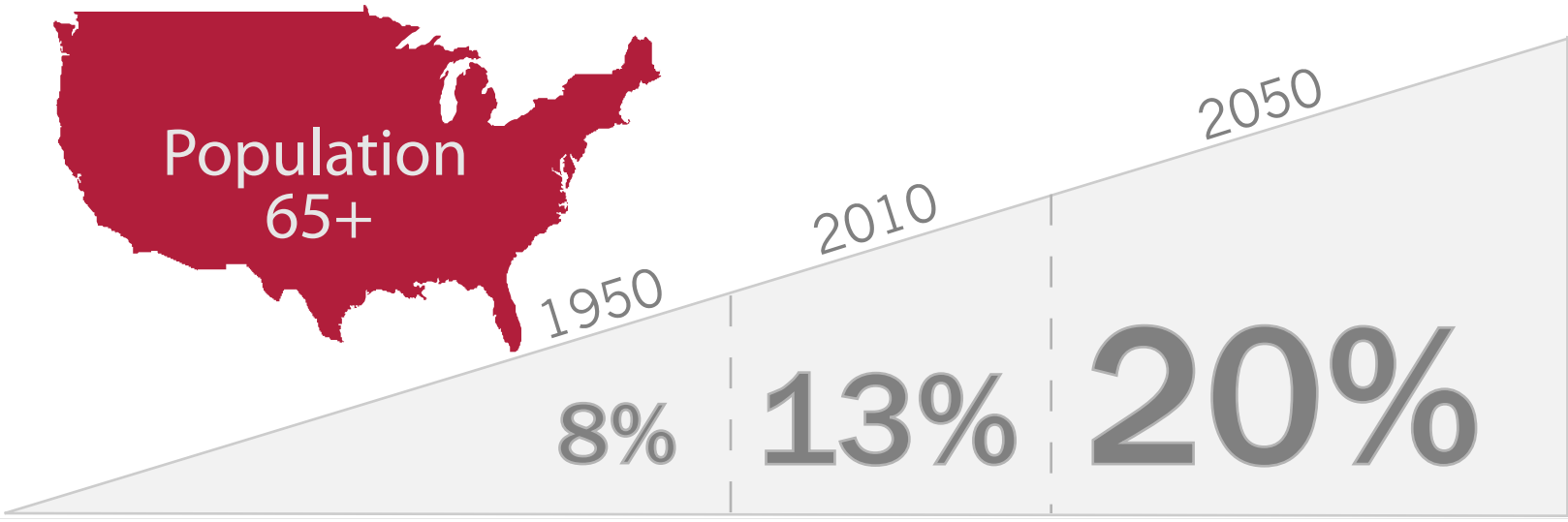
STANFORD CENTER ON LONGEVITY

NEW REALITIES of an OLDER AMERICA

Challenges, Changes and Questions



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2010

PREFACE

In less than one century, life expectancy has increased an average of 30 years in developed regions of the world. This added longevity is, at once, among the most remarkable achievements in all human history and one of our greatest challenges. More and more Americans are reaching old age, and older Americans are making up a larger share of our total population.

The unprecedented demographic developments that resulted are fundamentally changing the way we live. They also bring pressures that require prompt action. The Stanford Center on Longevity has developed this briefing as a tool to increase awareness of these demographic challenges and to stimulate discussion about best practices and policies that suit this new reality.

As you review the following pages, I hope the information will spark your curiosity, spur your creativity and instill a sense of urgency. The challenges and opportunities of this new type of aging will require both broadly inquiring minds and a deep understanding of the issues. Whatever your field of expertise, whatever your discipline, I invite you to explore *New Realities of an Older America* and join us in transforming the culture of aging so that more people reach old age physically fit, mentally sharp and financially secure.

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New Realities of an Older America:
Challenges, Changes and Questions

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INTRODUCTION

Our population is aging. The number of Americans age 65 and over will double over the next 30 years to 80 million and their share of the population will increase from 13% today to 20% in 2030. Soon there will be more old people than children. This shift toward older age brackets isn't just about the baby boomers, and it isn't just about older people. Rather, **population aging is a major force with economic, political and social implications for our entire society — young and old.**

Americans are living longer and healthier lives. According to the U.S. Census Bureau, a child born today can expect to live 78 years; by 2050 life expectancy at birth is projected to be 83; some estimate the number will be even higher. At the same time that people are living longer, they are also enjoying lower rates of disability and poverty than previous generations. **These stunning accomplishments will drive major changes and choices in our families, workplaces and communities.** Many of these changes can be reasonably anticipated, but rather than meeting these challenges with appropriate public policy strategies, our nation instead has been relying on outdated social and economic policies and practices that were designed for a more youthful population. Suburbs, designed for traditional nuclear families, are increasingly home to singles and older couples. Medicare and Social Security, already under financial stress, rely on taxes paid by current workers to support current retirees. In 1950, there were eight working-age people for each person age 65 or older. Today there are five. In 2050, there will be three.

As a society, we can no longer afford to ignore the reality of the tremendous population shifts already underway — the opportunities and costs are simply too significant to ignore. It is critical for government, business and community leaders to incorporate the new realities of an aging population into all areas of public policy, not just those targeted to old people. Population aging will affect younger Americans as well. Their economic prospects, including their educational opportunities in K through 12, colleges and universities, as well as their future tax burdens, depend on how effectively today's policy makers prepare for tomorrow's world.

To provide a framework for thinking about these critical trends, we have prepared *New Realities of an Older America: Challenges, Changes and Questions*. Our briefing highlights five important changes shaping the new demographic reality:

- **Population aging**
- **Increased racial and ethnic diversity**
- **Changes in living arrangements**
- **Evolving health care needs**
- **Challenges to financial well-being**

We have drawn from a variety of academic and government sources to illuminate changes in society and provide historical context. Some findings will surprise readers, others may reassure them. **We hope *New Realities* will both inform and motivate, sparking discussion about how developments will unfold and how they might affect people of all ages in our society.**

The issues are complex and interrelated, and the demographic trends are gaining momentum. It is urgent that our country and our communities address these issues and implement effective solutions. **Only by understanding these challenges and changes will decision makers in business, government and communities across the nation be able to develop policies and practices that meet the needs of an aging society.**

EXECUTIVE SUMMARY

Population aging is a major force with economic, political and social implications for our entire society, young and old. The age shifts already under way are driving significant changes and choices in our families, workplaces and communities. As a society, we can no longer afford to ignore these forces — the opportunities and costs are too significant. It is urgent that we understand the nature of these changes and begin adapting our policies and practices to meet the new realities.

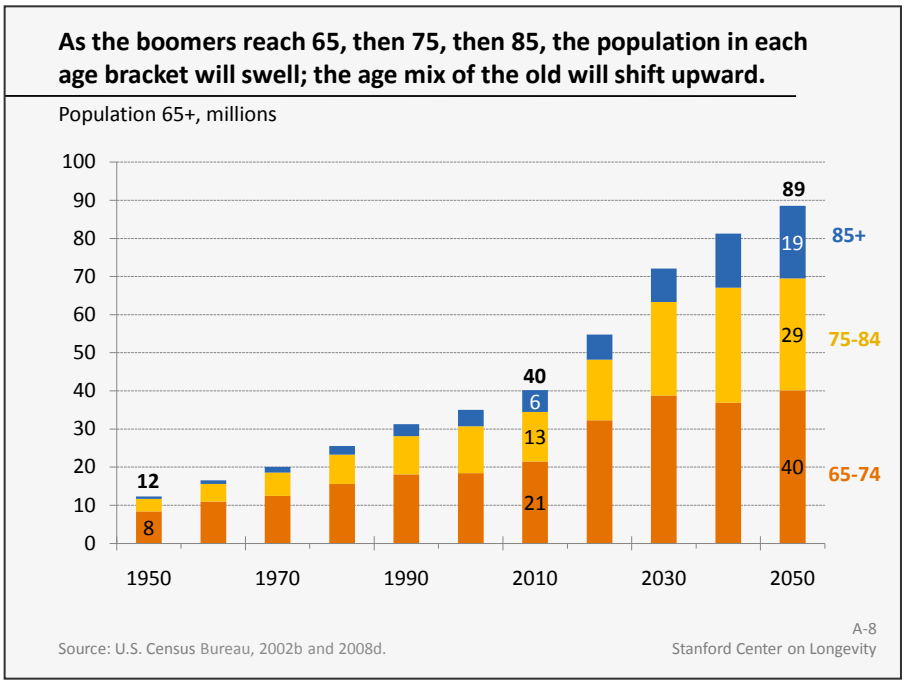
To provide a framework for thinking about these critical trends, we have prepared *New Realities of an Older America: Challenges, Changes and Questions*. Our briefing highlights five important changes shaping the new demographic reality:

- Population aging
- Increased racial and ethnic diversity
- Changes in living arrangements
- Evolving health care needs
- Challenges to financial well-being

We provide an overview of each trend and, where possible, present a comparative perspective on the changes over time and across different age groups. Our comparative perspective points to many questions about how these changes might unfold in unexpected ways. Some findings will surprise readers, others may reassure them. By illuminating unprecedented developments and raising tough questions, we hope *New Realities* will both inform and motivate. Ideally, the briefing will spark discussion about how developments will unfold and how they might affect people of all ages in our society.

Population Aging

The shift toward an older population has enormous implications for people of all ages. As people live longer and healthier lives, the entire culture will change, creating opportunities for positive individual and societal contributions. The number of old people — age 65 and over — will double over the next 30 years, from



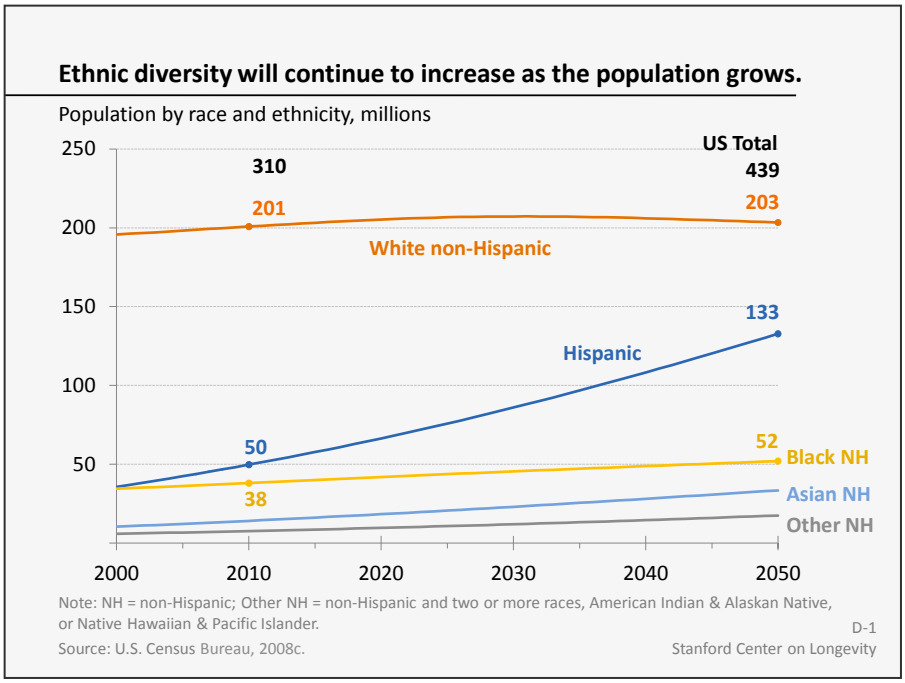
How do the needs of 85-year-olds differ from the needs of 65-year-olds? How will those needs change, and what will it mean to be 85 in 2050?

40 million to 80 million, and the share of old people will increase from 13% to 20%. By the time the last baby boomers turn 65 in 2029, 1 in 5 Americans will be age 65 or older. By 2032, there will be more people 65 or older than children under 15.

At the same time, there will be fewer and fewer potential workers per retiree, just as the financial and social costs of an aging population are increasing. Without policy and behavioral changes, the fiscal burden on individual workers and taxpayers will skyrocket. The personal financial burden will also increase as people spend more years in retirement and reach older and older ages, with greater needs for personal care and other services.

Increasing Diversity

Racial and ethnic diversity will continue to increase in the United States, and by 2042 the population will be "majority minority" — more than half the population will be non-white or Hispanic. Moreover, racial and ethnic groups continue to differ on important age-related metrics, including life expectancy, living arrangements, disease prevalence, income levels and poverty rates. Thus, understanding the demographic trends and differences is critical for developing effective age-related policies.



How does aging differ across racial and ethnic groups? How should strategies to improve the well-being of older adults be tailored to different groups?

Population growth over the next 40 years will be concentrated among Hispanics and non-whites. The Hispanic population is projected to more than double, from 50 million in 2010 to 133 million by 2050, accounting for almost two-thirds of projected total U.S. population growth over the next 40 years. In contrast, the white non-Hispanic population is projected to remain fairly stable at just over 200 million, with its share of total population declining from 65% in 2010 to 46% in 2050.

The working-age population will become increasingly diverse. The Hispanic share of the working-age population is projected to increase from 16% in 2010 to 31% by 2050. Due to growth in the Hispanic population, the United States will be one of the few advanced economies with a growing work force.

Diversity will also increase among the older population with minorities accounting for 60% of the growth among those age 65+. Although Hispanics are projected to constitute a growing share of the older population — increasing from 7% in 2010 to 20% by 2050 — the overall Hispanic population will remain younger than the total population.

Changes in Housing and Living Arrangements

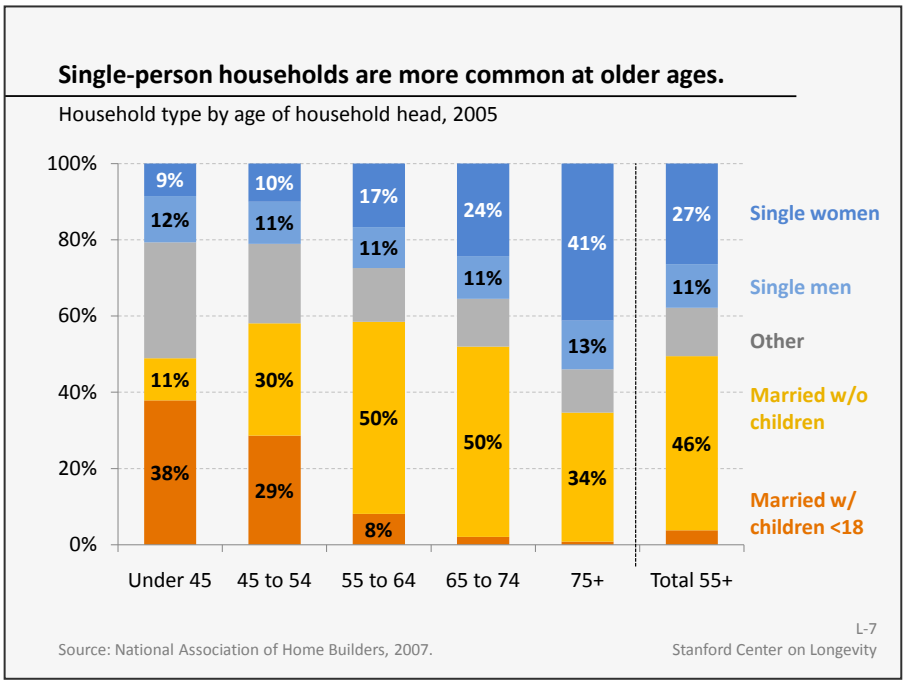
As populations and societies change, so do housing needs and living situations. In the coming years, aging of the population and increasing diversity will profoundly affect housing choices and living arrangements, much

like suburbanization and changes in family structure dramatically changed living arrangements over the past half century.

Americans are increasingly living in the suburbs. Most of the increase in the number of households over the past 40 years occurred in the suburbs, and by 2007, suburban households represented almost half of all households.

Traditional households — married couples with children under 18 — no longer dominate the housing mix. The share of these households decreased from 40% in 1970 to just 23% in 2007, while the share of single-person households increased to 27% of the total. Average household size declined from 3.1 people per household in 1970 to 2.6 in 2007. More than 60% of all households consisted of one or two people in 2007, compared to 46% in 1970.

The number of single-person households grew disproportionately fast due in part to aging, but also due to delay in marriage and increase in divorce. Older people are more likely to live alone, and most still live in traditional housing.



How can communities better assist and support older people living alone?

In 2007, of the 111 million total households, 23 million or 21% were households age 65+. Of these older households, about half were located in suburban areas. Older men were more likely to live with a spouse, while older women were more likely to live alone or with other relatives; 39% of older women lived alone compared with 19% of older men. Hispanic and non-white women were more likely than white non-Hispanic women to live with other relatives.

Evolving Health Care Needs

Although people are living healthier longer, health remains a primary concern of aging. Death and disability rates are falling, particularly for heart disease and stroke, but chronic disease prevalence in the older population remains high.

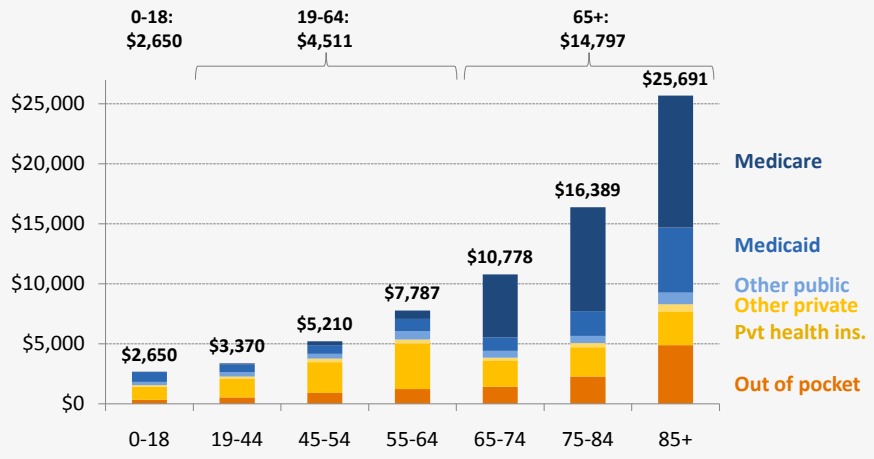
Many age-related health conditions and diseases affect quality of life and living arrangements for older people. This briefing describes three specific diseases: dementia, arthritis and obesity. If current dementia prevalence continues, the population with dementia will more than double from an estimated 4.3 million in 2010 to 11.4 million by 2050. The direct costs to Medicare and Medicaid for people with dementia were already $112 billion in 2005. Arthritis affects people of all ages, but prevalence increases with age. In 2004, arthritis affected more than 46 million American adults. By 2030, 67 million adults will have arthritis, and 25

million will have arthritis-associated activity limitations. Obesity rates have increased at all ages since 1970. The share of adults who were obese more than doubled from 15% in the early 1970s to 34% in 2006.

Given the number of age-related health conditions, it is no surprise that per capita health care spending skyrockets with age. Annual per capita spending on those age 65+ totaled $14,800 in 2004, more than triple the amount spent on working-age adults. Public spending, including Medicare and Medicaid, accounted for about two-thirds of total spending for those 65+.

Per capita health care spending skyrockets with age.

Per capita health care spending, by age group and source of payment, 2004



Note: Other public: e.g. workers compensation. Other private: e.g. philanthropy.
Source: Centers for Medicare and Medicaid Services, 2009.

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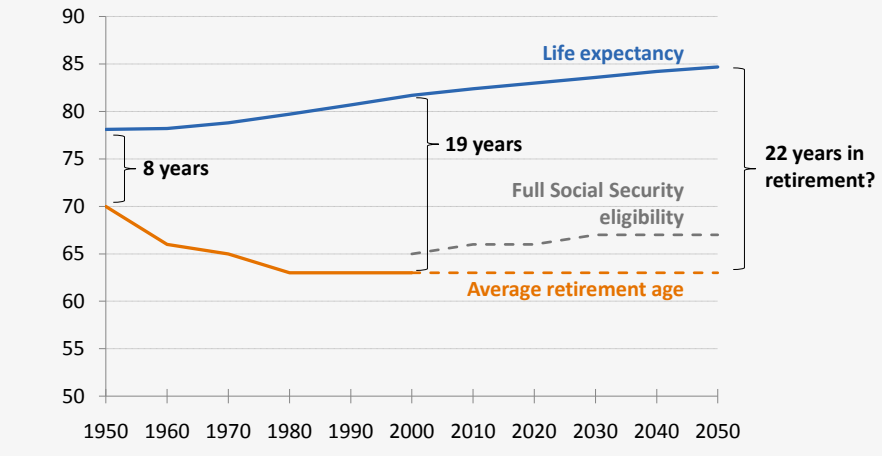
How will rising health care spending threaten personal and national financial security as the population ages?

Challenges to Financial Well-Being

People have been spending more years in retirement as life expectancy has continued to rise. For men, the number of years spent in retirement increased from eight years in 1950 to 19 years in 2000. Those years were less likely to be spent in poverty thanks to Social Security, but the outlook for tomorrow's retirees is uncertain.

Retirement now lasts nearly 20 years.

Retirement age and life expectancy at age 65, men



Source: Center for Retirement Research at Boston College, 2006 and U.S. Social Security Administration, 2009.

