find that younger United States aged do better than do older United States aged, and that United States couples do better than do United States single women regardless of age (for example, see Radner, 1991). However, a comparison across nations indicates that these patterns are quite different in other nations. Newly elderly United States couples do much better than average; older United States women do much worse than average.

For instance, these tables also show that income drops with age more rapidly in the United States than in other nations studied. United States elderly families with a head aged 75 or over had incomes that averaged 69.0 percent of the adjusted median, more than 7.0 points below the all nation average of 76.6 percent. Married couples with the head aged 75 or over in the United States fared no better than average, while single older females continued to have incomes far below average. Again Australia was below the United States, but now the gap between the two has narrowed (58.0 percent in the United States versus 56.8 percent in Australia), while the gap between the United States and the other country average increased.

But medians—even adjusted for differences in family size—hardly capture the range of diversity among the population groups and countries shown here. As Joseph Quinn (1987) has written, the average is the least reliable figure which one can use to describe the United States aged. In fact, not only do the United States aged medians differ from those in other nations, there is a greater diversity around the average or median income in the United States than we find in the other nations portrayed here. To capture this point, we employ only one basic summary measure of income inequality—the gini coefficient. The gini is the actual area of concentration in the Lorenz curve relative to the largest possible area of concentration. A gini of 0 therefore indicates the greatest degree of equality, while a gini close to 1 indicates the greatest degree of inequality.[4]

Only three nations (United States, Australia, Sweden) experienced a clear increase in adjusted income inequality, for example, a higher gini among the aged and near aged (hundreds

with heads age 55-64) across the two periods for which we have data (Table 3). But in both Australia and Sweden, inequality among the elderly is less than that found in the United States. In no other country do we consistently find that the aged and near aged have greater income inequality than that found in the United States. Among the very oldest group, the United States clearly has the greatest degree of inequality found in all nations.

Another way to view inequality among the aged is to compare it to inequality among middle age persons in each nation (Table 3, final column). In only two countries, United States and Germany, do we find that the elderly have greater income inequality than do the nonelderly. And again, the level of adjusted income inequality among United States citizens is higher everywhere than that found among German citizens. Income inequality in the United States is clearly greater than that found in other nations, and that United States aged generally have the highest levels of inequality found among any group in the nations examined.

Taken together, these three snapshots of the United States aged in comparison to those in other nations presents some sharp contrasts. United States elderly couples do better than their peers in other countries; United States elderly women living alone do worse. United States non-elderly and elderly alike consistently have the highest levels of inequality. Curiously the level of inequality is unrelated to the sources of income of the elderly, the topic to which we now turn.

Income Composition

The incomes of the elderly in all nations come from five major sources. The three private sources—earnings, property income, and occupational pensions—are generally less stable across age groups and over time than are the two public sources—social retirement and means tested benefits. These public transfer sources of income are those which are systematically adjusted for price change and which provide fail-safe sources of income among the aged. These breakdowns are shown in Table 4.

Most of the differences across age groups are fairly easy to predict. Earnings are higher fractions of income at lower ages and also for couples versus women; property income does not

TABLE 3

CHANGES IN FAMILY INCOME DISTRIBUTION GINI CONCENTRATION COEFFICIENTS OVER TIME, ACROSS AGE GROUPS AND ACROSS COUNTRIES[a]

	Year	Age of Head				Year 1 to Year 2 Inequality Increase Among Aged[b]	Aged More, Less Unequal than Middle Age[c]
		25-54	55-64	65-74	75+		
United States	1979 1986	0.303 0.340	.322 .343	.339 .355	.330 .344	Yes	More More
Canada	1981 1987	0.289 0.289	.288 .316	.311 .272	.285 .235	Unclear	Unclear Unclear
Australia	1981 1985	0.289 0.319	.285 .338	.278 .290	.267 .283	Yes	Unclear Unclear
Germany	1981 1984	0.244 0.250	.255 .252	.267 .251	.299 .302	Unclear	More More
Sweden	1981 1987	0.200 0.207	.194 .202	.143 .181	.128 .155	Yes	Less Less
United Kingdom	1979 1986	0.273 0.321	.253 .284	.251 .245	.224 .234	Unclear	Less Less
The Netherlands	1983 1987	0.269 0.273	.272 .266	.255 .235	.281 .208	No	Unclear Less
France	1979 1984	0.301 0.292	.357 .357	.297 .282	.307 .297	No	Unclear Unclear

[a]Measure of income is household disposable personal income weighted by the number of persons in the household adjusted for differences in family size and structure using the LIS equivalence scale.

[b]If inequality as measured by the gini increased from the first to the second year in all cases, "Yes" is reported. If inequality decreased in all cases, "No" is reported. Conflicting movements are recorded as "Unclear."