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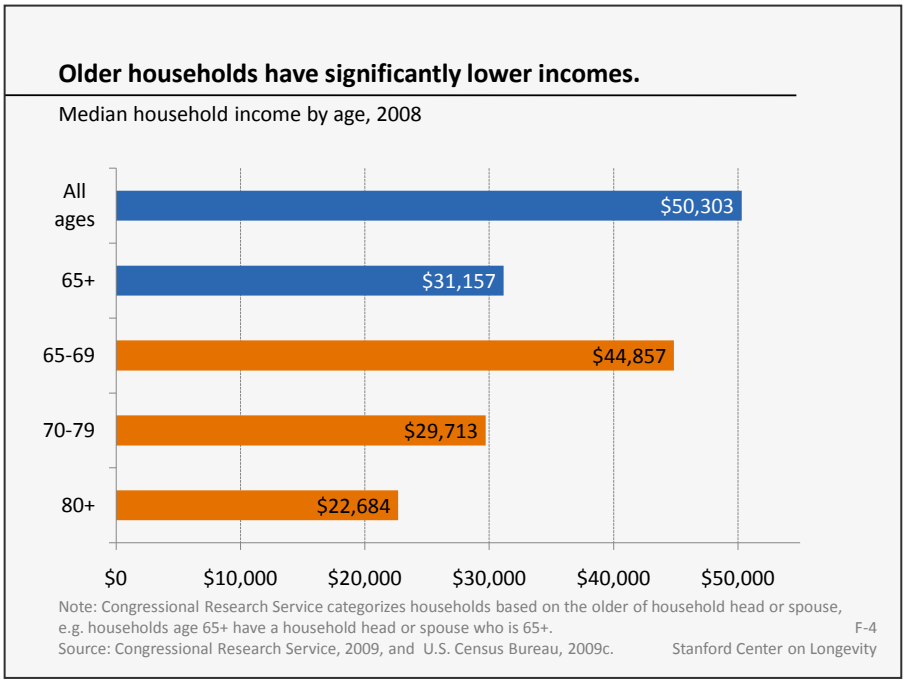
What are the barriers to people of all income groups, generations, races and genders to making sound financial decisions about retirement?

Many people risk not having sufficient financial security for retirement if they stop working at 65. The share of older people working has already been increasing, and by 2018 more than one-third of men and one-quarter of women age 65-74 are projected to be in the labor force.

Older households on average have lower incomes, but also lower expenses and more assets, than younger households. Median household income for older householders, $28,000 in 2006, was about half the level of income for younger householders. Median net worth for older households exceeded $200,000 in 2007, but has likely declined substantially since then.

Compared with younger age groups, older households committed a similar share of household expenditure to housing, but a greater share on health care. Housing is the largest expense category for all ages, accounting for a third or more of total household expenses. On average, older households spent $37,000 per household in 2008 with $13,000 (35%) devoted to housing and $4,600 (12%) to health care.

The poorest older households rely largely on Social Security, which accounts for 84% of their income, compared with 17% for the wealthiest households. In 2008, Social Security benefits averaged about $14,000 for an individual and $23,000 for a couple.



Will income differences by age continue? What is the projected median income for boomer households at age 65?

Call to Action

Only by understanding these challenges and changes will decision makers in business, government and communities across the nation be able to develop policies and practices that meet the demands of an aging society. The issues are complex and interrelated, and the demographic trends are gaining momentum. It is urgent that our country and our communities address these issues and implement effective solutions.

AGING

Highlights

The shift toward an older population has enormous economic, social and political implications for people of all ages. As people live longer and healthier lives, the entire culture will change, creating new opportunities for individual and societal contributions across all ages. The number of old people — age 65 and over — will double over the next 30 years from 40 million to 80 million, and the share of old people will increase from 13% to 20%. By 2032, there will be more people 65 or older than children under 15. By the time the last baby boomers turn 65 in 2029, 1 in 5 Americans will be age 65 or older. The number of 85-year-olds will grow even faster.

At the same time, there will be fewer and fewer potential workers per retiree, just as the financial and social costs of an aging population are increasing. Without policy and behavioral changes, the fiscal burden on individual workers and taxpayers will skyrocket. This personal financial burden will also increase as people spend more years in retirement and reach older and older ages, with greater needs for personal care and other services.

While increased life expectancy is a stunning achievement, it creates a new reality that requires new policies.

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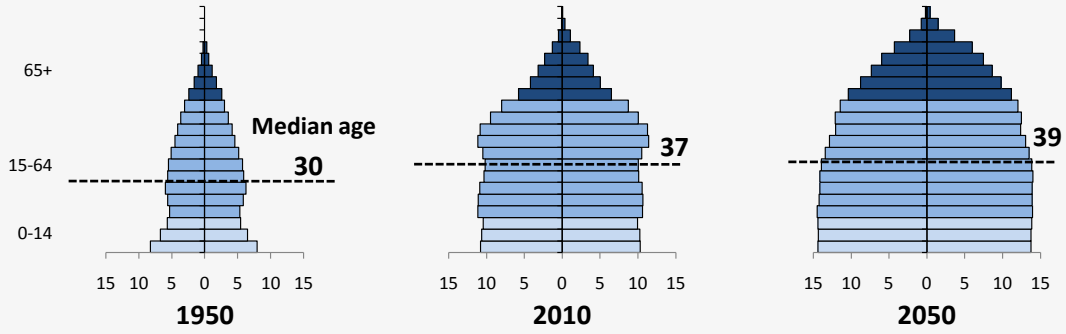
The age structure shifts from pyramid to cube as more people reach old age.

Total population by age and sex, millions



	1950	2010	2050
	150.7 million	310.2 million	439.0 million
% 65+:	8%	13%	20%

Population in millions by five-year age bracket; males on left, females on right.
Source: U.S. Census Bureau, 2002b and 2008d.

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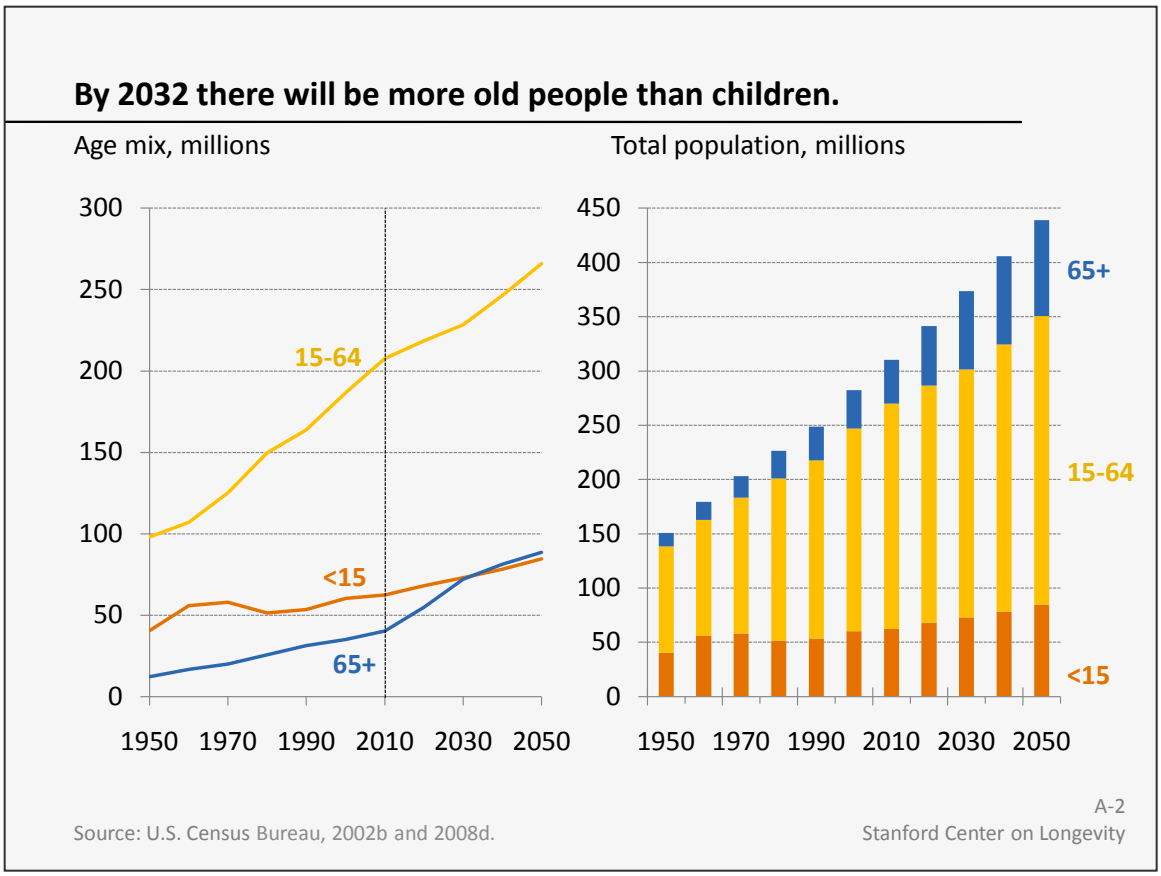
As more people reach old age, the structure of our population is changing from a pyramid with a broad base of young people, into a cube with population more evenly distributed across age brackets.

- These charts show the U.S. population by five-year age bracket, with children (age 0-14) in the light bars on the bottom, working-age adults (15-64) in the middle, and older adults (age 65 and older) in the dark bars on top. Men are on the left, women on the right.
- In 1950 at the height of the baby boom, the U.S. population had a broad base of young people, a large midsection of working-age people and relatively few old people.
- As the population shifts toward older brackets, the median age increases. In the 1950 youthful profile, half the population was age 30 or below. Today, the median age is 37.
- The change in age structure from pyramid to cube, even while the total population is growing, reflects aging of the population.
- Two key demographic trends lead to population aging and produce the changes in age structure:
  - Reduced births per woman reduces the relative size of the base.
  - Increased life expectancy increases the size of the top.
- Many of our population-related policies were originally designed for a youthful pyramidal age structure and hence no longer meet the needs of the new demographic reality of an older population.

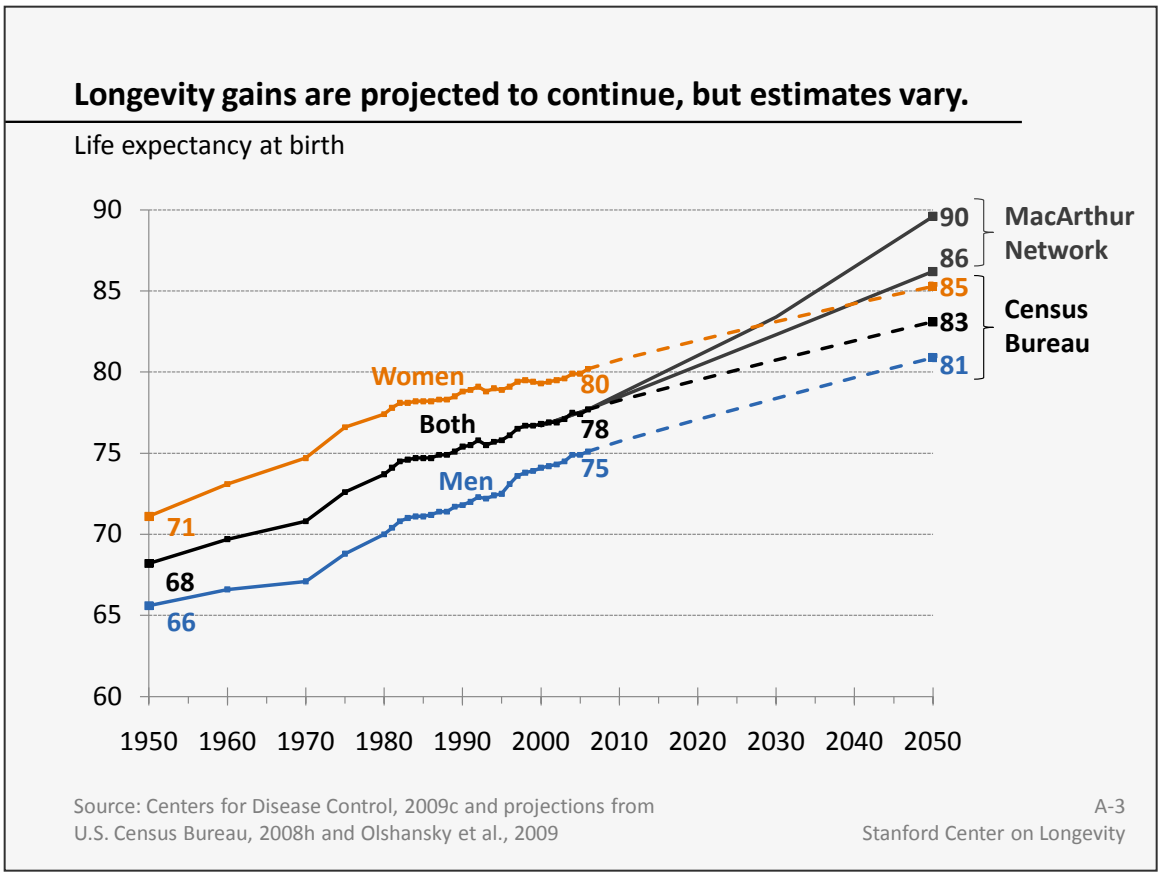
➢ *Given the new reality of a population shift toward older age brackets, what are the most effective ways to increase the number of people who reach old age physically fit, mentally sharp and financially secure?*



The number of people age 65+ will increase rapidly over the next two decades as the baby boomers turn 65. In 2032, the population age 65+ will exceed the number of children. By mid-century there will be about 4 million more old people than young people.

- The total population is projected to increase by 42% over the next 40 years, adding 129 million. The older population is growing the fastest: 120% between 2010 and 2050, compared to 35% for children under 15 and 28% for adults 15-64.
- The United States is one of the few large economies projected to have continued growth in number of children and number of working-age adults. In contrast, Japan and much of Europe will face decreasing numbers of children and shrinking work forces.
- Three key demographic trends drive these population changes:
  - Decreasing fertility rate, or births per woman: Note the early bulge in the number of children that drops off just after 1979 when the last of boomer children, born in 1964, reach 15.
  - Increasing life expectancy: Not only are more and more people making it to their 65th birthday, but old people are living longer than before, so the age group continues to expand.
  - Migration: These U.S. Census projections from 2008 include net migration of a little over a million people per year in 2010, increasing to slightly more than 2 million per year by 2050 (U.S. Census, 2008e).

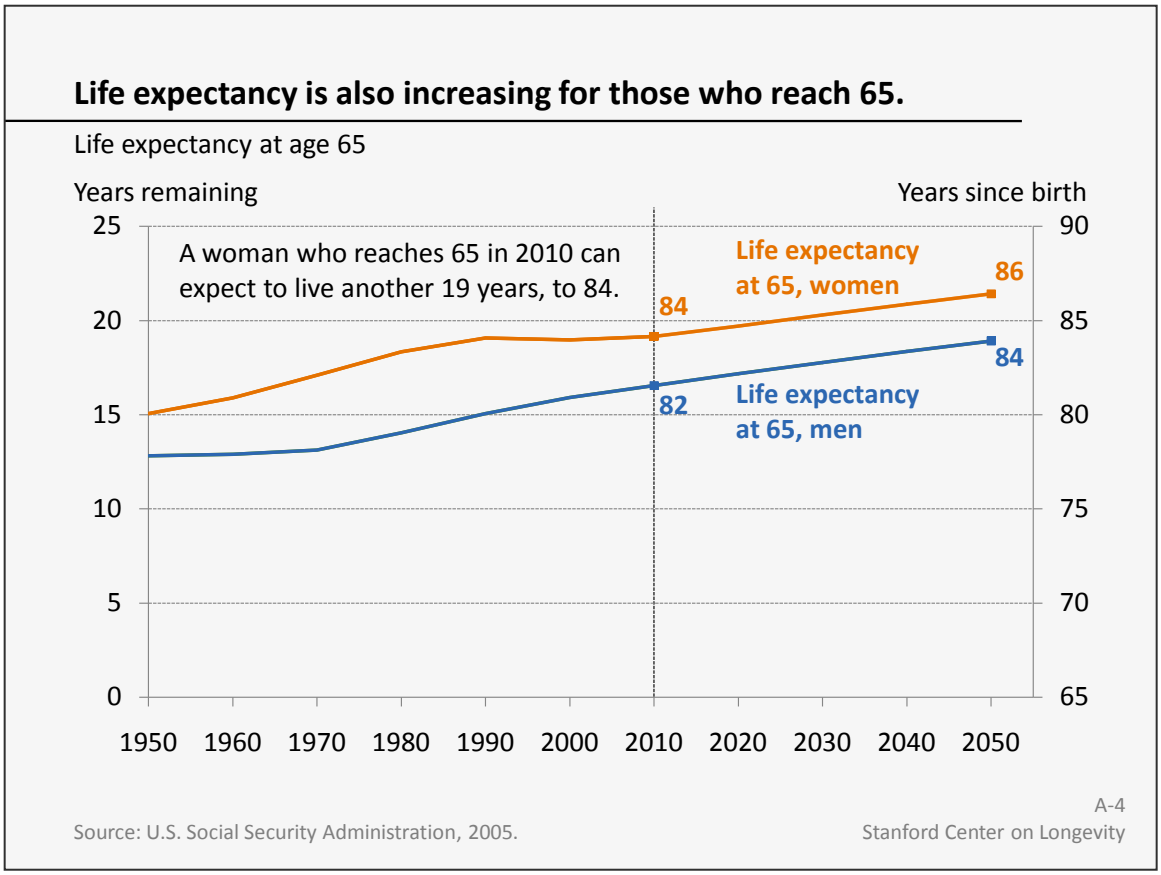
➢ *What strategies might improve well-being at all ages?*



One of the great successes of the 20th century was the 30-year increase in life expectancy. Since 1950, life expectancy at birth in the United States increased by 10 years, from 68 to 78. Continued gains are projected by 2050.

- Longevity is one of the primary drivers of population aging: As life expectancy increases, more and more people reach old age. Life expectancy increased over the last century because of advances in sanitation, safety, public health and medicine. Infant mortality plummeted as the world became safer for infants and small children (Carstensen, 2009).
- The projections for life expectancy gains are controversial. Some researchers suggest that the dramatic increase in obesity rates could result in life expectancy remaining flat or even starting to decline over the next 50 years (Olshansky et al., 2005). Others assert that if present trends in increasing life expectancy continue, most babies born today in developed countries will reach 100 (Christensen et al., 2009). A 2009 forecast by the MacArthur Foundation Research Network on an Aging Society suggests U.S. government agencies may be underestimating life expectancy gains by 3 to 8 years and that by 2050, life expectancy at birth will be between 86 and 90 years. The government's projections assume that improvements in mortality will slow over the coming decades. In contrast, the MacArthur Network forecasts an acceleration in life expectancy improvements due to a combination of behavioral changes and new technologies (Olshansky et al., 2009).

➢ *What advances in science and technology and changes in our culture might bring about further increases in life expectancy during the 21st century?*



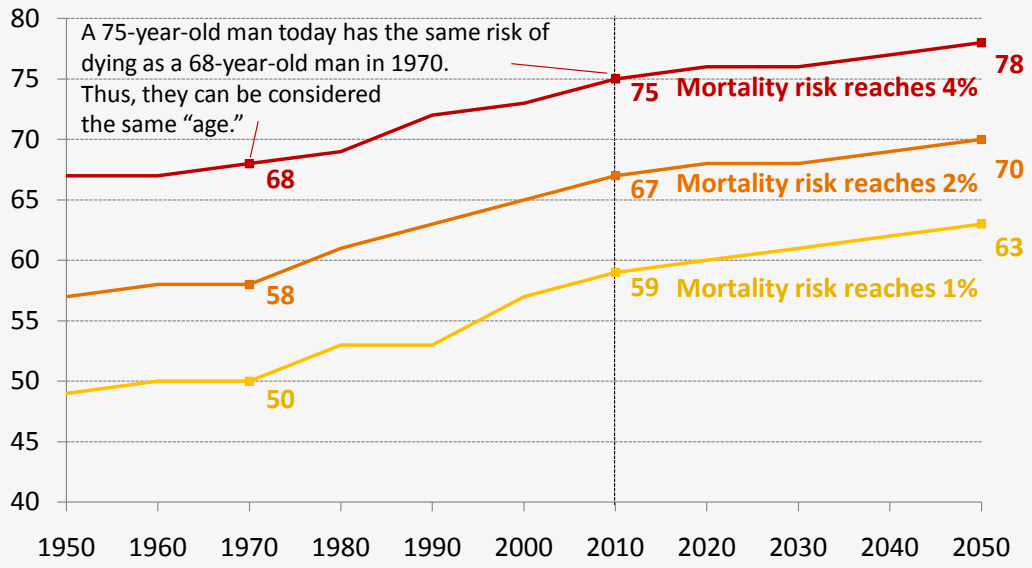
Life expectancy at 65 has increased by four years since 1950 for both men and women. This increase is expected to continue so that by 2050, 65-year-old men can expect to live to 84, and 65-year-old women to 86.

- In 1950 a man who reached 65 could expect to live 13 more years, to age 78. Today a 65-year-old man can expect to live to 82, or 17 more years.
- Higher life expectancy for women creates what some call the "feminization" of aging. Because women live longer, more than half of the 65+ population is female. By 2050, women will represent 55% of the 65+ population and 61% of the 85+ population (U.S. Census Bureau, 2008d). Gender differences in aging affect issues across the board, including labor force participation, living arrangements, financial security and care giving.
- Life expectancy also differs by race, but the differences decrease with age. According to the Centers for Disease Control, in 2006 life expectancy at birth for blacks was 5 years below whites (78.2 vs. 73.2). Life expectancy at 65 for blacks was 1.5 years below whites (82.1 vs. 83.6) (Centers for Disease Control, 2008).

- ➢ *What factors lead to disparities in life expectancy between the sexes and among different racial and ethnic groups?*
- ➢ *What are the most effective ways to encourage people to prepare — financially, physically and emotionally — to live 15, 20, even 30 years or more beyond the traditional retirement age?*

75 is the new 68: Today's 75-year-old man faces the same mortality risk as a 68-year-old man in 1970.

Age (in years since birth) at given risk of dying within the next year, for men



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Source: U.S. Social Security Administration, 2005.

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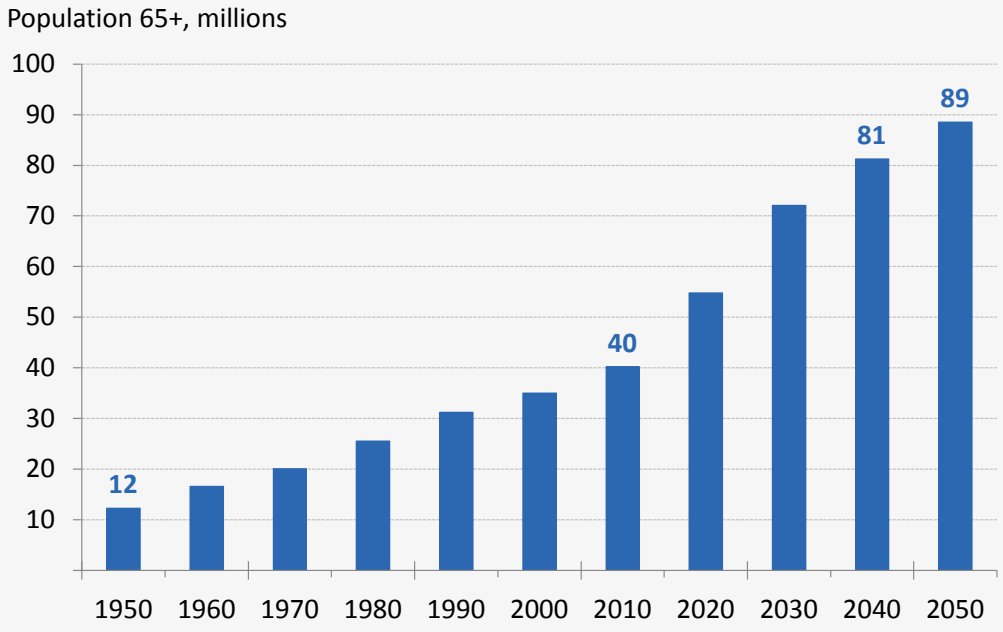
Old people today are younger than old people of the past: Today's 75-year-old man is the same "age" as a 68-year-old man in 1970. Thus, 75 is the new 68.

- Another way of measuring "age," besides years since birth, is counting backward and assessing risk of dying. Accordingly, two people with the same likelihood of living through the next year are the same age. By this measure, today's 75-year-old man is the same age as a 68-year-old in 1970 or a 78-year-old in 2050 (Shoven, 2007).
- This measurement of age accounts for people living healthier longer, rather than just living longer. There is evidence that the disability rate has declined in recent decades, though there are disputes about whether this trend will continue.
- Stanford Professor of Economics John Shoven has suggested that, similar to the way dollars can be indexed to inflation, age could be indexed to mortality risk (Shoven, 2007). Thus, Social Security could be tied to mortality-risk-adjusted age, instead of years since birth (Shultz and Shoven, 2008).

- ➢ *How might the concept of adjusting benefits for "years remaining" be incorporated into old-age support programs?*
- ➢ *How could financial planning models be adjusted for "years remaining"?*

The population age 65+ will double over the next 30 years, from 40 million to 81 million.



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Source: U.S. Census Bureau, 2002b and 2008d.

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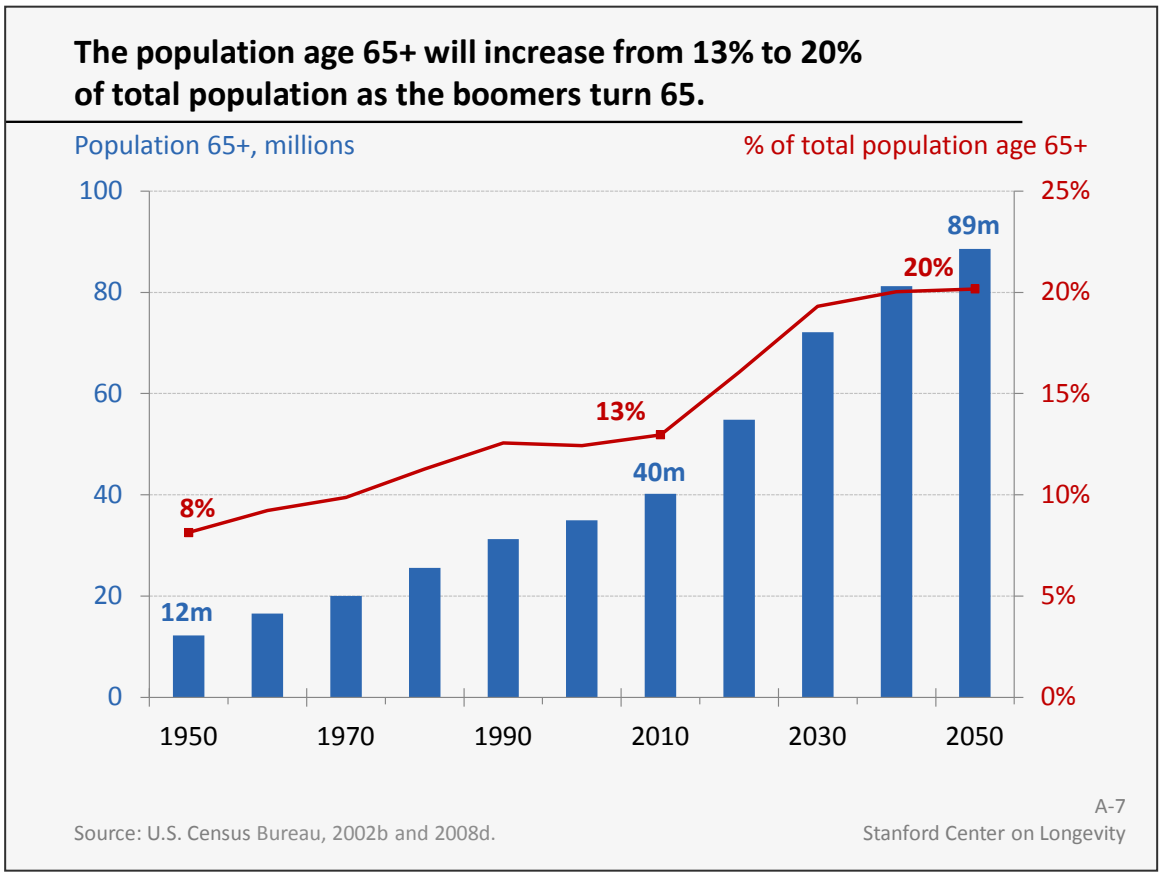
The population age 65+ has been growing steadily since 1950, when there were only 12 million old people. Today there are 40 million people age 65+, but as the boomers turn 65 over the next few decades, this population will more than double, reaching 89 million by 2050.

- Several factors contribute to the doubling of the older population:
  - The arrival of the baby boom bulge into old age, from 2011 to 2029, will swell the ranks of the 65+ population.
  - Increasing life expectancy means that a higher share of people reach the older age brackets.
  - Because life expectancy at age 65 continues to increase, those who make it to age 65 live longer, and thus, the population growth is sustained for a longer time.
- The population age 65+ could grow even faster than the Census Bureau forecasts if higher life expectancy gains are achieved through behavioral changes and scientific advances. Based on projections that mortality improvements will accelerate rather than slow, the MacArthur Foundation Research Network on an Aging Society forecasts that the population age 65+ could reach 99 million to 108 million by 2050, or 12% to 22% higher than the 89 million projected by the Census Bureau (Olshansky et al., 2009).

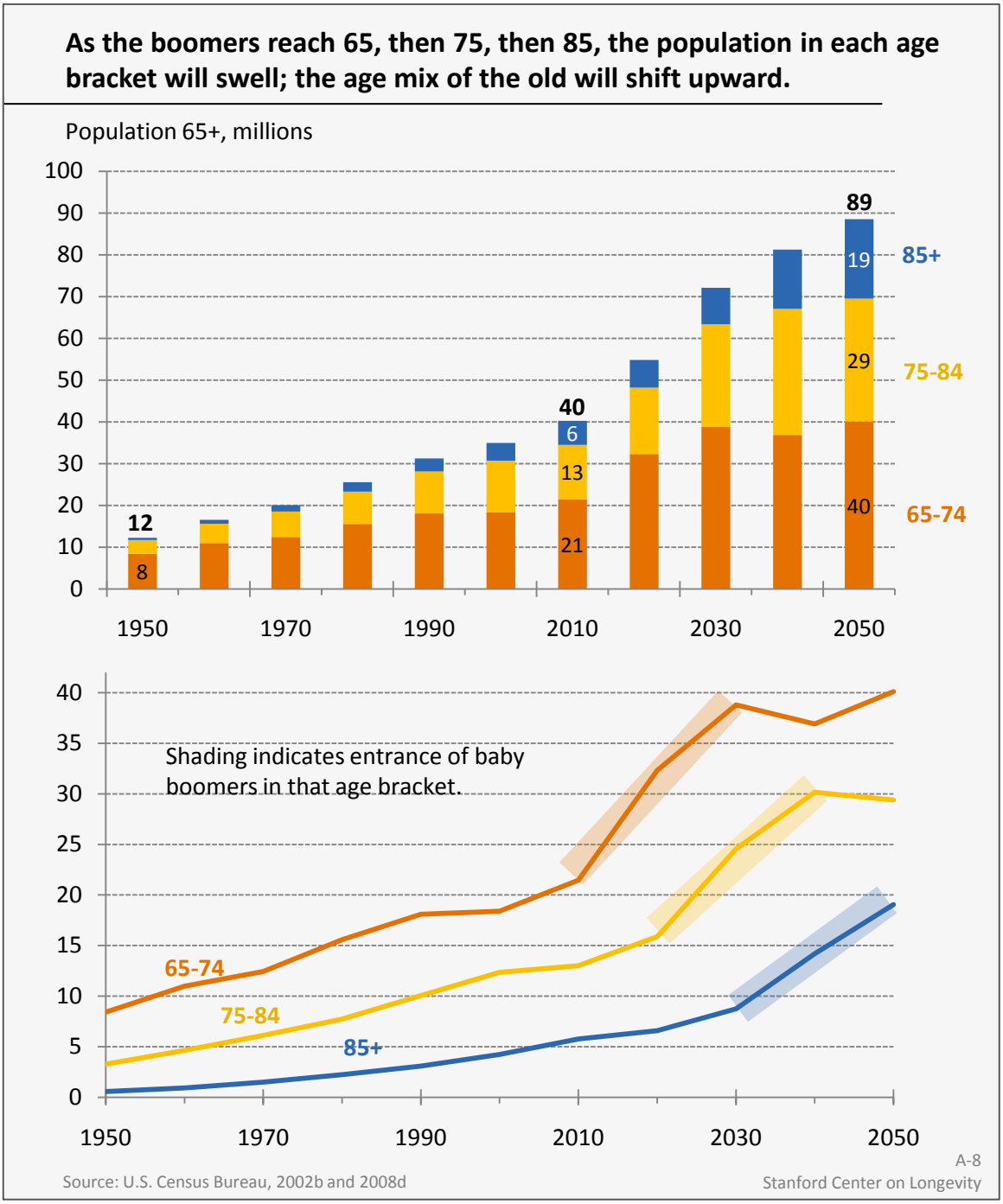
➢ *Doubling of the older population creates an urgent need to change the culture of aging. How will local and national communities respond?*



Not only is the *number* of older people increasing, but the *share* of older people is increasing.

- In 1950, fewer than 1 in 10 people were 65 or older. Today about 13% of the population is 65 or older; by 2050, 1 person in 5 will be 65 or older.
- This increase in the share of the population 65+ occurs because the older population is growing faster than the total population; over the next 40 years, the older population will grow by 120%, compared with 36% for children and 28% for working-age adults.
- After two decades of almost no increase in the proportion of old people, the next 20 years will see a rapid increase from 13% to 20% as the boomers reach 65.
- In Japan and most of Europe, the share of the population 65+ is climbing even higher, the result of low birth rates that cause the number of children and working-age populations to grow very slowly or even shrink. In Germany and Japan, the share 65+ is projected to climb to 30% or more by 2050 (U.S. Census Bureau, 2009d, 2009e).

- ➢ *How will the country be different — socially, economically and politically — when 1 in 5 people is 65 or older, compared with 1 in 8 today?*
- ➢ *How can the U.S. take advantage of its relative youth, compared with other large economies?*



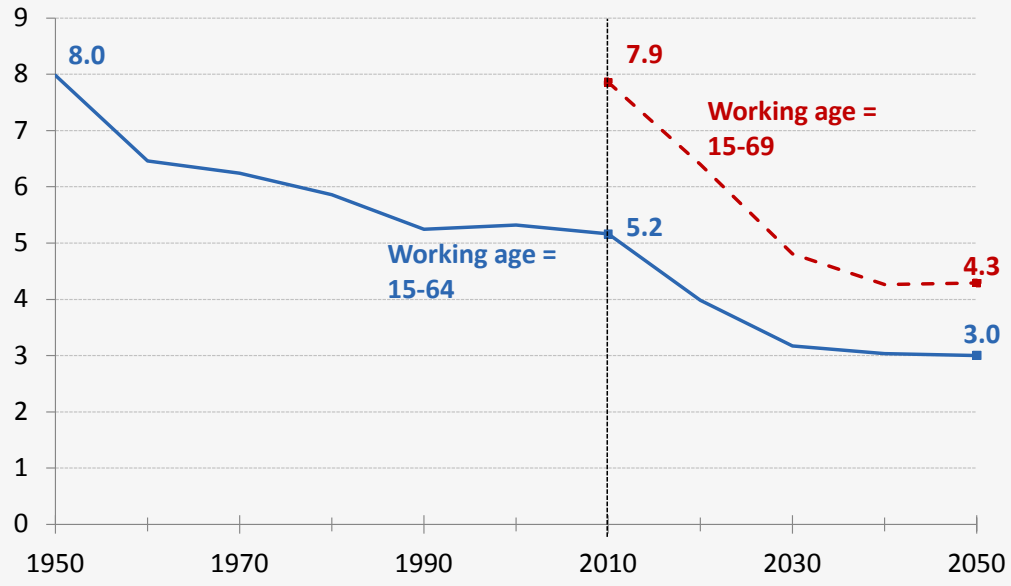
The greatest growth in the 65+ population will happen between 2011 and 2029 as the boomers (born between 1946 and 1964) turn 65.

- Today there are 6 million people age 85 and older. The first boomers will turn 85 in 2031, and by 2050, the number of people 85 and older will have more than tripled to 19 million, or 22% of all older people.
- By 2050, women will make up 61% of the 19 million people age 85+.

➢ *How do the needs of 85-year-olds differ from the needs of 65-year-olds? How will those needs change, and what will it mean to be 85 in 2050?*

As the worker-to-retiree ratio drops, the potential fiscal burden on each worker increases.

Ratio of potential workers (15-64) to retirees (65+)



A-9

Source: U.S. Census Bureau, 2002b and 2008d.

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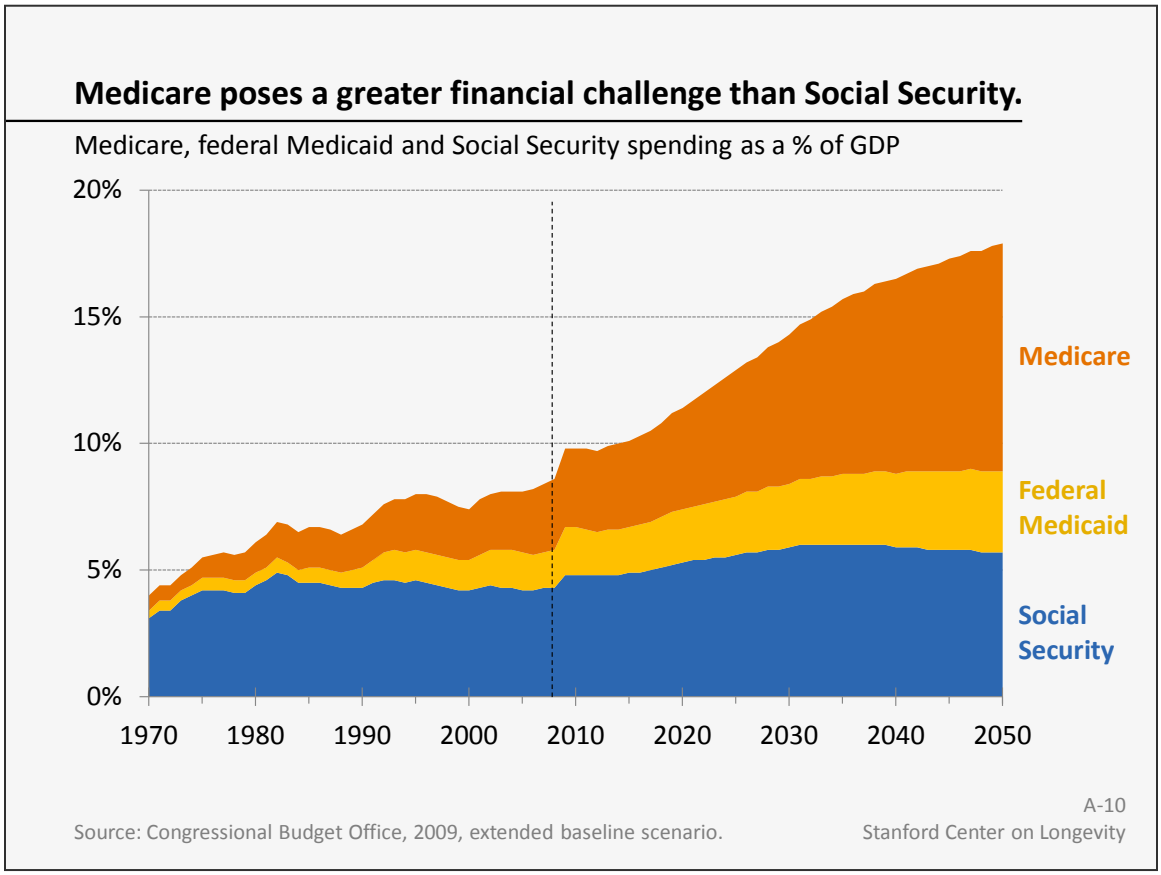
The worker-to-retiree ratio measures the number of *potential* workers (the population aged 15-64) available to support each *potential* retiree (the population aged 65+).

- Absent changes in work force participation, a drop in the ratio means there will be fewer workers contributing to the support of each retiree. This drop strains local, state and national budgets as fewer and fewer workers fund the pension and health care costs of an increasing number of retirees.
- Of course, not all people 15-64 work, and not all people 65+ are retired. Three basic strategies could increase the number of actual workers per retiree and thus reduce the fiscal burden:
  - Increase the work force participation rates of working-age people. This happened in the 1970s when many more women entered the labor force.
  - Increase the number of people 65 and over who work—in effect changing the definition of "working age" by raising the retirement age. Increasing the retirement age to 70 would provide a temporary boost, as shown by the red line on the graph, but by 2030, the ratio would be below today's level.
  - Increase the projected number of working-age people, by increasing immigration or increasing the birth rate, thereby increasing the number of children who are the future workers.

- *How sustainable are today's policies for funding pension and health care costs? Given the continued drop in the worker-to-retiree ratio since these policies were implemented, what adjustments are necessary? What should be the criteria for evaluating policy changes?*
- *In considering reform of retirement and pension policies, what are the trade-offs for current and future generations of Americans?*



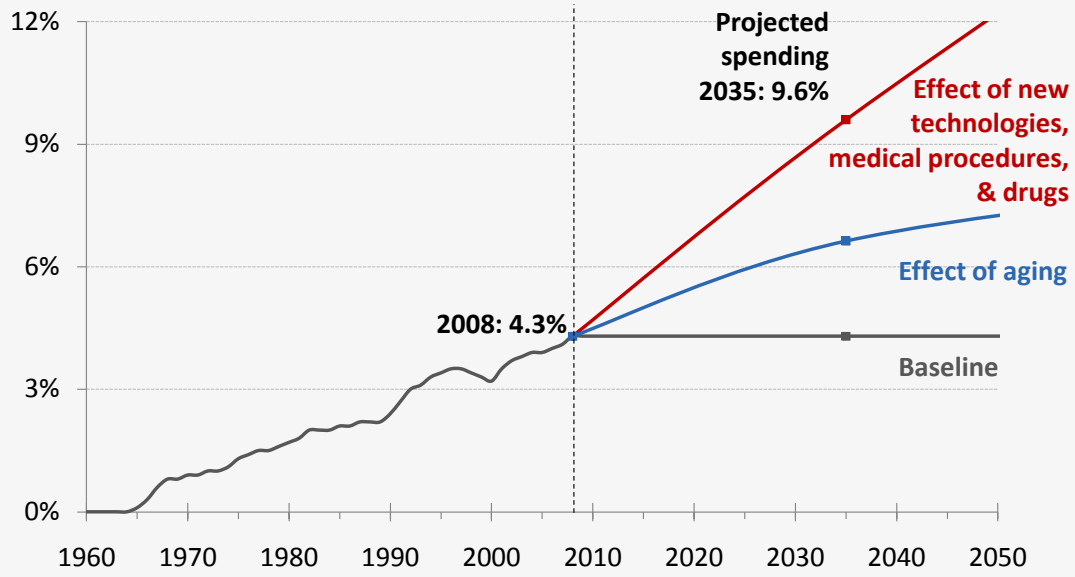
Spending on Social Security and Medicare/Medicaid, the two major old-age support programs, is projected to dramatically increase as a share of GDP and consume a greater share of the federal budget. Because of projected growth, Medicare is a much larger fiscal challenge than Social Security.