[c]If inequality is measured by the gini is more unequal (or higher number) for each of the aged subgroups than for the 25-54 group, "More" is recorded. If ineqaulity is less for the aged in every case, "Less" is recorded. Unclear is used when some aged groups have values below and some have values above those in the 25-54 group.

TABLE 4

COMPOSITION OF GROSS INCOME OF ELDERLY[a] HOUSEHOLDS BY FAMILY TYPE

	Earnings	Property Income	Occupational Pension	Social Insurance	Means Tested Income	Other Income
United States 1986						
All Households 65+	14.1	16.1	11.3	54.5	3.5	0.5
Single Women	4.3	17.5	8.7	63.3	5.4	0.8
Couples	13.8	19.0	14.6	51.4	0.9	0.3
All Households 75+	6.8	17.4	9.0	62.2	4.2	0.4
Single Women	1.1	17.6	7.5	68.0	5.5	0.3
Couples	2.6	20.7	11.8	63.3	1.4	0.2
Canada 1987						
All Households 65+	10.8	14.6	11.9	58.0	3.4	1.3
Single Women	1.3	15.9	9.5	68.6	3.5	1.2
Couples	9.2	15.5	15.9	56.1	2.4	0.9
All Households 75+	4.6	16.7	10.0	64.0	3.5	1.2
Single Women	0.3	18.3	6.8	70.3	3.5	0.8
Couples	1.4	17.8	13.6	63.3	2.9	1.0
Australia 1985						
All Households 65+	9.2	16.1	14.0	0.0	59.1	1.6
Single Women	1.7	14.6	5.4	0.0	76.9	1.4
Couples	6.7	19.7	21.8	0.0	49.8	2.0
All Households 75+	5.4	17.3	9.0	0.0	67.6	0.7
Single Women	0.9	13.5	6.2	0.0	79.0	0.4
Couples	2.8	23.7	10.0	0.0	62.2	1.3
Germany 1984						
All Households 65+	7.2	4.8	0.0[b]	85.5	1.6	0.9
Single Women	1.1	4.2	0.0	90.7	2.6	1.4
Couples	6.5	6.0	0.0	86.2	0.8	0.5
All Households 75+	6.0	4.4	0.0	86.5	2.0	1.1
Single Women	0.9	4.0	0.0	90.8	2.8	1.5
Couples	4.2	5.1	0.0	87.8	1.8	1.1
Sweden 1987						
All Households 65+	4.5	9.3	0.0[b]	81.7	4.5	0.0
Single Women	4.5	10.8	0.0	79.7	4.5	0.5
Couples	4.5	7.1	0.0	83.2	4.5	0.7
All Households 75+	1.2	11.4	0.0	80.6	6.8	0.0
Single Women	0.8	12.1	0.0	77.2	9.9	0.0
Couples	2.0	9.5	0.0	86.1	2.4	0.0

TABLE 4 (CONT.)

	Earnings	Property Income	Occupational Pension	Social Insurance	Means Tested Income	Other Income
United Kingdom 1986						
All Households 65+	6.6	8.2	14.1	59.7	11.0	0.4
Single Women	0.7	7.3	9.8	63.5	18.4	0.3
Couples	4.3	9.6	19.0	61.8	5.0	0.3
All Households 75+	4.3	8.2	12.0	62.0	13.3	0.2
Single Women	0.2	7.2	8.6	64.2	19.7	0.1
Couples	2.1	9.3	17.2	65.2	6.1	0.1
The Netherlands 1987						
All Households 65+	3.4	2.1	22.1	72.0	0.3	0.1
Single Women	0.4	2.0	15.5	81.8	0.3	0.0
Couples	2.2	2.0	29.2	66.2	0.2	0.2
All Households 75+	3.0	2.0	20.8	74.0	0.3	-0.1
Single Women	0.2	2.2	15.7	81.9	0.0	0.0
Couples	3.2	1.4	29.6	65.4	0.5	-0.1
France 1984						
All Households 65+	6.9	8.4	0.0[b]	76.6	8.2	-0.1
Single Women	3.3	9.1	0.0	78.6	9.0	0.0
Couples	5.2	8.3	0.0	79.3	7.2	0.0
All Households 75+	4.6	8.8	0.0	76.3	10.3	0.0
Single Women	2.3	9.9	0.0	77.0	10.7	0.1
Couples	2.7	8.8	0.0	79.4	9.1	0.0

[a]Elderly households are those whose head is age 65 or above.
[b]Unable to separate from social retirement. Based on other studies, private pensions make up 5-6 percent of the incomes of the German elderly; and less than 5 percent of the incomes of the Swedish and French elderly.

vary greatly across groups within countries. Occupational pensions are much more prevalent among couples than among singles and among younger versus older units. However, some of the differences are surprising. The role of property income is much more pronounced in Australia, Canada and the United States than in other nations. Other than Australia, means tested benefits are not very important except in France and in the United Kingdom where single women rely heavily on them. With the exception of the United Kingdom, Scandinavian and European elderly rely heavily on social insurance. Occupational pensions tend to be most prevalent in The Netherlands and the United Kingdom. The United States aged are no more likely to make use of occupational pensions than are Canadians or Australians.