- Federal spending on Social Security and health care is expected to increase faster than the growth in the overall economy, resulting in an increase in spending as a share of Gross Domestic Product (GDP).
  - Social Security spending is projected to increase from 4.3% of GDP in 2008 to 6.0% in the 2030s, then fall slightly by 2050. The Congressional Budget Office projects that Social Security payouts will exceed dedicated revenues (primarily payroll taxes), starting in 2017 (Congressional Budget Office, 2009).
  - Medicare (the federal program providing health care to the 65+ and disabled population) and federal Medicaid spending (health care for the poor, funded with a mix of state and federal money) will increase from 4.3% of GDP in 2008 to an estimated 12.2% by 2050.
- If costs increase as projected, spending on these two programs will double as a share of GDP and will squeeze out other federal funding priorities. Without reform the government will need to raise taxes, increase the deficit or spend less on other priorities such as schools, highways and national security.

- ➢ *How feasible is Social Security and Medicare reform? What are the implications of the reform proposals for the current and future generations of Americans?*
- ➢ *How will the economic trade-offs associated with health care and Social Security reform mesh with national and personal values?*

Most of the increase in Medicare and Medicaid spending results from greater use of new technologies.

Medicare and federal Medicaid spending as a % of GDP



A-11

Source: Congressional Budget Office, 2009, extended baseline scenario.

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Medicare and federal Medicaid costs are projected to increase to 9.6% of GDP by 2035; less than half of the increase is due to population aging.

- The Congressional Budget Office estimated, based on laws in place at the beginning of 2009, that federal spending on Medicare and Medicaid would increase from 4.3% of GDP to 9.6% by 2035, meaning that costs would grow twice as fast as the economy as a whole.
- Slightly more than half of the projected increase in spending through 2035 is due to increasing utilization and costs of new technologies, procedures and drugs. An estimated 44% of the increase is due to the increase in number of Medicare enrollees and the aging of the Medicare population (Congressional Budget Office, 2009).

- ➢ *How can Medicare control costs and at the same time take advantage of new technologies?*
- ➢ *What are the implications of the current and proposed policies for the youngest generations? How do young people view the trade-offs between spending on health care and other public priorities such as education and R&D?*

Questions for research and discussion:

- *How will attitudes, behaviors and public policies change as the baby boom generation reaches 65?*
- *How should we change our old-age support programs — Medicare, Medicaid and Social Security — and other age-related polices so that we, as a society and as individuals, can realize the benefits of increased longevity without being overwhelmed by the costs?*
- *What are the economic consequences, now and for future generations of taxpayers, if we fail to adapt our policies to the changing reality of an older population?*

DIVERSITY

Highlights

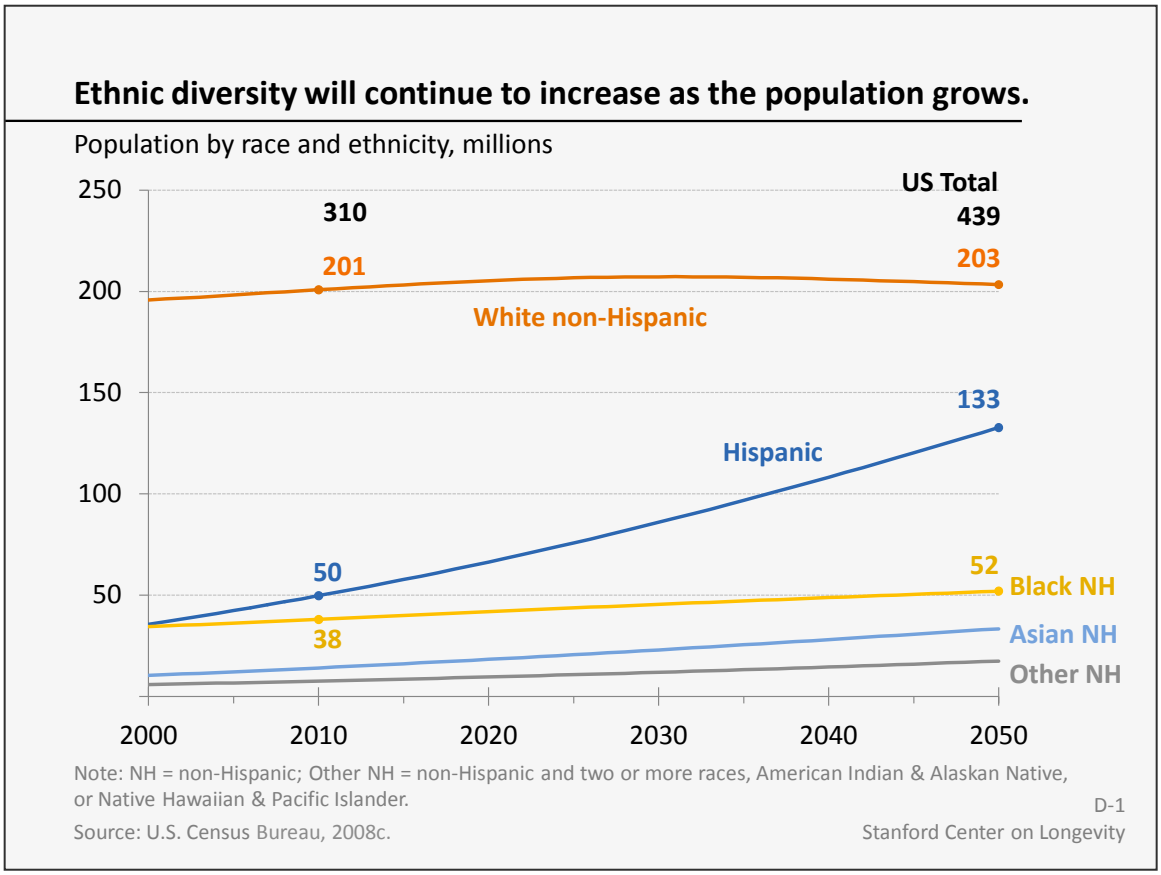
Racial and ethnic diversity will continue to increase in the United States, and by 2042 the population will be "majority minority" — more than half the population will be non-white or Hispanic. Moreover, racial and ethnic groups continue to differ on important age-related metrics, including life expectancy, living arrangements, disease prevalence, income levels and poverty rates. Understanding these demographic trends and differences is critical for developing effective age-related policies.

Population growth over the next 40 years will be concentrated among Hispanics and non-whites. The Hispanic population is projected to more than double, from 50 million in 2010 to 133 million by 2050, accounting for almost two-thirds of total U.S. population growth. In contrast, the white non-Hispanic population is projected to remain fairly stable at just over 200 million, with its share of total population declining from 65% in 2010 to 46% in 2050.

The working-age population will become increasingly diverse. The Hispanic share of the working-age population is projected to increase from 16% in 2010 to 31% by 2050. Due to growth in the Hispanic population, the United States will be one of the few advanced economies with a growing work force.

Diversity will also increase among the older population with minorities accounting for 60% of the growth among those age 65+. Although Hispanics are projected to constitute a growing share of the older population — increasing from 7% in 2010 to 20% by 2050 — the overall Hispanic population will remain younger than the total population.

Contents



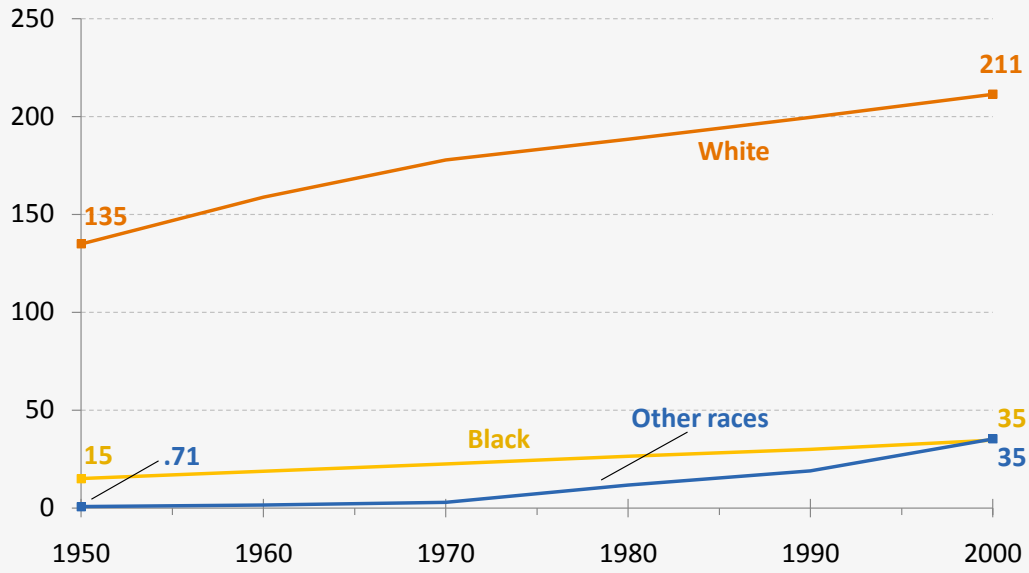
Hispanics will account for 62% of the projected U.S. population gain over the next 40 years and by 2030 will represent 30% of the total population.

- The total U.S. population is projected to increase by 129 million over the next 40 years, from 310 million people today to 439 million by 2050, a 42% increase.
- The white non-Hispanic population is projected to remain fairly stable at just over 200 million; given the growth in other categories, the white non-Hispanic share of total population will decline from 65% today to 46% in 2050. It falls below 50% in 2042.
- Hispanics (of any race) today number an estimated 50 million and make up about 16% of the population. They are the fastest growing group and by 2050 are projected to grow to 133 million, a 167% increase.
- The black non-Hispanic population will grow by 37% to reach 33 million by 2050, remaining at 12% of total population.
- The Asian non-Hispanic population will more than double, reaching 33 million in 2050; the share will increase from 4.5% of total population today, to 7.6% by 2050.
- The category “Other NH” includes non-Hispanic Native Hawaiian and Pacific Islanders; non-Hispanic American Indians & Alaskan Natives; and non-Hispanic people who report two or more races. This category is projected to reach 18 million by 2050.

➢ *How will the country change socially and economically as diversity increases and the population becomes “majority minority”? How might voting patterns and social spending priorities change?*

By race, the minority population was primarily black until 1970, when other racial minorities began to grow more quickly.

Population by race, millions



D-2

Source: U.S. Census Bureau, 2002b.

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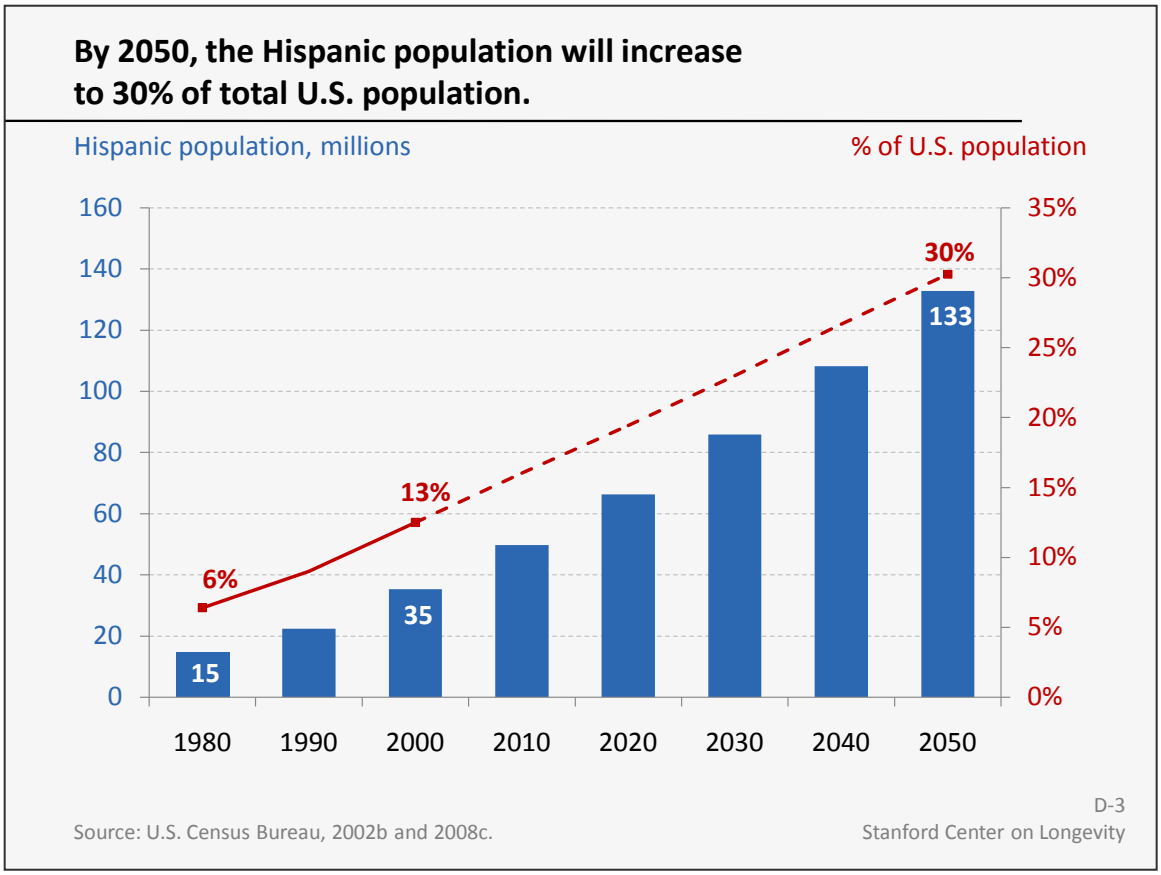
Before the 1970s, the minority population as reported to the U.S. Census Bureau was predominantly black. It was not until the last 30 years of the 20th century that the minority population became increasingly diverse.

- In 1950, the minority population as reported to the U.S. Census Bureau was 96% black. The black population grew by 130% from 15 million to 35 million between 1950 and 2000. By 2000, blacks made up slightly less than 50% of the minority population.
- During this same period, the "other racial minority" population (non-black, non-white) grew from less than 1 million to 35 million, nearly matching the black population by 2000. Growth in this group was largely driven by growth in the Asian and Pacific Islander population and in the number of Hispanic people identifying as "some other race" (U.S. Census Bureau, 2002b).
- In 1950, racial minorities made up 11% of the total U.S. population. By 2000, the combined population of all racial minorities, 70 million, accounted for 25% of the total American population of 281 million.

Note: The racial groups in this chart include both Hispanic and non-Hispanic people. Hispanic origin is an ethnicity, not a race; people of any race can also be Hispanic. The data on race and ethnicity compiled by the Census Bureau is based on how individuals report their own ethnicity and race on official Census forms.

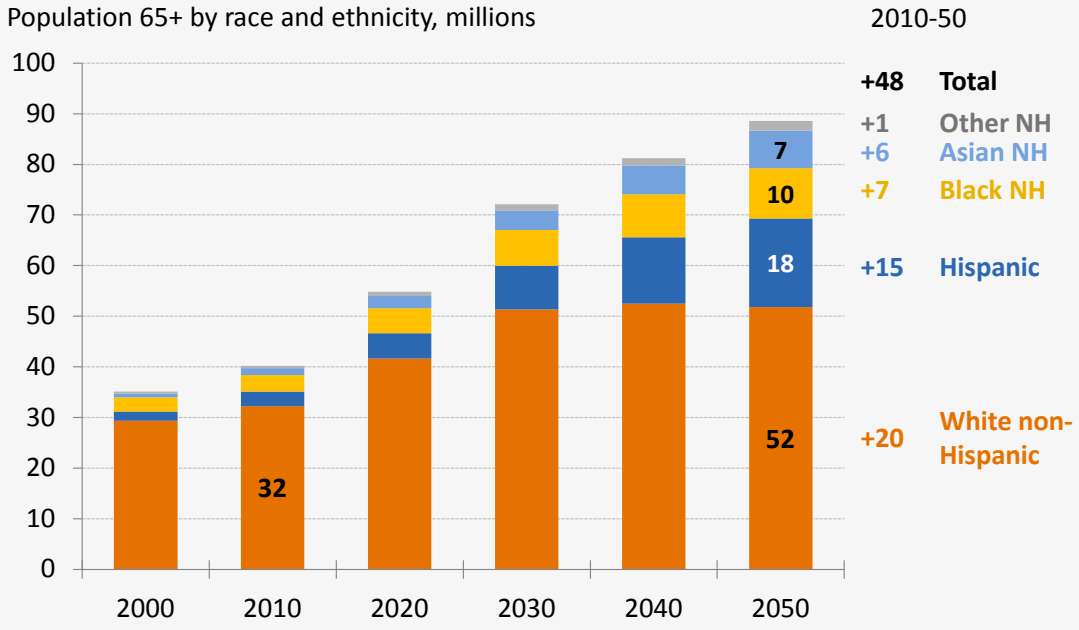


The Hispanic population is projected to almost quadruple, from 35 million to 133 million in the first half of the 21st century, accounting for 62% of U.S. population growth.

- The Hispanic population grew by 20 million people between 1980 and 2000, increasing the Hispanic share of total U.S. population from 6% to 13%. With an increase of nearly 100 million, the share will increase to 30% by 2050.
- The U.S. Census Bureau projects that natural increase (births exceeding deaths) will account for about 60% of the Hispanic population increase, with immigration accounting for about 40% (U.S. Census Bureau, 2008g).

Note: The 1980 census was the first to include a separate question about Hispanic origin for every American (the 1970 census included a question on Hispanic origin in a sample of 5% of households). Hispanic origin is an ethnicity, not a race; people of any race can also be Hispanic.

Diversity will also increase among the older population: Minorities will account for most of the population growth.



Note: NH = non-Hispanic; Other NH = non-Hispanic and two or more races, American Indian & Alaskan Native, or Native Hawaiian & Pacific Islander.

Source: U.S. Census Bureau, 2008c.

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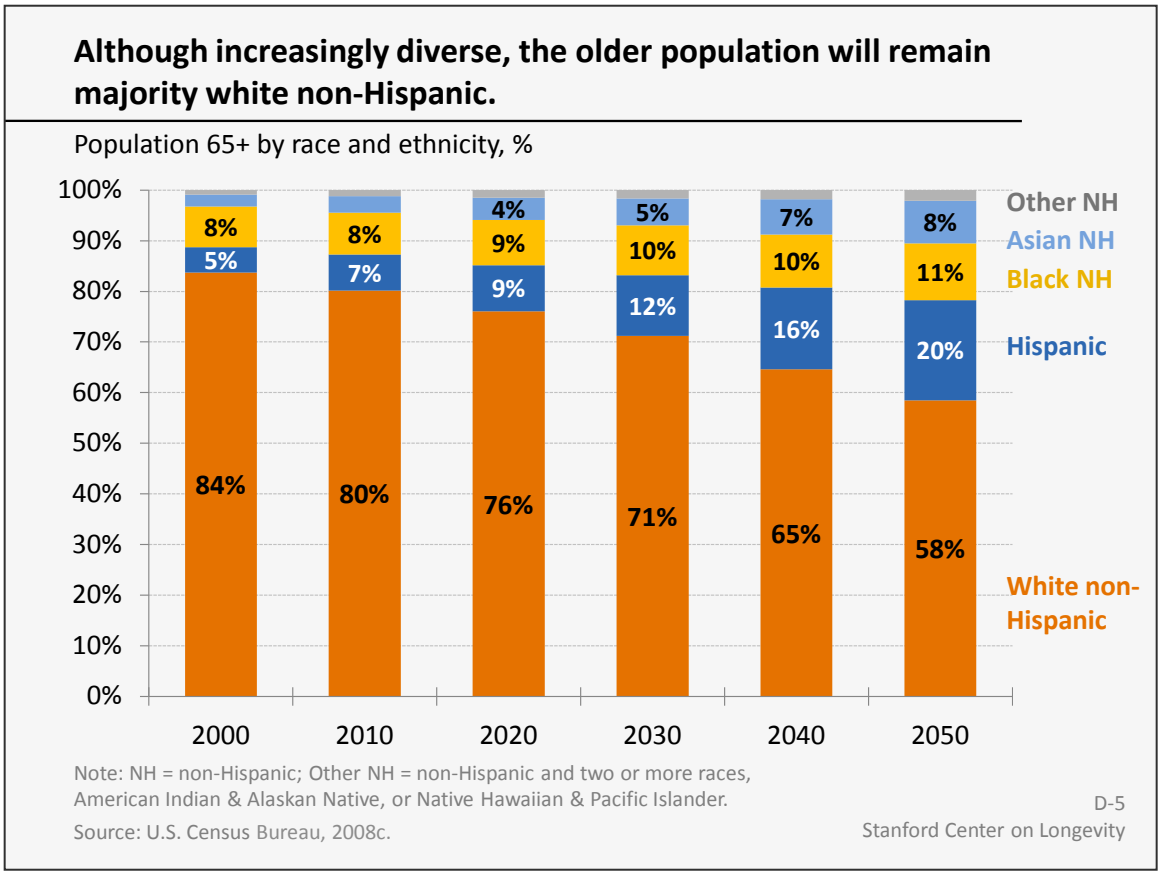
The older population will grow in all categories of race and ethnicity; minorities will account for nearly 60% of growth among those 65+.

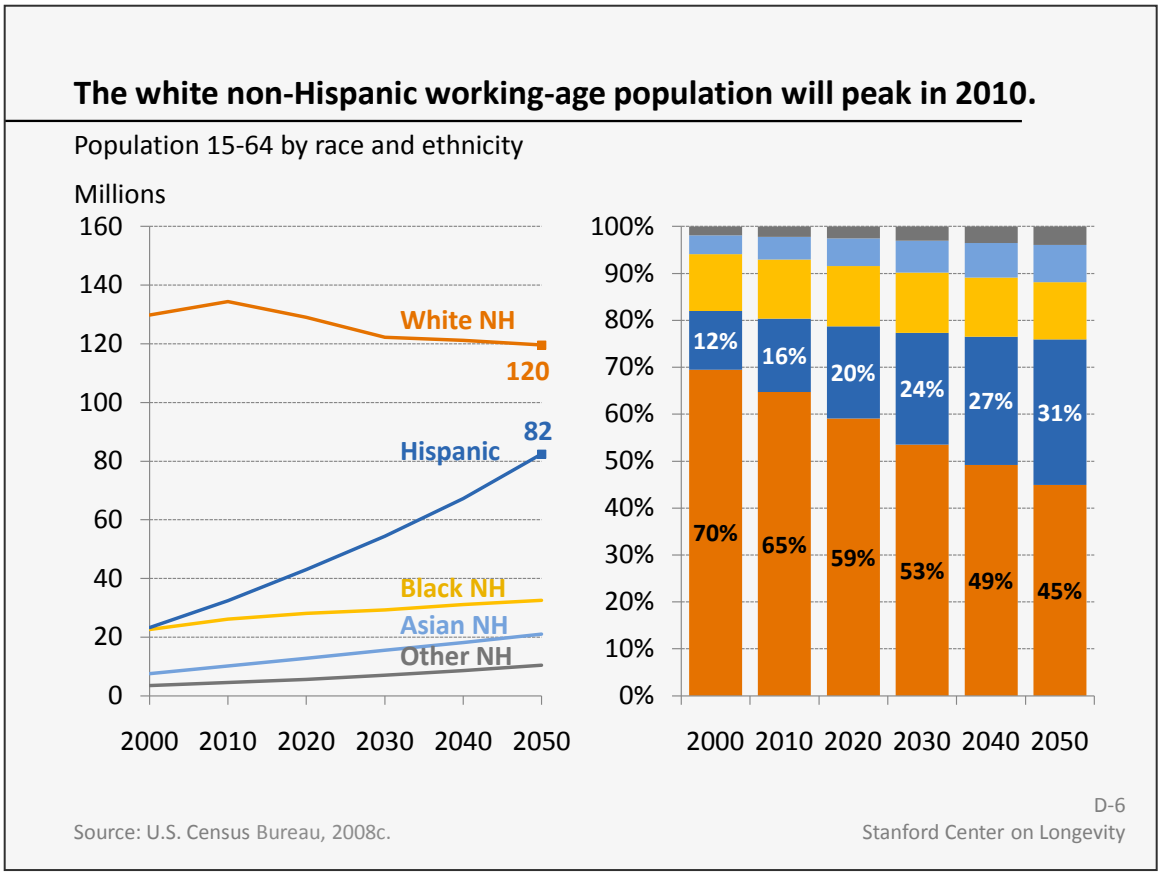
- The white non-Hispanic population 65+ is projected to increase from 32 million to slightly more than 50 million in 2030, remaining stable through 2050.
- The Hispanic older population will increase six-fold from 2010 to 2050, growing from 3 million to 18 million.
- The number of black non-Hispanic people 65+ will increase by roughly 7 million in the next 40 years, while the Asian non-Hispanic 65+ population will grow by about 6 million.

- *How does aging differ across racial and ethnic groups in the U.S.?*
- *How should strategies to improve physical, mental and financial well-being of older adults be tailored to different groups?*



Over the next 40 years, white non-Hispanics will make up a decreasing share of the total 65+ population, accounting for 58% of the older population by 2050. Hispanics will account for 20% of the older population in 2050.

- Today's older population is 80% white non-Hispanic, a larger share than the 65% represented in the total population. The older population will continue to have a larger white non-Hispanic share than the overall population.
- In 2010, the black non-Hispanic population had the largest minority share of the 65+ population at 8%. By 2020, both Hispanics and black non-Hispanics will make up 9% of the 65+ population.
- Hispanics will constitute a growing share of the total 65+ population, increasing from 5% in 2000 to 20% in 2050, the largest minority component of the 65+ population.
- In 2050, Hispanics will make up 20% of the 65+ population and 30% of the total U.S. population, indicating a younger age profile for the Hispanic population than the population as a whole.



The population 15-64 will become increasingly diverse. The white non-Hispanic working-age population will peak at 134 million in 2010, while the Hispanic working-age population will more than double from 32 million in 2010 to 82 million by 2050.

- Due to the younger age profile and higher growth rate of the Hispanic population, the Hispanic share of the working-age population will grow dramatically. Today 1 in 6 people 15-64 are Hispanic; by 2050, almost 1 in 3 will be Hispanic.

- *What are the political implications of an increasingly Hispanic work force paying taxes to fund Social Security and Medicare for the still largely white non-Hispanic 65+ population?*
- *Are public schools adequately preparing our future work force? How can the U.S. lower the high school dropout rate of Hispanic and black students to ensure continued economic competitiveness of the work force?*

Questions for research and discussion:

- *How will voting patterns and social spending priorities change as the racial and ethnic composition of the country changes?*
- *How does aging differ among the racial and ethnic groups? What are the implications of these differences for well-being among various groups?*
- *How should policymakers account for racial, ethnic and other socio-economic differences in developing strategies to maximize societal well-being?*
- *What are the political ramifications of having an increasingly Hispanic work force pay taxes to fund Social Security and Medicare for the largely white non-Hispanic 65+ population?*
- *How can policymakers capitalize on the growing work force to potentially offset the increasing economic burdens of an aging population?*

HOUSING

Highlights

As populations and societies change, so do housing needs and living situations. Over the past half-century, suburbanization and changes in family structure profoundly affected housing choices. In the coming years, aging of the population and increasing diversity will further alter housing and living arrangements.

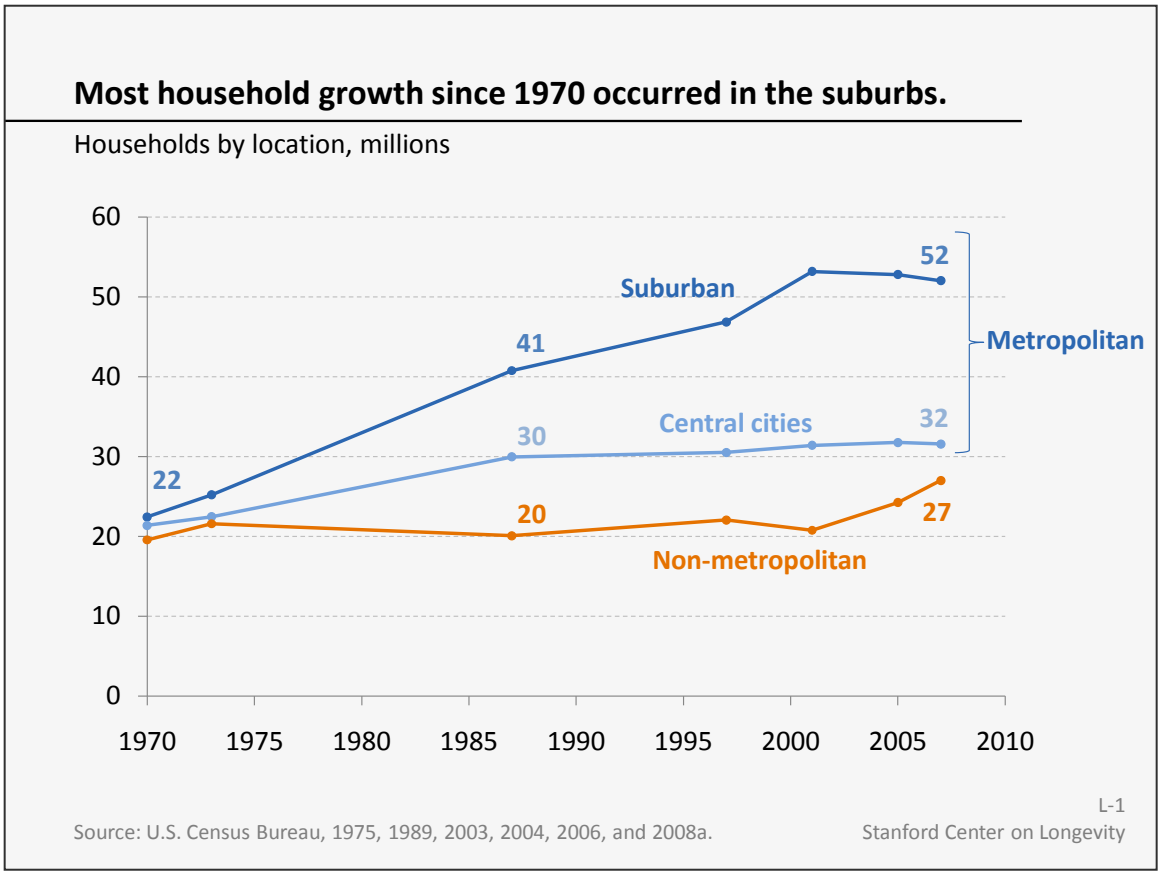
Americans are increasingly living in the suburbs. Most household growth over the past 40 years occurred in the suburbs, and by 2007, suburban households represented almost half of all households.

Traditional households — married couples with children under 18 — no longer dominate the housing mix. The share of these households has decreased from 40% in 1970 to just 23% in 2007, while the share of single-person households has increased to 27% of the total. Average household size has declined from 3.1 people per household in 1970 to 2.6 in 2007. More than 60% of all households now consist of one or two people, compared to 46% in 1970.

The number of single-person households grew disproportionately fast due in part to aging, but also due to delay in marriage and increase in divorce. Older people are more likely to live alone, but most still live in traditional housing, rather than nursing homes.

In 2007, of the 111 million total households, 23 million or 21% were households age 65 and older. Of these older households, about half were located in suburban areas. Older men were more likely to live with a spouse, while older women were more likely to live alone or with other relatives; about 39% of older women lived alone compared with 19% of older men. Hispanic and non-white women were most likely to live with other relatives.

Contents



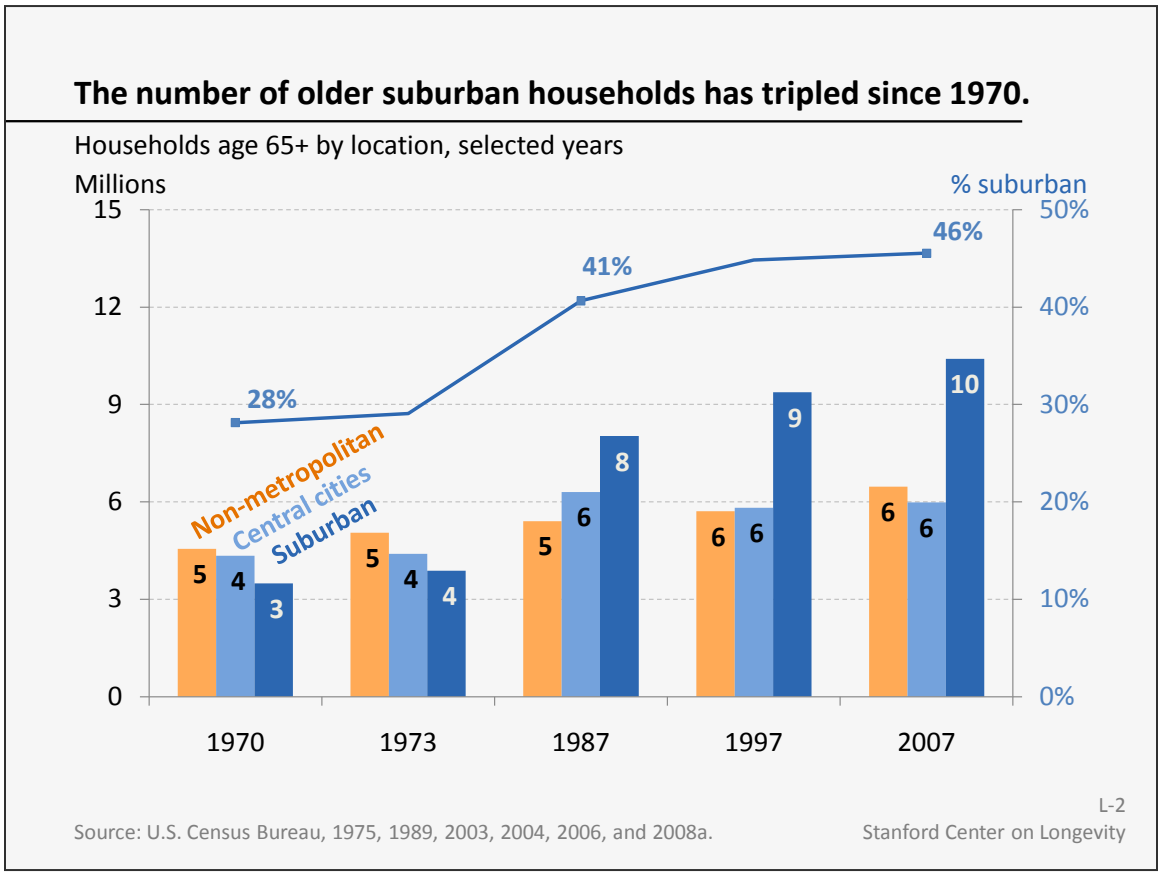
The total number of households in the United States increased from 63 million to 111 million since 1970. Of the 48 million new households, 30 million chose suburban locations.

- In the 1970s, households were divided almost equally between suburbs, central cities and non-metropolitan areas, but steady growth in suburban households consistently outpaced the increase in central cities and non-metropolitan areas. By 2007 suburban households represented 47% of the total.
- Non-metropolitan areas saw little growth from 1970 to 2001, but added roughly 7 million households in the past decade. Almost all of the growth in the number of households since 2001 has occurred in non-metropolitan areas.

Definitions: Metropolitan statistical areas are geographic entities defined by the U.S. Office of Management and Budget for use by federal statistical agencies. A **metropolitan area** is a county or group of counties that has one or more large population centers, or **central cities**. Places within the metropolitan area but outside the central cities are considered **suburban**. **Non-metropolitan** refers to counties located outside the metropolitan areas.

Note: A household consists of one householder and anyone living in the same housing unit (e.g. house, apartment).

- *As cities grow, how often are areas that were previously suburbs incorporated into the central cities? Where will the next suburbs be?*
- *Where will new households choose to locate? The number of non-metropolitan households has jumped since 2001. Will this trend continue?*



In 2007, 10 million of the 23 million older households, or 46%, were located in the suburbs.

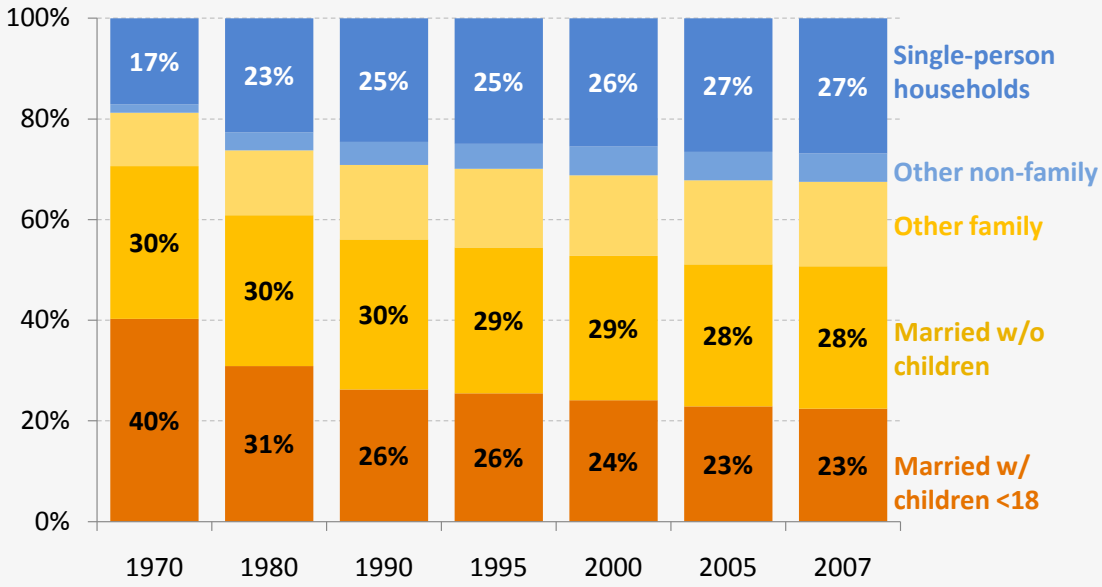
- The increase in suburban 65+ households reflects the increase in all suburban American households since 1970. Like households overall, about half of the older households are in the suburbs.
- In 1970, the numbers of older households in central cities, suburbs and non-metropolitan areas were roughly equal, but since then, older households are increasingly located in suburbs. Today, there are over 10 million older households in suburbs, compared to 6.5 million in non-metropolitan areas and 6 million in central cities.

Definition: The census tabulation of **65+ households** includes households in which the householder is age 65 or older. These households can include single-person households and households in which the householder (who is 65+) has a spouse of any age.

- *Did the number of 65+ households in the suburbs increase because people 65+ moved to the suburbs or because people who had moved to the suburbs in prior decades remained there?*
- *The number of 65+ households in the suburbs leveled off between 2000 and 2007. As the baby boomers age, will there be another significant increase in these numbers?*
- *Where do the boomers live today, and will they stay in those communities as they age? Will we see population spikes in those types of communities as the boomers reach 65 and older?*

Traditional households — married with children — no longer dominate the housing mix.

Households by type, selected years



L-3

Source: U.S. Census Bureau, 2009a.

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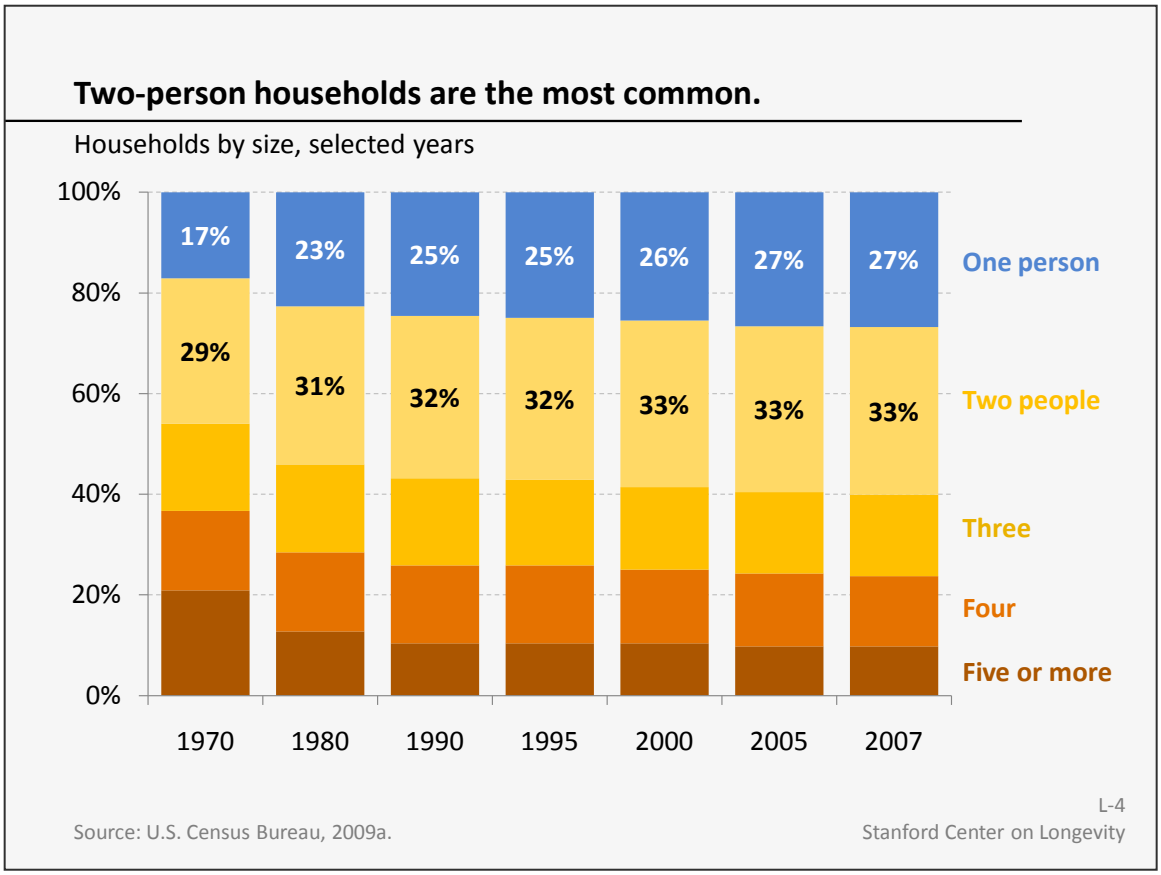
Single-person households grew as a share of all households, while the share of traditional households with a married couple and children under 18 fell.