The most telling difference seems to be the difference in reliance on public transfers (social insurance and means tested), as compared to private income sources (earnings, property income and private pensions). In Canada and the United States, public transfers are about 60 percent of the income of the 65 and over group and only about 67 percent of the incomes of the very old. In The Netherlands and the United Kingdom, reliance on public transfers is a little higher at 70 percent for those age 65 and 75 percent for those age 75. And in Sweden, Germany, and France, between 80 and 85 percent of income comes from these sources.[5] In general, the smaller the role of public sources of income for the elderly the higher the level of income inequality.

However, the proper mix of income groups or the proper degree of inequality within a group or nation is largely open to one's judgement. To the extent that inequality among the aged is a result of accumulated economic behavior over the working life, one can argue on economic and equity grounds that such diversity is fair. But there are other social goals which income security policy for the aged must pursue. To the extent that this inequality is accompanied by a less than adequate publicly supported income level for those least able to care for themselves, it may be less well received.

Poverty and Income Support

Poverty rates among the elderly are measured for aged persons relative to the median overall income in each nation in Table 5. Ignoring the "official" 8 percent difference in poverty lines for older versus younger single persons and couples, the United States poverty lines for persons and couples, are about 41 percent of adjusted median income (Ruggles, 1990). And so the 40 percent poverty line is closest to the official United States government estimates. In fact, the official United States elderly poverty rate was 12.4 percent in 1986—exactly the number in the top row of the table despite some minor measurement differences. Different fractions of median income, for example the 50 percent median rate which is equivalent to the United States 125 percent "near poverty" figure, and which is widely used in Europe (Eurostat, 1990), and the 60 percent rate which is the Scandinavian standard, produce different poverty rates. However, with the exception of Australia, using the 60 percent of the median measure for those over age 65 only, the United States has everywhere the highest elderly poverty rates of the countries studied. Obviously the diversity of economic circumstances among the United States aged extends to poverty as well as to affluence. Of all the countries studied, the United States does the least adequate job of preventing poverty among the elderly.

Comparing the 75 and over age group to the 65 and over age group produces little change in the pattern of poverty (Table 5, Panel A, 2 and A, 3). Older aged persons tend to be slightly poorer than the over 65 age group in almost all nations. Canada and Australia, who also are less likely to use public transfers, tend to have poverty rates much closer to the Europeans and Scandinavians, indicating that their systems are better targeted on the otherwise low-income population than are ours. Compared to the overall population (Table 5, Panel A.3), the aged tend to be less likely to be poor in virtually all countries.

Our income figures indicated a large difference between the median incomes of married couples and the median incomes of single aged women living alone in the United States. A natural question to ask is do the poverty rates for these groups differ substantially? In the United States, household poverty rates for married couple households are below those for the nonaged population at large, while single aged women's poverty rates are above average (Table 6). The

TABLE 5

ELDERLY AND NONELDERLY POVERTY AND BENEFIT ADEQUACY AMONG THE UNITED STATES ELDERLY IN A CROSS NATIONAL CONTEXT
LIS BASED COMPARISONS

	United States (1986)	Australia (1985-86)	Canada (1987)	Netherlands (1987)	Sweden (1987)	France (1984)	Germany (1984)	United Kingdom (1986	Overall Average[a]
A. Poverty Rates[b]									
Poverty Line/Equivalence Scale									
1. Aged 65+									
40 percent median/LIS	12.4	4.0	2.5	0.0	0.8	1.0	2.8	0.7	3.0
50 percent median/LIS	22.4	7.9	6.8	0.1	1.9	2.6	8.3	1.5	6.4
60 percent median/LIS	32.1	36.2	16.6	2.4	12.5	7.4	15.1	9.3	16.5
2. Aged 75+									
40 percent median/LIS	14.4	3.0	2.0	0.0	1.4	0.3	4.5	0.4	3.3
50 percent median/LIS	27.5	6.0	6.9	0.0	3.0	1.1	11.7	0.7	7.1
60 percent median/LIS	40.9	39.2	18.8	0.8	17.7	7.7	20.5	11.0	19.6
3. Overall Population									
40 percent median/LIS	13.4	6.6	7.8	4.7	5.9	5.0	3.0	4.1	6.3
50 percent median/LIS	19.1	11.1	12.9	6.3	8.3	8.3	7.1	7.0	10.0
60 percent median/LIS	25.4	22.5	18.7	10.8	13.3	14.4	14.0	12.9	16.6
B. Minimum Benefit as a Percent of Adjusted Median[c] (LIS Equivalence Scale)									
single	34	52	54	72	66	48	48	45	52
couple	37	62	59	69	72	68	58	49	59