- In 1970, 40% of households were composed of a married couple with children under 18. By 2007, less than a quarter of households were of this type.
- Single-person households have increased: In 1970 only 17% of all households were single-person, compared with 27% in 2007.

Note: The U.S. Census Bureau collects information about households, grouping them into family and non-family living arrangements. The majority of households still involve family living arrangements, such as married couples with children, married couples, single parents with children, and parents with adult children. Conclusions about household type depend on how specifically the household types are defined, particularly regarding age of the children and relationship of children, e.g., natural, adopted, step or in-law.

Definitions: The census tabulation of **households** does not include group living quarters such as nursing homes. **Other non-family** includes unmarried couples and roommates. **Other family** includes single parents with children under 18, and other combinations of relatives.

- *How will the housing stock need to adapt to these changes in living arrangements?*
- *Will the trend toward single-person households continue? What factors will be most critical in determining household size?*



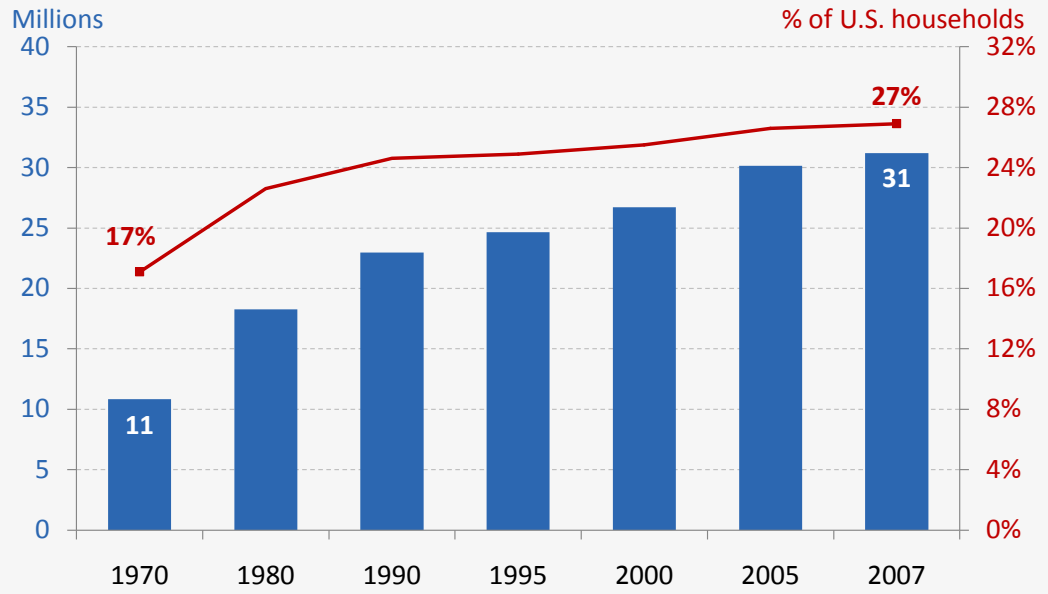
Households now have fewer people on average; in 2007 60% of households consisted of one or two people, compared to 46% in 1970.

- The share of households with three or more people declined since 1970. In 1970, 54% of households had three or more people; by 2007 the share had dropped to 40%.
- The decrease in the share of larger households is paralleled by a decrease in average household size, which fell from 3.1 people per household in 1970 to 2.6 in 2007 (U.S. Census Bureau, 2008b).
- Though the number of people per household decreased, the average size of a new single-family home has been increasing, from 1,660 square feet in 1973, to 2,521 square feet in 2007 (U.S. Census Bureau, 2009f).

- ➢ *How will the continued trend toward single- and two-person households affect home size and configuration?*
- ➢ *What impact will the recent housing crisis have on size and location of new homes?*

The number of single-person households nearly tripled since 1970.

Single-person households, selected years



L-5

Source: SCL calculations using U.S. Census Bureau, 2008b and 2009a.

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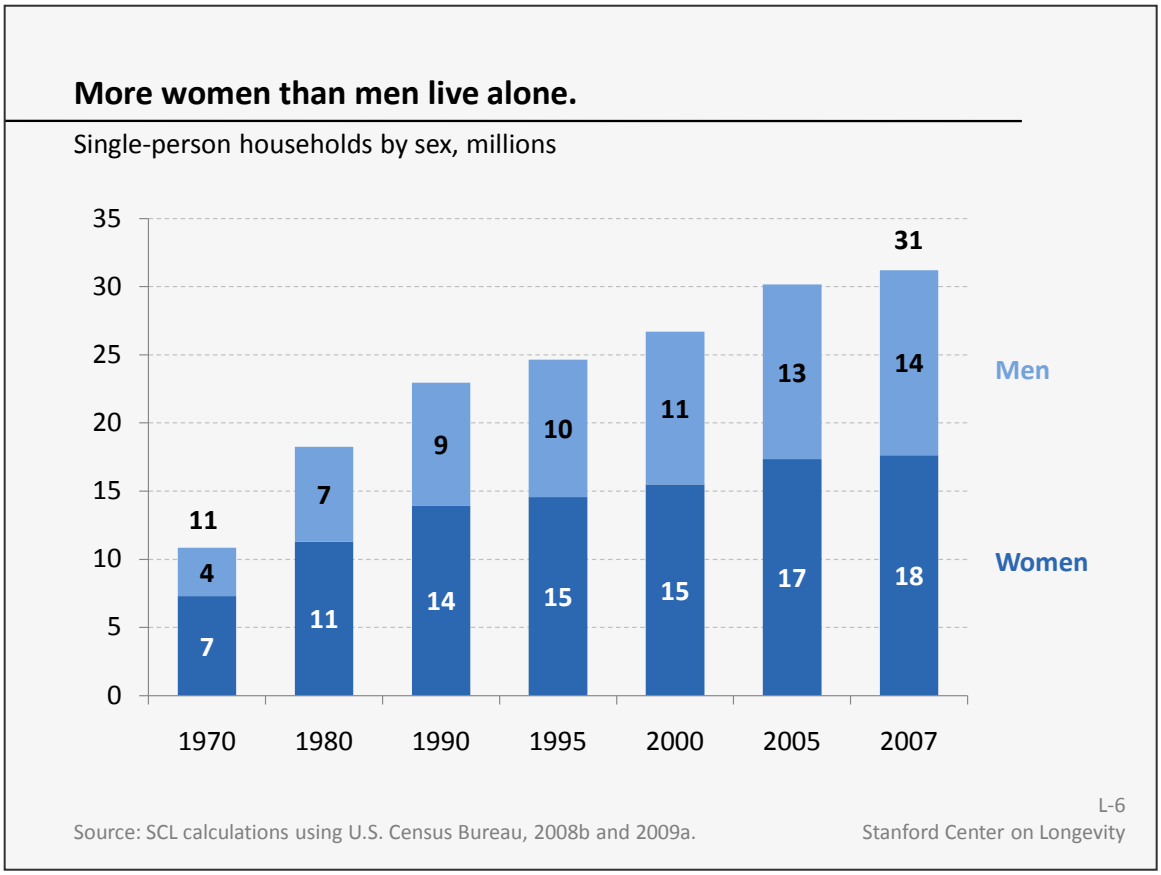
Not only did the share of single-person households increase, the total number also increased, from 11 million in 1970 to 31 million in 2007.

- Single-person households accounted for 27% of all households in 2007, and according to Harvard's Joint Center for Housing Studies, the number of single-person households will continue to grow disproportionately fast, accounting for 36% of growth in the number of households over the next 10 years (Joint Center for Housing Studies, 2008).
- This trend has been driven in part by the aging of the population, but also by the delay in marriage and increase in divorce rate. From 1950 to 2003, the median age of first marriage rose from 20 to 25 for women and from 23 to 27 for men (U.S. Census Bureau, 2004b). Of marriages begun in 1950-54, 14% ended within the first 10 years, compared to 31% of marriages begun in 1980-84 (Centers for Disease Control, 2002).

- ➢ *What are the implications for social connectedness of such an increase in people living alone?*
- ➢ *How will the economic downturn affect housing choices for single people? Will the previously growing share and number of single-person households be diminished?*



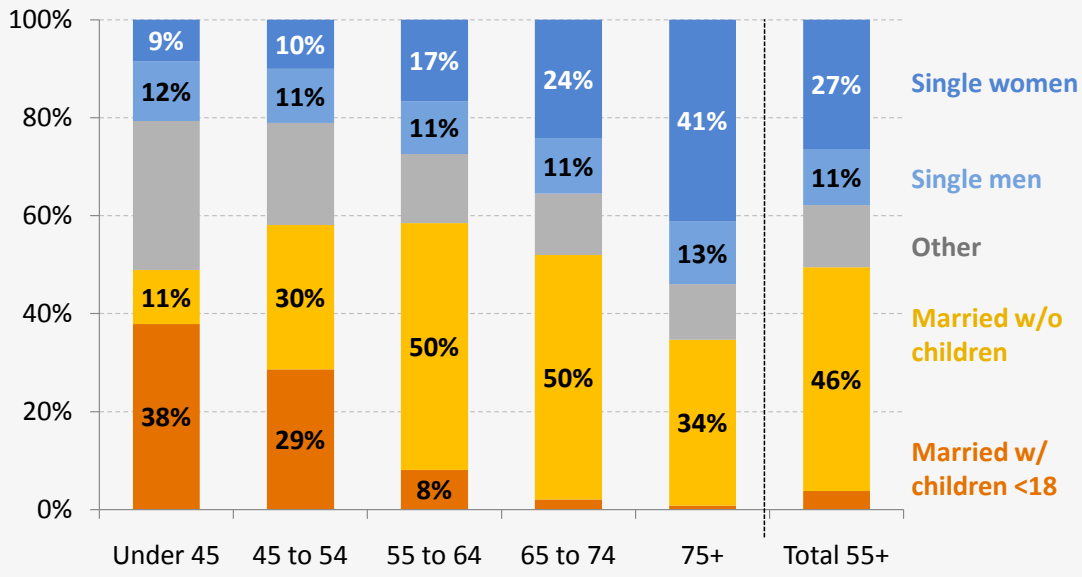
In 1970, one-third of the single-person households were men; in 2007, 43% were men.

- Since 1970 the number of women living alone exceeded the number of men living alone. The number more than doubled, from 7 million to 18 million in 2007.
- The number of men living alone more than tripled since 1970, from 4 million to 14 million in 2007, though men still make up less than half of today's 31 million single-person households.

- ➢ *What social and economic factors have contributed to the disproportionate increase in the number of men living alone?*
- ➢ *What are the implications for housing and social relationships of more men living alone?*

Single-person households are more common at older ages.

Household type by age of household head, 2005



L-7

Source: National Association of Home Builders, 2007.

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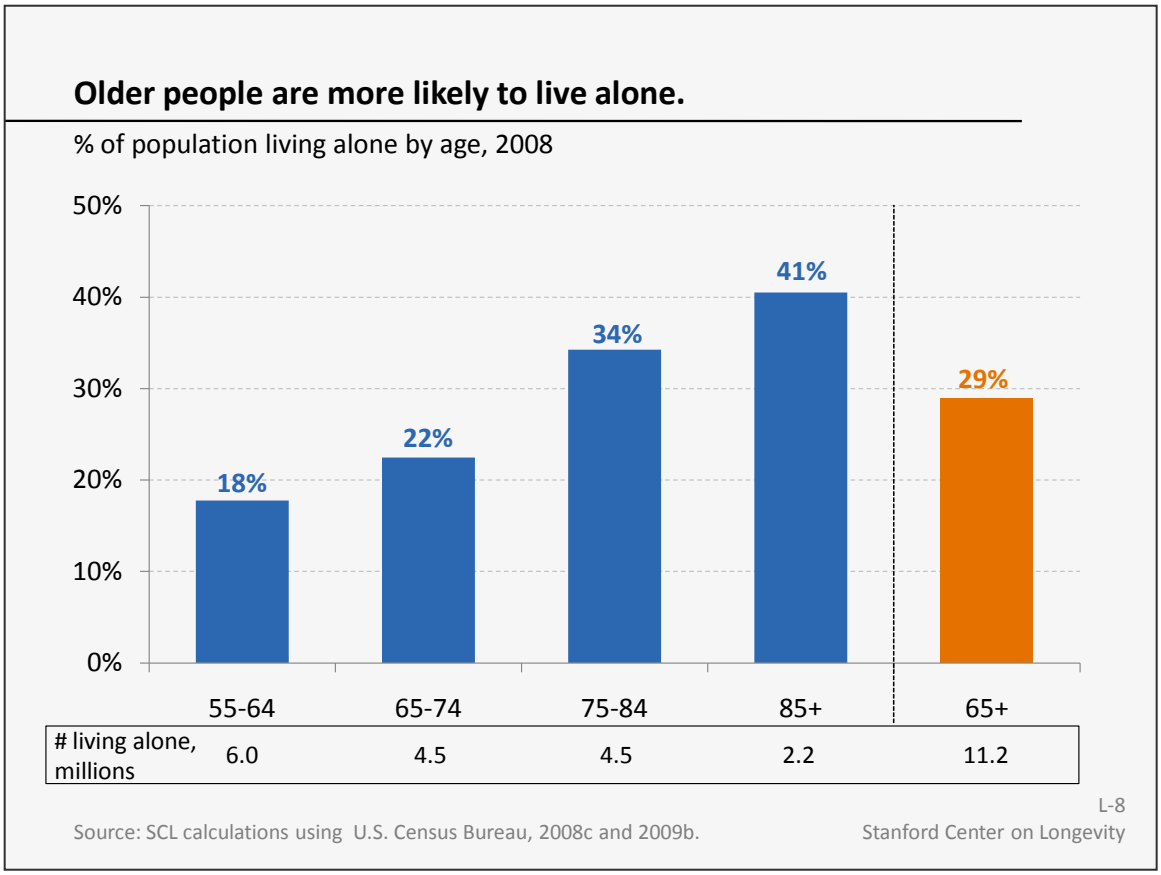
Of households headed by someone age 75 or older, 54% were single-person households in 2005, compared with just 21% of households headed by someone under 45.

- Life events are evident in the patterns of household type by age: Younger household heads are most likely to be married with children; half of householders 55-74 live only with their spouse; and the oldest householders are most likely to live alone.
- Half of all householders 55+ live with their spouse, most without children under 18.

Definitions: **Other** includes both family and non-family living arrangements. Both single parents with children under 18 and unmarried couples living together fall into this category.

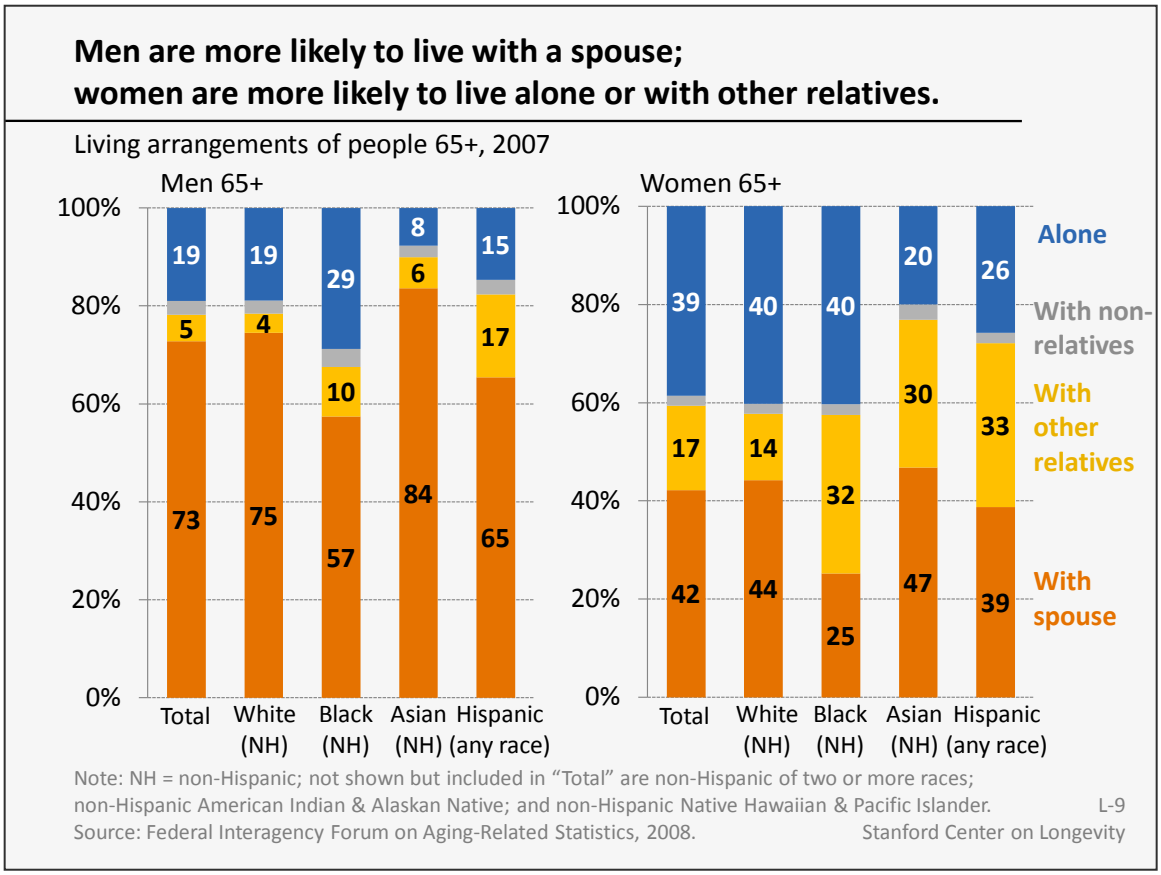
- *As the baby boomers age, how will their living arrangements and housing preferences change?*
- *What strategies help older adults adjust to living alone after a spouse dies? How can communities better care for and support older people living alone?*



Looking at individuals rather than households shows that 29% of all people 65+ lived alone in 2008; the share living alone is higher for the older age groups. Though the rates of living alone increase at older age brackets, the numbers of people living alone decrease.

- People in older age brackets are more likely to live alone; among the 85+ population 41% lived alone in 2008.
- For comparison, in 2007, 11% of the total U.S. population (all ages) lived alone (SCL calculations using U.S. Census Bureau, 2008a).
- More than twice as many 65- to 74-year-olds lived alone as people 85 and over.
- Of the 11 million older adults living alone in 2008, 5 million were 65-74, 4 million were 75-84, and 2 million were 85 or older.

- ➢ *How will the share of older people living alone change as life expectancy continues to rise?*
- ➢ *What special challenges do older people living alone face?*
- ➢ *The number of 85-year-olds is expected to more than triple by 2050. How many of those people will live alone, and what will they need to live well?*

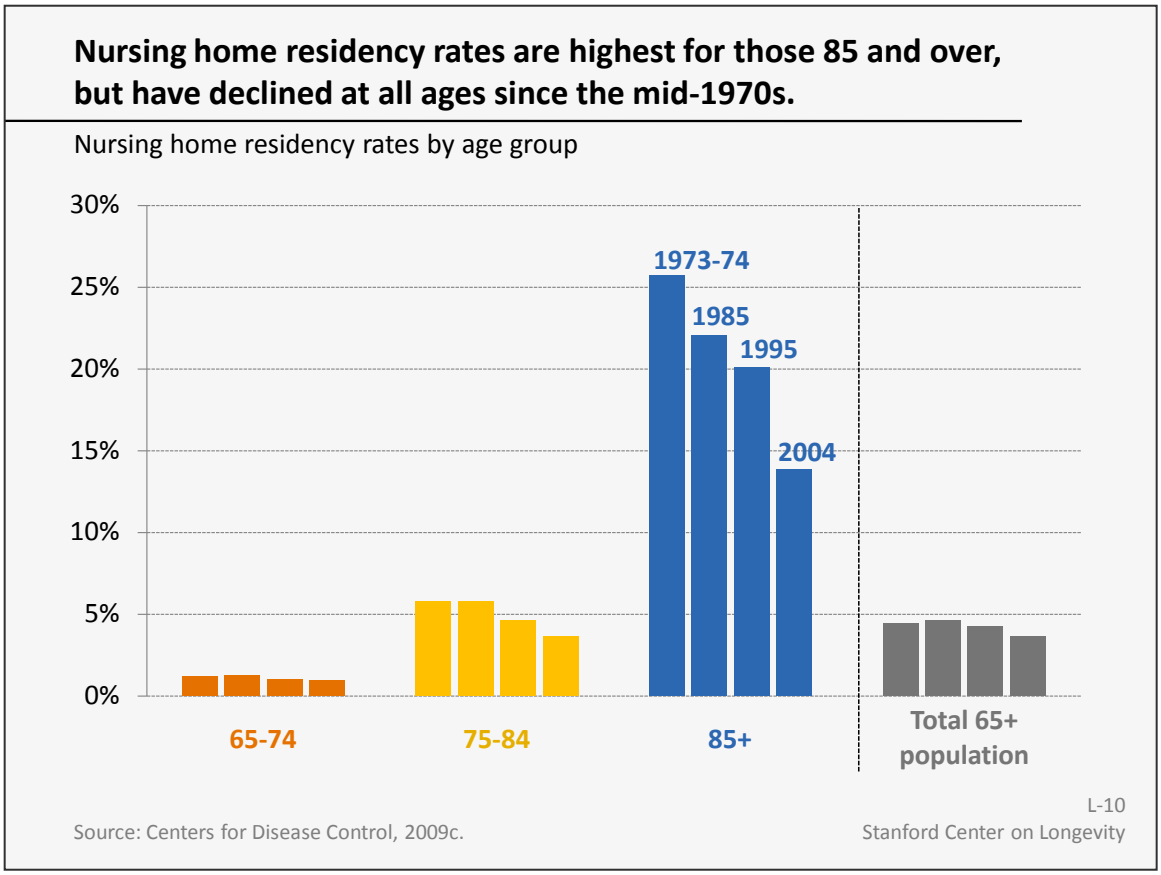


Within the older population, there are significant differences in living arrangements both by sex and by race and ethnicity.