[a]Simple row averages excluding missing values.
[b]Poverty rates are percent of persons age 65 and over (or percent of all persons) whose disposable after tax incomes fall below the specified percentage of adjusted median income. Adjusted income in Panel A is derived using the simple LIS equivalence scale which counts the first person as 1.0 and all other persons as .5 regardless of age. The United States poverty line was 40.7 percent of adjusted income in 1986. Source: LIS database.
[c]Minimum benefits as published by the OECD were compared to adjusted median income after adjusting for national price changes. For the United States, the figures include the SSI benefit, plus the OASI disregard, plus food stamps. For other nations the combination of benefits was determined by OECD. In the Netherlands and Sweden, benefits are adjusted for income taxation. Source: OECD, (1988).

TABLE 6

DIFFERENCES IN POVERTY AMONG NONAGED HOUSEHOLDS, ELDERLY (HEAD 65+) SINGLE WOMEN LIVING ALONE AND ELDERLY COUPLE UNITS: POVERTY RATES FOR HOUSEHOLDS AT UNITED STATES (40 PERCENT MEDIAN) POVERTY LINE[a]

	Year	All Nonaged Units[b]	Aged Units		Aged Singles Minus Couples Difference	Ratio of Poverty Rates for Single Aged Women: United States to Other
			Single Elderly Women	Elderly Couples		
United States	1979	13.4	21.5	8.1	13.4	na
	1986	13.5	17.6	6.0	11.6	na
Canada	1981	9.0	7.5	1.8	5.7	2.9
	1987	8.9	3.2	.6	2.6	5.5
Australia	1981	6.8	2.3	3.2	-0.9	9.3
	1985	7.2	3.8	4.2	-0.4	4.6
Germany	1981	2.4	7.0	4.2	2.8	3.1
	1984	3.1	2.4	2.7	-0.3	7.3
Sweden	1981	5.4	0.0	0.0	0.0	c
	1987	7.7	1.7	0.2	1.5	10.3
United Kingdom	1979	2.4	3.2	0.0	3.2	6.7
	1986	3.1	0.4	0.9	-0.5	44.0
The Netherlands	1983	6.1	5.8	1.5	4.3	3.7
	1987	5.8	0.0	0.0	0.0	c
France	1979	6.0	0.5	1.1	-0.6	43.0
	1984	6.2	0.8	0.7	0.1	22.0

[a]Poverty rates given as percent of each type of unit poor with poverty measured at 40 percent of adjusted median income using the LIS equivalence scale.

[b]All units with head under age 65.

[c]Infinitely large.

difference between group poverty rates among the United States aged was 11.6 percentage points in 1986, with elderly couple rates at 6.0 percent and single women's rates at 17.6 percent. In no other country do we find this same pattern. In every country except Germany, aged poverty rates—for both single women and couples—are below nonaged poverty rates. **Hence, single elderly women in the United States are not only the poorest group among the aged, they are also the only group with poverty rates significantly higher than those of nonaged population groups.**

Beyond the United States, only in Canada do we find large positive differences in poverty rates between aged women living alone and elderly couples. However, the differences are much smaller in Canada and the poverty rates are much lower. In Sweden, The Netherlands, France, and the United Kingdom, poverty rates for both groups are very low and nearly equal. In Australia, older women living alone actually have lower poverty rates than do aged couples in both years. However, the differences are less than 1.0 percent. While being old, female, and living alone does not mean being poor in most nations, United States aged women suffer poverty rates from 3 to over 40 times as high as do their counterparts in other nations.

Safety Net

Every modern country fights elderly poverty differently. In the best case, the United States aged income floor is a mix of Supplemental Security Income (SSI), Old Age and Survivors Insurance (OASI), and food stamps, with the primary reliance being on SSI. SSI benefits, plus the OASI or other unearned income disregard ($20 per month), plus food stamps comes to 34 percent of adjusted median income for a single aged person, and 37 percent for a couple (Table 5, Panel B). Well less than half of the low-income aged participate in all three programs, SSI **alone** brings a single person to 31 percent of poverty and a couple to 34 percent. If one uses the United States poverty line equivalence scale and the official thresholds, and if the aged **couple** receives enough in food stamps, one can just about get up to the official United States aged poverty line, or 37 percent of median income. Single persons still remain below the line. Moreover, this official United States aged poverty line is 8 percent less than the poverty line of similar size nonaged families. (The poverty line used in Panel A of Table 5 and in Table 6 does

not make this adjustment.) The important point to note is that however we patch together the United States safety net for the aged, even when we count near-cash income like food stamps, it does not reach the levels of income security found in other nations.

Countries that rely heavily on a means-tested (welfare) approach such as Australia, Canada, France and the United Kingdom, have higher guarantees than does the United States. In addition, Canada does not have a wealth (or assets or resources) test, so there are no "income eligible, but asset ineligible" aged. Australia has only a means-tested system with large asset disregards and a high guarantee. Between 1981 and 1987, Canada instituted a number of reforms aimed particularly at aged single women living alone. These reforms included a higher Guaranteed Income Supplement (GIS—the Canadian SSI) with several specific types of income disregards (for example, veteran's pensions, family allowances) and a 50 percent benefit reduction rate for countable income (which includes Canadian Old Age Social Security benefits, property income, and occupational pensions). As with SSI in the United States, many Canadian provinces supplement basic GIS benefits. The net result of these changes was to reduce the poverty rate among Canadian aged women by more than one-half between 1981 and 1987 (see Table 6). The other European nations mainly rely on a universal social retirement pensions with a relatively high minimum benefit and only a small earnings (or contribution) related second tier. Clearly they do a much better job of cushioning declines in earnings, occupational pensions of income from savings than does the United States because their systems are designed to achieve this objective.

Social retirement benefits are generally taxable in the countries studied, except for France (nontaxable) and the United States (partially taxable). And so while the United States has a general social retirement scheme which is tied relatively closely to earnings, with a weak lower tier (SSI), we are also less likely to tax OASI as income compared to other nations. While this structure reinforces the earnings related nature of the United States system, it also reduces its redistributive impact.

Some nations also have special benefits for elderly homemakers, others for widows or divorcees. Some have earnings sharing among spouses; others (for example, Sweden) treat all

aged the same whether living together or alone. The important point to note is that by and large each nation has its own system and however it is accomplished, they all do a better job than the United States does in putting a floor under the incomes of the least affluent elderly.

Homeownership and Wealth

Income is not the only source of economic security for most families, and particularly for the aged. Wealth (or lack thereof) plays an increasingly large role in providing economic security as persons age. The two major forms of wealth holding among the aged are owned homes and liquid wealth. Homeownership acts both as a store of wealth and as a source of shelter for the aged. Liquid wealth provides both a property income flow as a regular source of income, and a cushion against major and unexpected expenses.

Homeownership. Homeownership varies systematically across the nations studied here (Table 7). Between 60 and 75 percent of the aged are homeowners in the United States, Canada, Australia, and The Netherlands. In Germany and the United Kingdom, homeownership is much less prevalent, running at 40 to 50 percent levels. And in Sweden only slightly more than 25 percent of aged are homeowners. But in Germany, the United Kingdom and Sweden, governments have special housing allowances for the aged to help them meet local rental requirements.[6]

There is a homeownership gap between poor and nonpoor in all nations (measured at the 50 percent poverty rate) except in the United Kingdom and Germany. The largest gaps are in Canada, Australia, and the United States. Couples are more likely to be homeowners then are single women in most cases. But homeownership among the poor or the nonpoor does not seem to vary systematically by age.

But how does homeownership affect economic status? The value of homeownership to the aged in the United States is open to some question. United States Bureau of the Census (1992) estimates that poverty rates among the aged fall by a third or more once one takes the value of home equity (market value minus mortgage owned) and assigns a 5 percent return to the net asset value to calculate imputed rent. Because even 57 percent of poor aged single women are homeowners, this produces a fairly large drop in their poverty rate.

TABLE 7

HOMEOWNERSHIP AMONG THE ELDERLY[a]

	Percent of Elderly Who Own Homes[b]		
	Age 65+	Age 65-74	Age 75+
United States 1986			
All Households	74.5	76.8	71.2
Single Women	61.0	62.4	59.7
Couples	89.7	89.8	89.6
All Poor (50 Percent)[c] Households	60.7	59.6	61.7
Single Women	53.5	50.3	56.2
Couples	83.1	78.3	88.9
Canada 1987			
All Households	61.7	64.0	58.1
Single Women	39.2	36.5	41.8
Couples	75.5	76.4	73.6
All Poor (50 Percent) Households	48.5	42.4	57.8[d]
Single Women	53.3	34.9	64.0
Couples	43.2	45.6	25.0
Australia 1985			
All Households	77.3	78.6	75.0
Single Women	71.8	73.0	70.4
Couples	87.9	88.5	86.3
All Poor (50 Percent Households)	68.7	63.9	81.5[e]
Single Women	81.7	76.9	87.4
Couples	77.6	78.3	72.9
Germany 1984			
All Households	38.7	40.1	37.1
Single Women	26.2	27.5	24.9
Couples	50.4	48.9	53.4
All Poor (50 Percent) Households	40.0	57.3	30.7
Single Women	34.5	51.9	25.7
Couples	62.9	82.1	46.6