- About 40% of older women live alone; this is true for the general population and white non-Hispanic and black non-Hispanic women. Older Asian and Hispanic women are much less likely to live alone.
- Older women are more likely than older men to live with relatives other than a spouse; almost a third of older Hispanic, black and Asian women live with relatives.
- Older men are more likely than older women to live with a spouse; older black non-Hispanic men are less likely to be married and more likely to live alone than older men in general.
- About 1 in 6 older Hispanic men live with relatives other than a spouse.

Definition: The category **With non-relatives** includes any living situation in which the householder lives with any relative(s) other than a spouse. If the householder lives with a spouse, with or without other family members (e.g. children), the appropriate category is **With spouse**.

- ➢ *What accounts for the differences in living arrangements by race and ethnicity?*
- ➢ *How often is living with other relatives a cultural preference rather than an economic necessity?*



Nursing home residency rates are highest among the 85+ population, but have fallen from over 25% in the mid-1970s to 14% in 2004.

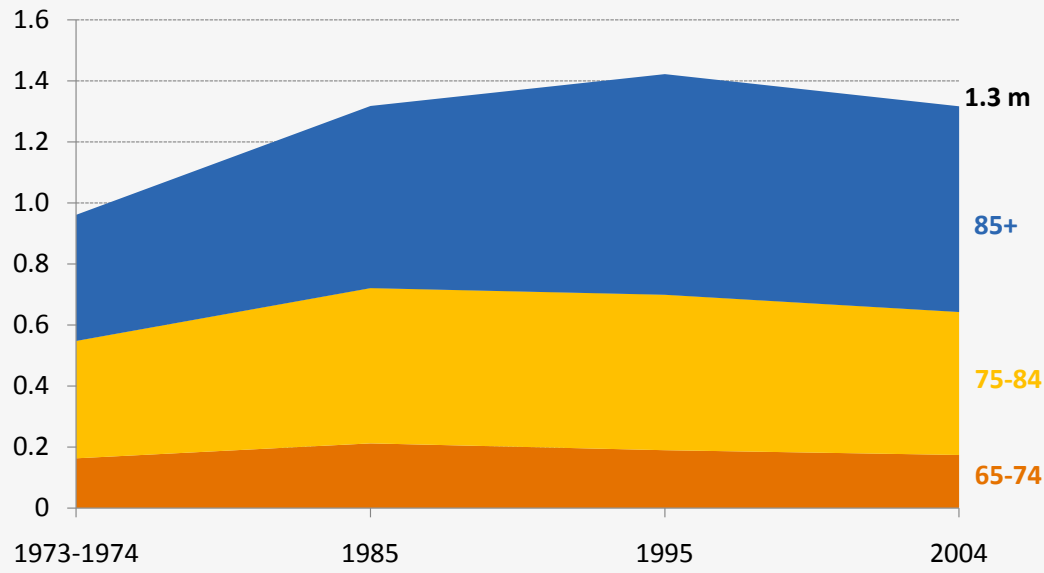
- The oldest old, those 85+, are more likely to live in nursing homes; in 2004, 14% of the 85+ population lived in a nursing home, but only 3.6% of 75- to 84-year-olds did.
- Nursing home residency rates have been falling at all ages. Some of this decline may be attributable to better health, and some to the wider range of options between full-scale nursing home care and living independently.

Definitions: All **nursing homes** included in the National Nursing Home Survey had at least three beds and employed one or more full-time registered or licensed practical nurses to provide nursing care to at least half the residents. Note that the data sources categorize nursing homes and long-term care facilities differently.

- ➢ *Will nursing home residency rates for the population 85+ continue to decline?*
- ➢ *How many nursing homes beds will be needed in 2031, when the first of the boomers turns 85? What about by 2050?*

The nursing home population has remained relatively stable at around 1.3 million since 1985.

Nursing home residents 65+, millions



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Source: Centers for Disease Control, 2009c.

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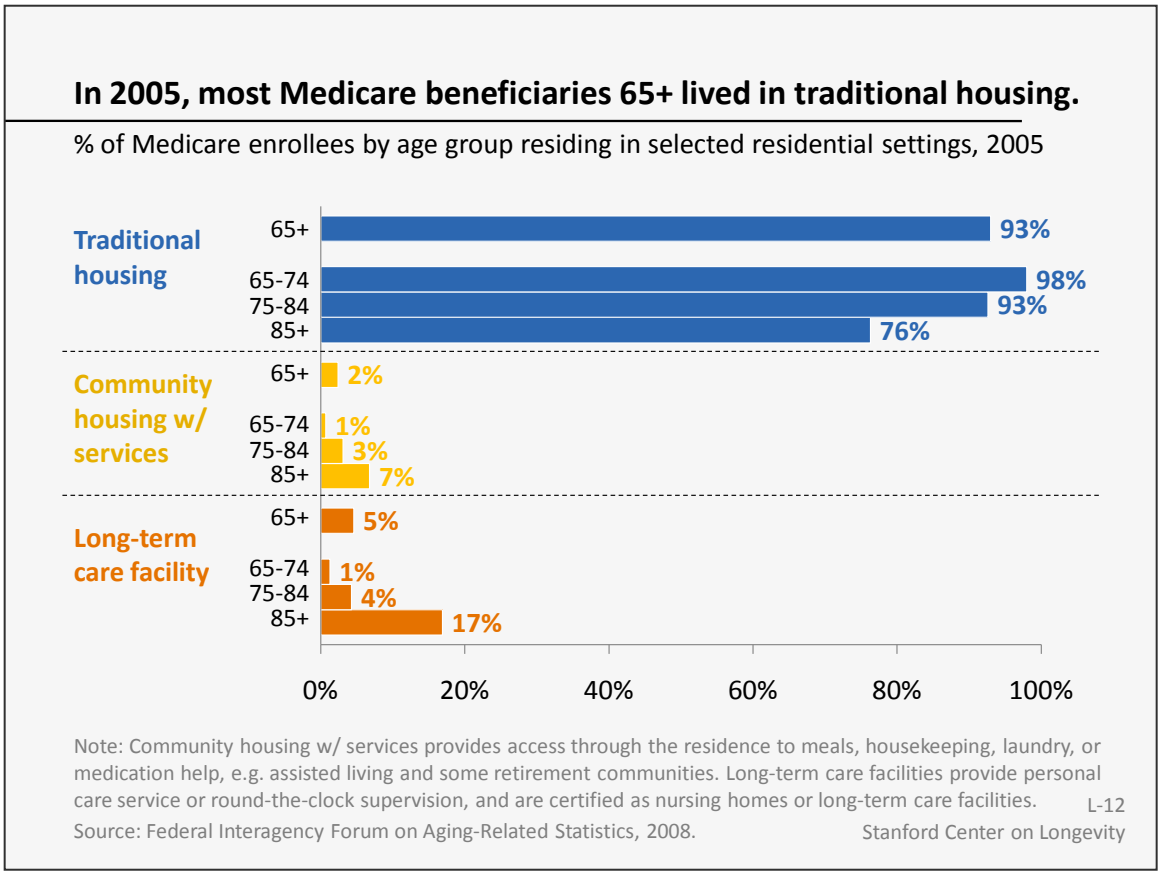
Beginning in the mid-1980s, the nursing home population stayed relatively stable, with most residents age 85 years and older.

- The number of nursing home residents remained stable between 1985 and 2004 even though the total population 65+ increased. The 1.3 million people 65+ living in nursing homes in 2004 amounted to only 3.7% of the older population.
- In 2004, most nursing home residents were 85+ (674,500 were 85+; 468,700 were 75-84; and 174,100 were 65-74).
- The number of people requiring nursing home care will likely increase as the number of 85-year-olds increases. If nursing home residency rates for the population 85+ remain at the 2004 level of 14%, there will be 1.2 million people 85+ in nursing homes by 2030, more than doubling to 2.6 million by 2050.

Note: The nursing home population is not included in data on households.

Definitions: All **nursing homes** included in the National Nursing Home Survey had at least three beds and employed one or more full-time registered or licensed practical nurses to provide nursing care to at least half the residents. Other data sources categorize nursing homes and long-term care facilities differently.

- *What is the projected demand for nursing home care relative to other housing options as the baby boomers reach 85 and older?*
- *Nursing homes will continue to be necessary for some portion of the population. What features will make them effective in meeting the needs of older persons, their families and facility staff?*



Most Medicare beneficiaries 65+ (93%) lived in traditional housing in 2005. A small fraction lived in alternative forms of housing: either long-term care facilities or in a residence that provided services.

- The proportion of Medicare beneficiaries living in alternative forms of housing was higher among older age brackets. Only 1% of those 65-74 lived in long-term care, while 17% of those 85+ did.
- Although the first baby boomers will not reach age 65 until 2011, the vast majority have expressed a desire to "age in place" and remain in their homes (AARP, 2008). Thus, as boomers age, they too will likely live predominantly in traditional housing.

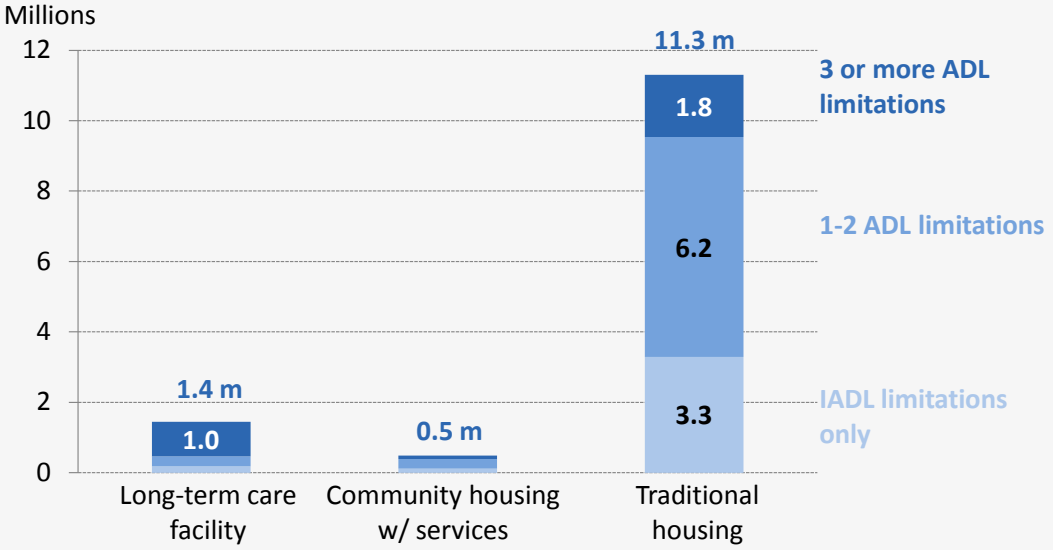
Note: In 2005, 94% of people age 65+ were enrolled in Medicare; others, including some veterans, may get health insurance through another system. In 2005, there were an estimated 36.7 million people 65+, of whom 34.5 million were enrolled in Medicare (CMS, 2005 and U.S. Census Bureau, 2008c).

Definitions: **Long-term care facilities** in the Medicare Current Beneficiary Survey are defined as those licensed and certified by Medicare or Medicaid as LTC facilities or nursing homes that provide personal care service or round-the-clock supervision. **Community housing with services** refers to retirement communities, continuing care, assisted living, or similar living situations that provide access through the residence to meals, housekeeping, laundry, or medication help.

- *How have the patterns of nursing home residency changed over time for the older population? How do they change for individuals over the course of their lifetimes?*
- *What information about services, preferences and outcomes would improve decision making about housing options as people age? How do various types of residential settings differ in services and outcomes? What new types of housing and services might meet housing needs more effectively?*

85% of Medicare beneficiaries with activity limitations live in traditional housing.

Medicare beneficiaries age 65+ with functional limitations, by residential setting, 2005



Note: ADL = Activities of Daily Living related to personal care, e.g. bathing, eating and getting out of bed. IADL = Instrumental Activities of Daily Living related to living independently, e.g. preparing meals, doing laundry and taking medications.

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Source: Federal Interagency Forum on Aging-Related Statistics, 2008.

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In 2005, of the 13 million Medicare beneficiaries reporting some form of activity limitation, more than 11 million lived in traditional housing.

- Of the roughly 3 million Medicare beneficiaries with severe limitations (3 or more personal care limitations), close to 1 million lived in long-term care facilities; 1.8 million lived in traditional housing.
- Of the 1.4 million people living in long-term care facilities, 64% had severe limitations; 18% reported either no limitations or only limitations related to independent living.
- People living in traditional housing may be receiving services from paid caregivers, from local or state agencies or from unpaid caregivers or volunteers.

Definitions: Long-term care facilities in the Medicare Current Beneficiary Survey are defined as those licensed and certified by Medicare or Medicaid as facilities or nursing homes that provide personal care service or round-the-clock supervision. **Community housing with services** refers to retirement communities, continuing care, assisted living, or similar living situations that provide access through the residence to meals, housekeeping, laundry, or medication help. Other data sources categorize nursing homes and long-term care facilities differently.

- *What home-based services available in traditional communities would allow people to live independently longer?*
- *How can communities and states insure that there will be sufficient institutional capacity?*
- *What are the most effective methods of providing home-based services to people in traditional housing?*

Disability and limitation are often measured by asking whether a person needs help with personal care or independent living.

Personal Care Activities of Daily Living (ADLs)	Independent Living Instrumental Act. of Daily Living (IADLs)
• Getting out of bed / chair • Bathing or showering • Dressing • Eating • Walking • Using the toilet	• Shopping for groceries • Preparing meals • Doing laundry / housework • Using a telephone • Managing money • Taking medications

Source: Centers for Disease Control, 2009c.

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Measuring functional disability often involves asking about whether people need assistance with any Activities of Daily Living (ADLs) and Instrumental Activities of Daily Living (IADLs). ADLs are more basic and relate to personal care; they are what you might expect a 3-year-old to be able to do. IADLs relate to living independently and are what an 18-year-old might be expected to do.

- Still other measures of disability can involve performing or reporting on one's ability to perform certain tasks, such as climbing a certain number of stairs or getting out of a chair without arms.
- Disability is a complex subject that is difficult to define and measure. Each study asks questions in a specific way, and resulting measurements may not be comparable across studies.

- ➢ *What measures of disability are most effective for determining care-giving needs?*
- ➢ *What assistive technologies and home modifications address limitations in personal care and independent living? How can these technologies be used to increase the options in living arrangements for older adults?*

Questions for research and discussion:

- *What challenges will people face as they "age in place" in the suburbs?*
- *What changes to the suburbs would make them more supportive for people of all ages and conducive to healthy and sustainable lifestyles?*
- *What incentives would lead individuals and communities to make realistic provisions for their long-term care needs and living arrangements, without adding to the already substantial budgetary pressures governments face because of aging populations?*
- *What home-based services available in traditional communities would allow people to remain independent longer? How can communities and states insure that there will be sufficient institutional capacity?*
- *What are the characteristics of age-friendly communities and what are the critical indicators of success?*

HEALTH

Highlights

Although people are living healthier longer, health remains a primary concern of aging. Death and disability rates are falling, particularly for heart disease and stroke, but chronic disease prevalence in the older population remains high.

Many age-related health conditions and diseases affect quality of life and living arrangements for older people. This report examines three such diseases: dementia, a costly and deadly chronic disease for which age is the most important risk factor; arthritis, one of the most common chronic diseases and causes of activity limitations among adults; and obesity, a national epidemic that some experts think could lead to a decrease in life expectancy.

If current dementia prevalence continues, the population with dementia will double from an estimated 4.3 million in 2010 to 11.4 million by 2050. The direct costs to Medicare and Medicaid for people with dementia, already $112 billion in 2005, are also likely to grow rapidly.

Arthritis affects people of all ages, but prevalence increases with age. In 2004, arthritis affected more than 46 million American adults. By 2030, 67 million adults will have arthritis, of whom 25 million will have arthritis-associated activity limitations.

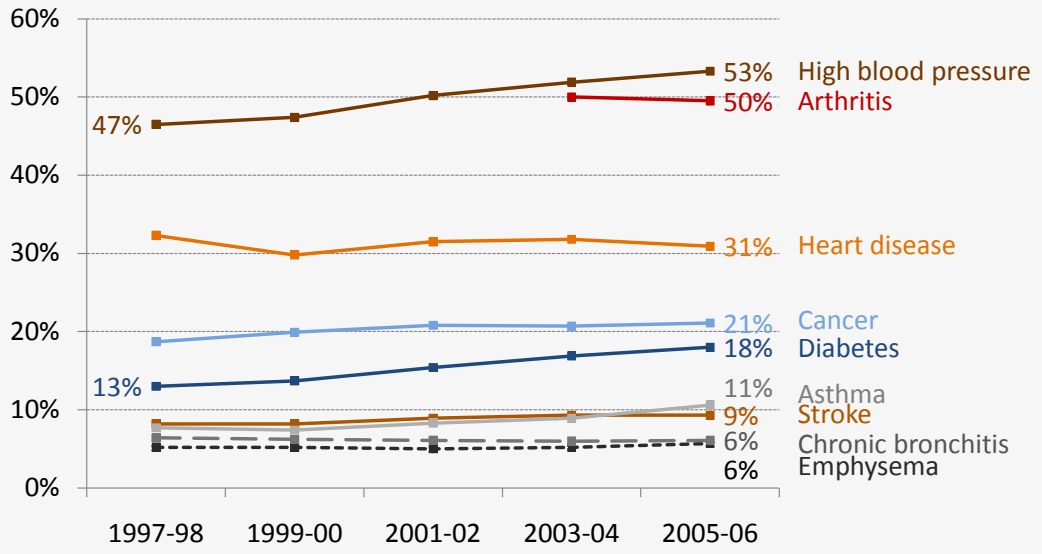
Obesity rates have increased at all ages over the past 30 years. The share of adults who were obese more than doubled from 15% in the early 1970s to 34% in 2006.

Per capita health care spending skyrockets with age. Annual per capita spending on those age 65+ totaled $15,000, nearly triple the spending on working-age adults. In 2004 public spending, including Medicare and Medicaid, accounted for about two-thirds of total spending for those 65+.

Contents

Chronic diseases with increasing prevalence in the older population include high blood pressure and diabetes.

Reported prevalence of select chronic diseases, population 65+



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Source: Federal Interagency Forum on Aging-Related Statistics, 2008.

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The prevalence within the older population of most major chronic diseases has remained relatively stable. The exceptions are high blood pressure and diabetes.

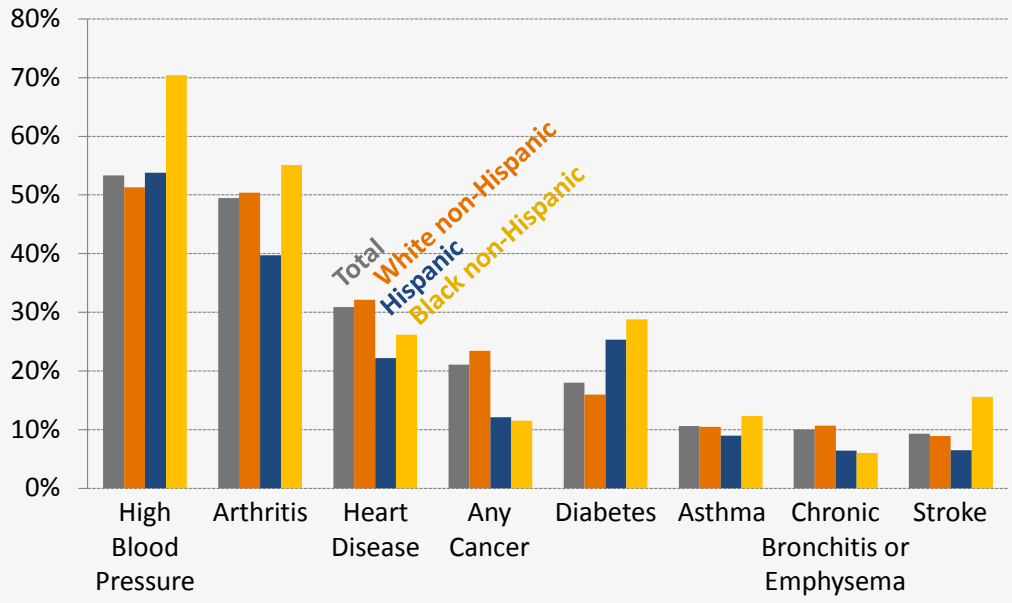
- High blood pressure and arthritis each occur in about half of the older population.
- The prevalence of high blood pressure and diabetes both increased by 5 percentage points or more from 1997 to 2006.
- Although chronic diseases can be managed, they can also eventually lead to activity limitations, a decrease in quality of life and decrease in the ability to live independently.

Definitions: A **chronic disease** is any long-term condition that once acquired is rarely or never cured.

- *As people live longer with chronic diseases, how can the health system find economical and effective ways to help people better manage these conditions?*
- *What incentives should be provided to train appropriate medical personnel, including geriatricians and home health aides?*
- *Which efforts at preventing chronic diseases have the most potential? What factors contributed to the success and failure of previous efforts to prevent chronic diseases?*

The prevalence of chronic health conditions varies by race and ethnicity.