	Percent of Elderly Who Own Homes[b]		
	Age 65+	Age 65-74	Age 75+
Sweden 1987			
All Households	26.2	35.8	16.2
Single Women	12.8	26.9	4.1
Couples	46.4	48.6	42.3
All Poor (50 Percent) Households	5.4[f]	na[h]	5.7[g]
Single Women	3.3	na	3.8
Couples	28.1	na	81.1
United Kingdom 1986			
All Households	48.2	50.9	44.2
Single Women	37.9	40.8	35.2
Couples	58.5	58.8	56.8
All Poor (50 Percent) Households	53.0	47.8	52.9
Single Women	44.0	55.5	45.5
Couples	53.8	50.0	50.0
The Netherlands 1987			
All Households	71.8	68.9	75.4
Single Women	78.9	79.4	78.2
Couples	66.3	64.0	71.2
All Poor (50 Percent) Households	na	na	na
Single Women	na	na	na
Couples	na	na	na

[a]Excluding France where homeownership variable not defined in 1984.
[b]Elderly are classified according to age of household head.
[c]Poverty (50 percent) is defined to be a household below 50 percent of median family income.
[d]n = 47
[e]n = 23
[f]n = 22
[g]n = 17
[h]NA is N is too small.

On the other hand, the United States General Accounting Office (1992) calculates that one-half of United States aged homeowners spend more than 45 percent of their incomes on property taxes, utilities and home maintenance. The Census Bureau method does not adjust for these factors other than for property taxes. Moreover, while the United States SSI program does not count homeownership in determining eligibility, the liquid asset limits are very low—$3,000 for couples and $2,000 for single aged person—hardly enough to replace a leaky roof or a heating system in most homes. Hence, low-income aged homeowners may be precluded from exactly those programs which would otherwise help them.

In sum, homeownership may lessen the impact of poverty measured by income among the United States aged relative to the aged in other nations. However, even if imputed rent did reduce the United States aged poverty rates by 20 to 30 percent (see Tables 5 and 6), they are still well in excess of those found in other nations. Finally, the rate of homeownership in other nations with poverty rates near the United States levels are also relatively high. Australian poor elderly households have homeownership rates almost identical to those in the United States, while Canadian levels are not far behind. Presumably then, accounting for imputed rent among these units would also lower their elderly poverty rates. The net gain to the United States elderly relative to the aged in other nations from imputing a value for homeownership is therefore not clear and liable to be very small.

Financial Wealth. Among the most important sources of economic security for the aged are savings and other liquid assets which can be accessed in time of need. The LIS database does not directly measure liquid wealth—only the annual return (property income) from investments in stocks, bonds, savings instruments and rental property. In order to approximate total wealth, reported property income was divided by an arbitrary 5 percent rate of return in each country. This wealth was then divided by adjusted income to produce a wealth to income ratio for all elderly families and for poor elderly units at the 50 percent poverty level.[7]

The results of this exercise (Table 8) finds the United States with the highest overall ratio of liquid wealth to income (5.8) among the aged as a group. Canada (4.4), and Australia (4.5) come next followed by the other nations. Among the poor, the United States aged are at the

TABLE 8

RATIO OF LIQUID WEALTH[a] TO ADJUSTED MEDIAN INCOME FOR ELDERLY[b] FAMILIES

	All Elderly	Poor Elderly (50 Percent)[c]
United States 1986		
All Elderly Families	5.79	0.30
Single Females	5.19	0.29
Couples	7.94	0.51
Canada 1987		
All Elderly Families	4.43	0.79
Single Females	4.59	0.27
Couples	5.48	1.57
Australia 1985		
All Elderly Families	4.53	2.22
Single Females	3.49	3.34
Couples	5.59	2.29
Germany 1984		
All Elderly Families	2.27	0.33
Single Females	1.45	0.39
Couples	2.18	0.21
Sweden 1987		
All Elderly Families	2.66	11.99[d]
Single Females	2.79	18.18
Couples	2.60	2.85
United Kingdom 1986		
All Elderly Families	2.64	0.68[e]
Single Females	1.94	0.11
Couples	3.18	2.11
The Netherlands 1987		
All Elderly Families	0.87	f
Single Females	0.87	f
Couples	0.76	f
France 1984		
All Elderly Families	3.60	0.37
Single Females	3.89	0.36
Couples	3.20	0.11

[a]Liquid wealth is defined to be property income divided by .05.
[b]Elderly are defined to be those families where the head is age 65 or above.
[c]Poor (50 percent) is defined to be below 50 percent of median family income.
[d]n=22
[e]n=28
[f]Equals less than 20 cases.

other end of the rankings, having the lowest or nearly the lowest, ratios of liquid wealth to income.[8] It appears that the extremes observed in the volatility of income also occur in wealth differences among the United States aged.

Conclusions, Policy Implications and Remaining Questions

The major conclusions we can draw from these investigations are as follows:

- The relative economic status of the United States elderly married couples is better than in any other country to which they were compared in the 1980s. Moreover, their economic status improved the most of any country studied here in the 1980s.
- In most countries single aged women do relatively worse than aged couples. But in the United States, single aged women do worse than in any other country studied except Australia.
- In most countries those aged 75 and over have the same or slightly lower relative economic status as the aged 65 and over. But the biggest drop in relative economic status in moving from 65 to 75 is found in the United States.
- United States income inequality is in general, higher than in any of the other countries. In most countries income inequality is less among the aged than the nonaged, but not in the United States.
- The United States has the largest low income elderly population at three different levels of poverty than does any other country. And the difference between the low income rates of single elderly women and elderly couples is larger in the United States than in any other country. Differences in poverty closely parallel differences in levels of minimum income provision across the nations studied here.
- There is very little difference between the percent of elderly homeowners who were poor and nonpoor in the United States, Australia and Canada. But there was a big difference between poor and nonpoor in terms of liquid wealth, with the largest difference being in the United States.

And so we have termed our paper going to extremes because the gaps between the top and the bottom of the United States aged income and wealth distribution are larger than those found in other modern nations. The reader should realize that this paper has captured only part of these differences. Income security among the elderly depends both on changes in income flows and on changes in expenses. Differences in the ability of the aged to avoid high and unexpected expenses has not yet been included in this study. Acute and chronic health care are the major source of such expense among the United States aged (Holden and Smeeding, 1990). In the health care arena, most poor United States aged are covered by both Medicare and, at least

in theory, by the Medicaid "buy-in" (to cover Medicare deductibles and coinsurance). Many low-income United States aged, for instance those benefitting from SSI, are also receiving full Medicaid benefits. On the other hand, many low-income United States aged are Medicaid ineligible, and Medicaid sometimes excludes or limits crucial services. A recent GAO (1992) report found that among the United States aged poor, one-third had medigap supplemental insurance to complement Medicare, one-third were also covered by Medicaid, and one-third had no additional coverage. The average United States aged poor family spent just over 20 percent of their income on out-of-pocket acute care expenses in 1987. In the other nations studied, acute health care expenses for the aged are likely to be minimal, because every other country studied has a universal system of health care coverage. It would be of great interest to document the way in which health care expenses, both chronic and acute, affect the results shown above.

Not all types of economic inequality are bad, of course. The major policy problem among the United States aged lies in finding an effective method for limiting the downward variance in income and wealth, while also preserving incentives to save and invest, and to maintain and expand occupational pensions. The major answer seems to be an adequate and more generous income floor or safety net among the aged. Two options present themselves. First, an expanded and more generous SSI system could help alleviate economic destitution if coupled with a greater liquid asset disregard and if well integrated with OASI (for example, via a less than 100 percent benefit reduction rate for the 70 percent of low-income aged who benefits from both programs). Such a system was recently recommended by an SSI modernization commissioner (Social Security Administration, 1992). The cost of a program with a poverty line guarantee would be nearly $15.0 billion for the aged alone. However, other nations (for example, Canada, Australia, United Kingdom), appear to have had success with such an approach.

An alternative way to address this problem is to redesign the OASI benefit package to provide a lower rate of earnings replacement for couples at retirement and a correspondingly higher level of survivors benefits for elderly widows. Because mainly younger elderly couples are among the best-off groups, they could afford a slightly smaller level of benefits to begin their retirement while implicitly building in a higher benefit for the surviving spouse. The advantage

of such a changeover is that it could be implemented at no additional budgetary cost. Rough calculations indicate that the gain among survivors and the older elderly could be fairly large while the cost to the more numerous younger couples could be fairly small. (Hurd and Wise, 1991). The disadvantage is that it would take 10 to 15 years for such a system to be fully phased in, if we were not to reduce benefits to current retirees. Such an approach would, however, bring our social pension system much more in line with European and Scandinavian systems.[9] It would be of great interest to carry out more sophisticated simulations of the impact of both of these policy options on the economic security of the aged, particularly aged single women living alone.

Finally, better acute health care protection for the elderly would greatly reduce the impact of unexpected outlays on the low-income aged, preserving both incomes and assets. A recent study by Feenberg and Skinner (1992) suggests that such risks are both substantial and persistent, particularly for low income families. If we are to prevent the United States aged from going to cross-national extremes, we need to reduce the insecurities of both high expenses and low incomes that come with old age, frailty, and widowhood. Other modern nations do a much better job at reducing the odds of bad economic outcomes among their senior citizens than does the United States. We should try to learn more from them.

Endnotes

1. A third round of LIS data centered around 1990 is planned. Earlier data for a few of these nations is also in preparation. For additional information on LIS, see Smeeding, O'Higgins, and Rainwater (1990) and Gornick, Klamm, Randell, de Tombeur, and Warner (1993).

2. The choice of equivalence scale does make some difference in outcomes when comparing well-being across age groups with radically different family sizes, e.g., the aged and younger families with children. See Buhmann, et al. (1988) for more on this topic. Choice of scales should have only a small effect on the results shown here. For instance, comparisons of elderly poverty rates using the United States poverty line equivalence scale as compared to the LIS scale indicate the same general level and pattern of differences among countries.

3. LIS offers additional nations which were excluded here either on the basis of similarity to the nations included (e.g., Norway's coutcomes for the aged are very similar to Sweden; Belgium and Luxembourg's outcomes are similar to Netherlands) or on the basis of inappropriate comparisons. For instance Israel and Ireland have standards of living which are significantly below those of the other nations included here.

4. Other aggregate measures of inequality would not change the pattern found here. See Buhmann et al. (1988); Atkinson, Rainwater and Smeeding (1993).

5. In Sweden, Germany and France, we are unable to separate private or occupational pensions from social retirement. However they constitute 5 percent or less of aged income in each of these nations. OECD (1992).

6. In the United States, about 40 percent of low-income aged renters—about 10 percent of all the elderly—receive public housing benefits. Neither these benefits nor imputed rent are counted in disposable income.

7. Results at the 40 percent poverty level do not differ appreciably from those at the 50

percent level. The same results are obtained if we consider only elderly families with nonzero wealth holdings.

8. The Swedish result is a clear outlier. Apparently one or two of the 22 "poor" Swedish households had a very bad year—tax wise—and a very large net worth.

9. However, because this plan would not effect the earnings related slope of the OASI benefit determination system, it would still be far from the European and Scandinavian "flat" benefit schemes. For a proposal to move to such a system, see Haveman (1987).

TABLE A-1

AN OVERVIEW OF LIS DATASETS USED IN THIS PAPER

Country	Dataset Name, Income Year (and Size)[a]	Country Contacts	Population Coverage[c]	Basis of Household Sampling Frame[f]	Participation of National Government[g]
Australia	*Income and Housing Survey*; 1981-82 and 1985-86 (9,000)	B. Bradbury	97.0[d]	Dicennial Census	CSO
Canada	*Survey of Consumer Finance*; 1981, 1987 (71,000)	R. Love; M. Wolfson	98.1[d]	Dicennial Census	CSO
United States	*Current Population Survey*; 1979, 1986	J. Coder	97.6[d]	Dicennial Census	CSO
West Germany	*German Panel Survey*;[b] 1984 (4,800)	W. Dobroshke-Kohn; R. Hauser	96.0[a]	Electoral Register	FUND
Sweden	*Swedish Income Distribution Survey*; 1981, 1987 (9,400)	K. Lundeqvist	98.1[d]	Income Register	CSO
United Kingdom	*Family Expenditure Survey*;[b] 1979, 1986 (7,000)	Frank Cowell	96.5[e]	Electoral Register	CSO
The Netherlands	*Survey of Income and Program Users*; 1983, 1987 (4,800)	Leendert; Ruthenberg	98.2[e]	Postal and Telephone Register	GTH; GOVT
France	*Household Income Survey*;[h] 1979, 1984 (5,000)	Bernard Legris	97.0[e]	Income Tax Registry and Electoral Registry	CSO

[a]Dataset size is the number of actual household units surveyed.

[b]The United Kingdom and German surveys collect subannual income data. The German data is normalized to annual income levels; the United Kingdom data is based on current income multiplied to annual levels.

[c]As a percent of total national population.

[d]Excludes institutionalized and homeless populations. Also some far northern rural residents (inuits, eskimos, laps, etc.), may be undersampled.

[e]Excludes those not on the electoral register, the homeless, and the institutionalized.

[f]Sampling Frame indicates the overall base from which the relevant household population sample was drawn. Actual sample may be drawn on a stratified probability basis, e.g., by area or age.

[g]Participation of National Government is coded as CSO - Official Central Statistical Office Survey; OTH GOV = other government agency survey; FUND = survey funded by national government but data controlled by research organization.

[h]The French survey data is taken from income tax records to which a sample of low-income non-filing units is matched and weighted to reach national population totals.

TABLE A-2

PERCENT OF HOUSEHOLDS BY AGE OF HEAD

	Percent of Heads Over	
	Age 65	Age 75
United States 1986	20.3	8.2
Canada 1987	17.4	6.9
Australia 1985	19.3	7.0
Germany 1984	26.5	12.3
Sweden 1987	25.9	12.7
United Kingdom 1986	25.8	10.4
The Netherlands 1987	20.2	8.9
France 1984	22.4	11.2

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