Reported prevalence of select chronic diseases by race and ethnicity, population 65+, 2005-06



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Source: Federal Interagency Forum on Aging-Related Statistics, 2008.

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Chronic diseases affect racial and ethnic groups at different rates.

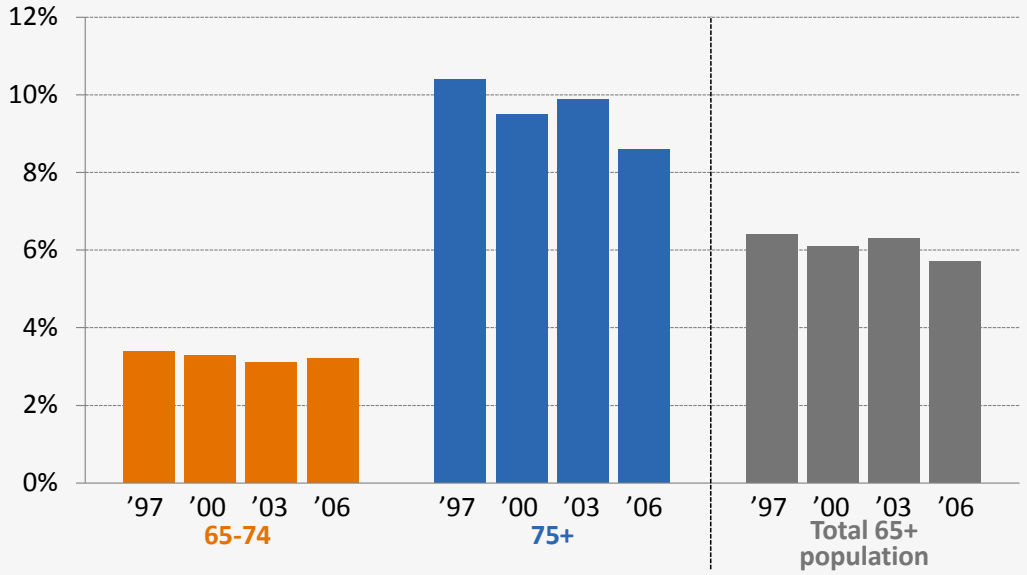
- High blood pressure, the most common chronic disease, affects about 50% of older whites and Hispanics, but 70% of older black non-Hispanics.
- Diabetes, which now affects 18% of the older population, is even more prevalent among older Hispanics (25%) and older black non-Hispanics (29%).
- Cancer is almost twice as prevalent among older white non-Hispanics (23%) as among older blacks or Hispanics (12%).
- Chronic disease prevalence also varies by sex. Older women are more likely than men to have arthritis (54% vs. 43%), but less likely to have heart diseases (26% vs. 37%) (Federal Interagency Forum on Aging-Related Statistics, 2008).

Definitions: A **chronic disease** is any long-term condition that once acquired is rarely or never cured.

- *How will the increasing diversity of the older population change the total prevalence of chronic diseases? For which diseases should the health system ramp up prevention?*
- *What kinds of cultural sensitivities are important in creating effective chronic disease prevention and management programs?*
- *What lifestyle changes among children, adolescents, working-age and older adults would help prevent the chronic diseases so prevalent at older ages? What incentives or social supports could enable these lifestyle changes to happen?*

The share of people 75+ reporting activity limitations due to chronic disease has declined since 1997.

Share of the non-institutionalized population reporting limitation in at least one ADL due to chronic disease



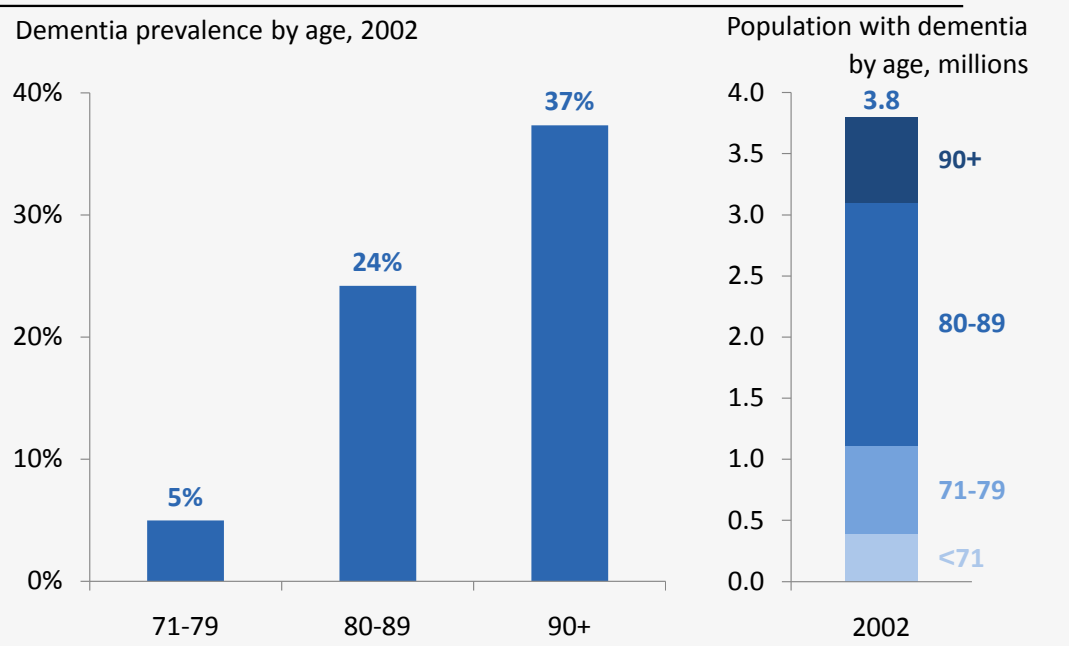
Note: ADL = Activities of Daily Living related to personal care, e.g. bathing, eating, getting out of bed. H-1
Source: Centers for Disease Control, 2009c. Stanford Center on Longevity

People are living healthier longer as disability rates have declined. People 75 and older in 2006 were less likely to report activity limitations than the same age group in 1997.

- Numerous studies and various ways of measuring disability, in the United States and other high-income countries, support the conclusion that disability prevalence has been falling. According to one review of U.S. health surveys, the non-institutionalized elderly population reporting difficulties with activities of daily living (ADLs) fell 1.0-2.5% per year (Christensen et al., 2009).
- The causes of disability declines are complex, but one study suggests that better medical procedures (such as cataract surgery) and prescription drugs (such as those that treat heart and circulatory problems) have played a role, as have socioeconomic trends such as higher levels of education and income gains (Schoeni et al., 2008).
- Despite evidence of recent declines in disability rates, chronic diseases continue to cause activity limitations for millions of older adults. Over the coming decades, the incidence and management of increasing rates of obesity and chronic diseases, such as dementia and arthritis, will have a profound influence on the aging of our society. Some researchers suggest that increasing obesity may halt or even erode recent declines in disability rates (Seeman et al., 2009).

- ➢ *What effect will increasing obesity have on disability rates?*
- ➢ *As people are enabled to live independently into older ages, what challenges do they face? How can they be assured of getting the care they need?*

The risk of dementia increases with age. In 2002, 70% of the estimated 3.8 million Americans with dementia were 80 or older.



Source: Plassman et al., 2007.

H-2
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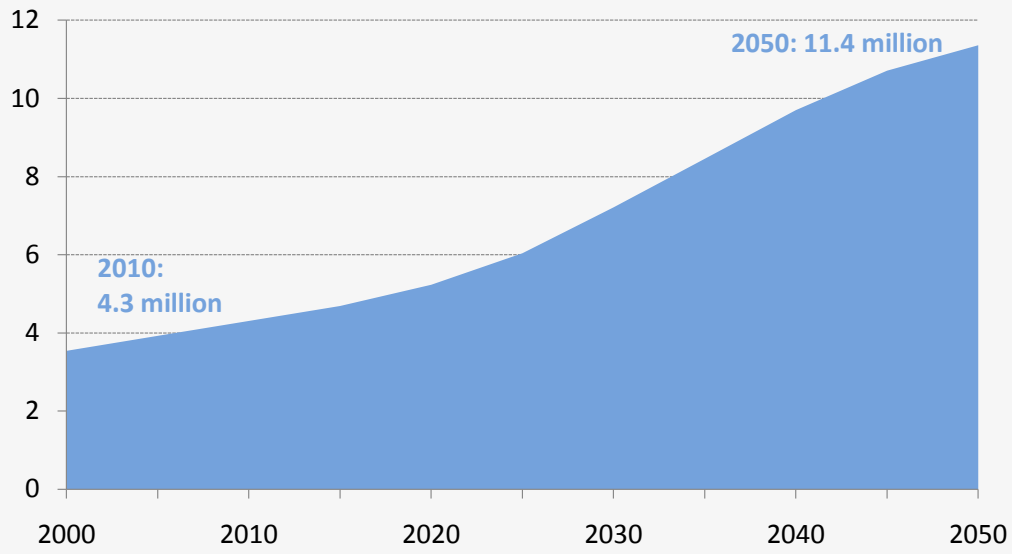
Age is the most important known risk factor for Alzheimer's disease and other dementias. Although estimates vary, most studies find that the risk of developing dementia roughly doubles every five years after age 65.

- Estimated prevalence varies by gender. One nationwide sample (Plassman et al., 2007) found the following gender gaps in dementia prevalence by age.
  - 71-79: Prevalence is similar (5.3% men, 4.8% women).
  - 80-89: Women's prevalence jumps (17.7% men, 27.7% women).
  - 90+: Men's prevalence appears to be higher (44.6% men, 34.7% women).
- In addition to age, fewer years of education is correlated with a higher risk of dementia, as is the genetic factor of a gene called the Apo-E allele (Plassman et al., 2007).
- Alzheimer's disease recently surpassed diabetes to become the sixth leading cause of death among American adults. Unlike heart disease and cancer death rates, mortality rates for Alzheimer's disease are on the rise (Centers for Disease Control, 2009).

- ➢ *What is the status of scientific research on dementia? What current scientific and medical research might reduce the prevalence, age of onset or speed of disease progression for dementia?*
- ➢ *How will differences in levels of education, obesity or other lifestyle factors increase or decrease the prevalence of dementia among baby boomers?*

As the population ages, the number of dementia cases is projected to more than double, exceeding 11 million by 2050.

Projected dementia cases in the U.S., assuming current prevalence, millions



Source: SCL calculations using U.S. prevalence by age group from Plassman et al., 2007, and U.S. Census 2008c.

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If current prevalence rates continue, the population with dementia will skyrocket. By 2035, the baby boomers will be 71-89 years old, the age when dementia risk increases dramatically.

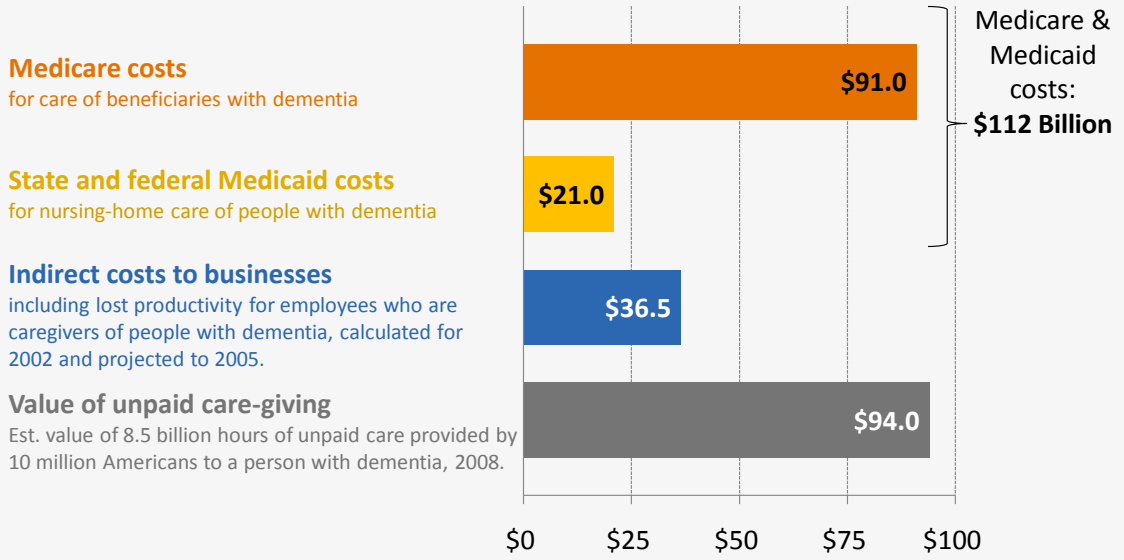
- The estimated U.S. population with dementia in 2010 is 4.3 million. The number is projected to more than double over the next 40 years: By 2050 an estimated 11.4 million Americans will have dementia.
- Projections for the number of dementia cases in the United States vary. The CDC cites one estimate that the population with Alzheimer's disease in the U.S. may be as high as 13.4 million by 2050 (Centers for Disease Control, 2009b). The *World Alzheimer's Report 2009* estimates there will be 7.13 million people with dementia in North America in 2030 and 11.01 million by 2050 (Alzheimer's Disease International, 2009).
- The number of people with dementia is increasing globally, a consequence of global population aging. The *World Alzheimer's Report 2009* estimates there are 35.6 million people with dementia in the world today, increasing to 65.7 million by 2030 and 115.4 million by 2050 (Alzheimer's Disease International, 2009).

Definitions: In these data, the term **dementia** refers to the common types of dementia, which include Alzheimer's disease. **Alzheimer's disease** is the most common form of dementia (Alzheimer's Association, 2009).

➢ *If the numbers of dementia patients increase as projected, how will total health care spending change? Where will dementia patients live, who will provide care and who will finance their care?*

Direct costs paid by Medicare and Medicaid for people with dementia totaled $112 billion in 2005.

Estimated annual dementia-related costs, $ billions, 2005, 2008



Source: Alzheimer's Association, 2009.

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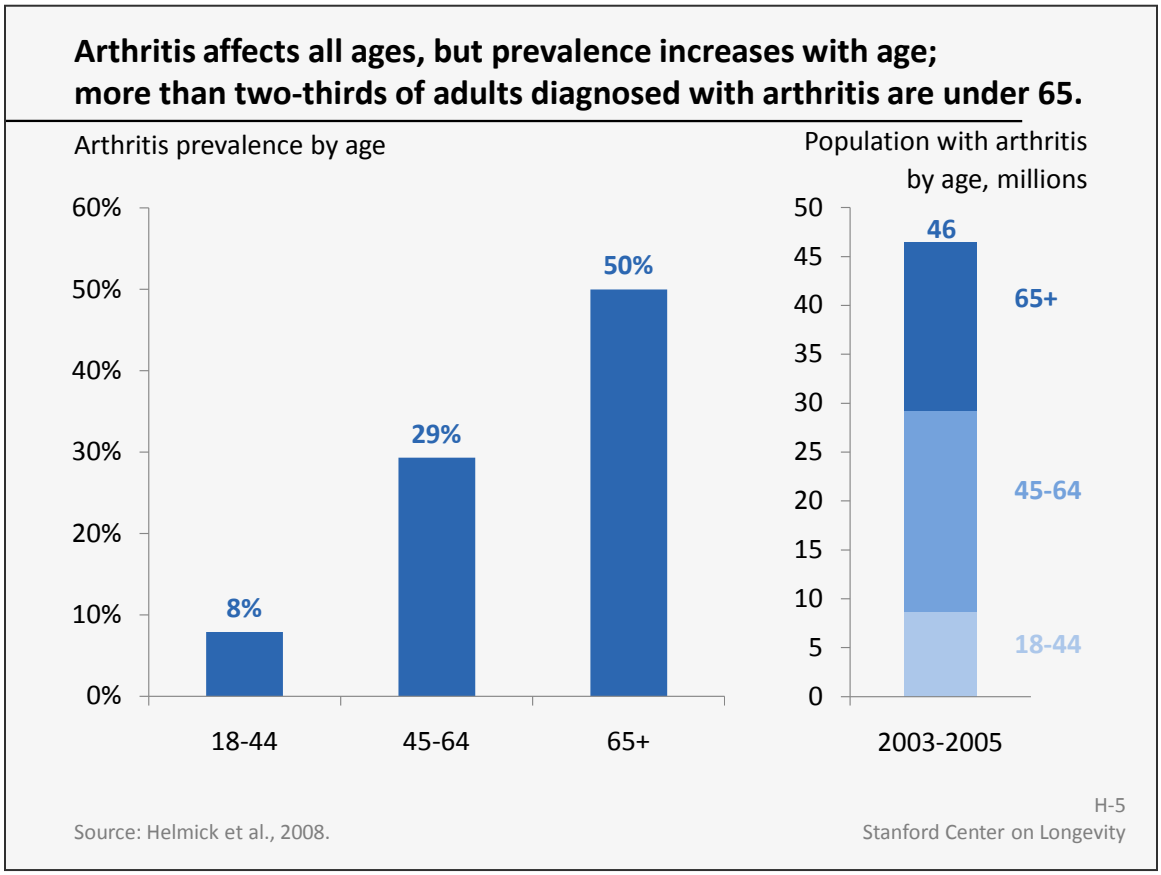
In 2005, the direct costs paid by Medicare and Medicaid for people with dementia amounted to $112 billion, indirect costs to business added $37 billion and unpaid care giving added another $94 billion. These four expenditures total $242 billion, equivalent to roughly $800 from every person in the U.S.

- Average Medicare payments per person for beneficiaries 65+ in 2004 were almost three times higher for those with dementia ($15,145) than for those without ($5,272).
- As the disease progresses, people with dementia need increasing levels of care. A study in 2001 found two-thirds of people 65+ who died of dementia died in nursing homes. The Medicaid costs for nursing home care for those with dementia totaled $21 billion in 2005.
- The 8.5 billion hours of unpaid care giving provided annually by almost 10 million caregivers were valued at an estimated $94 billion in 2008. Of the unpaid caregivers, 60% are women, and 57% care for a parent or parent-in-law. Caring for people with Alzheimer's or other dementia can be stressful and costly, with negative effects shown on caregivers' health, employment, income and financial security (Alzheimer's Association, 2009).

- ➢ *How much has already been spent on Alzheimer's and other dementia research? Should the amount be increased as the number of dementia patients increases? How are such spending decisions made? How does the federal government prioritize medical research?*
- ➢ *Are there estimates of the cost savings that could be achieved with even small medical breakthroughs?*
- ➢ *What policies and practices could provide better support to both caregivers and dementia patients?*



Arthritis affects more than 46 million American adults, over 21% of the U.S. adult population.

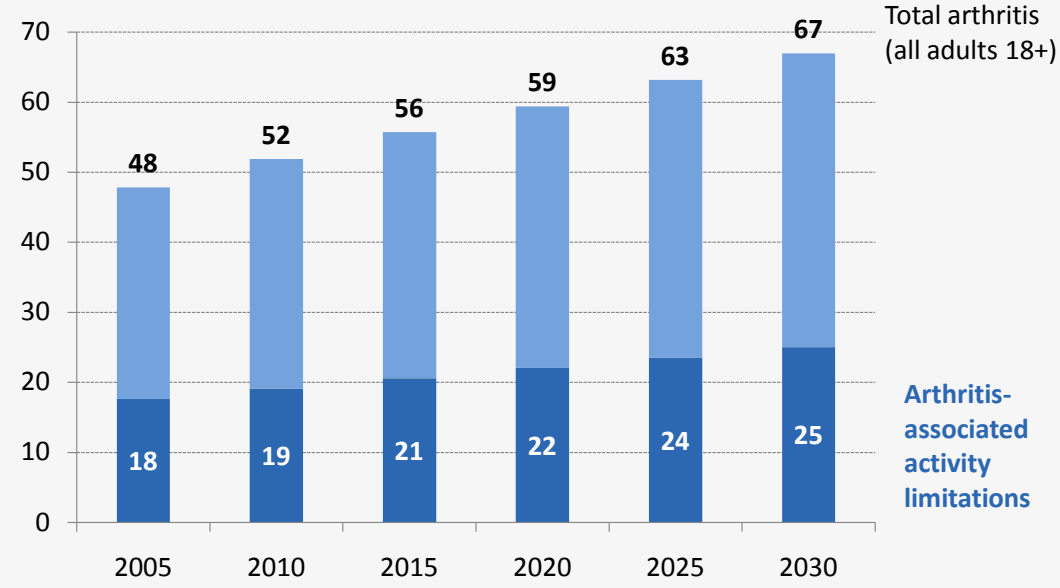
- Of the total estimated arthritis cases, 8.7 million people were 18-44 years old, 20.5 million were 45-64 years old, and 17.2 million were 65 or older.
- Arthritis affects people of all ages. Most adults with arthritis are under age 65, though the prevalence of arthritis is higher for older age groups – 50% of older adults reported arthritis in 2003-05, compared with less than 30% among the 45- to 64-year-olds.

Definition: In these data, the term **arthritis**, a chronic disease of the joints, indicates any form of arthritis, rheumatoid arthritis, gout, lupus or fibromyalgia.

➢ *What changes in lifestyle might increase or reduce the prevalence of arthritis in future generations?*

By 2030, arthritis will affect 67 million adults; 25 million will have activity limitations.

Projected prevalence of arthritis and arthritis-associated activity limitations, millions



H-6

Source: Hootman and Helmick, 2006.

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The number of adult arthritis cases is projected to increase by 40% to 67 million in 2030.

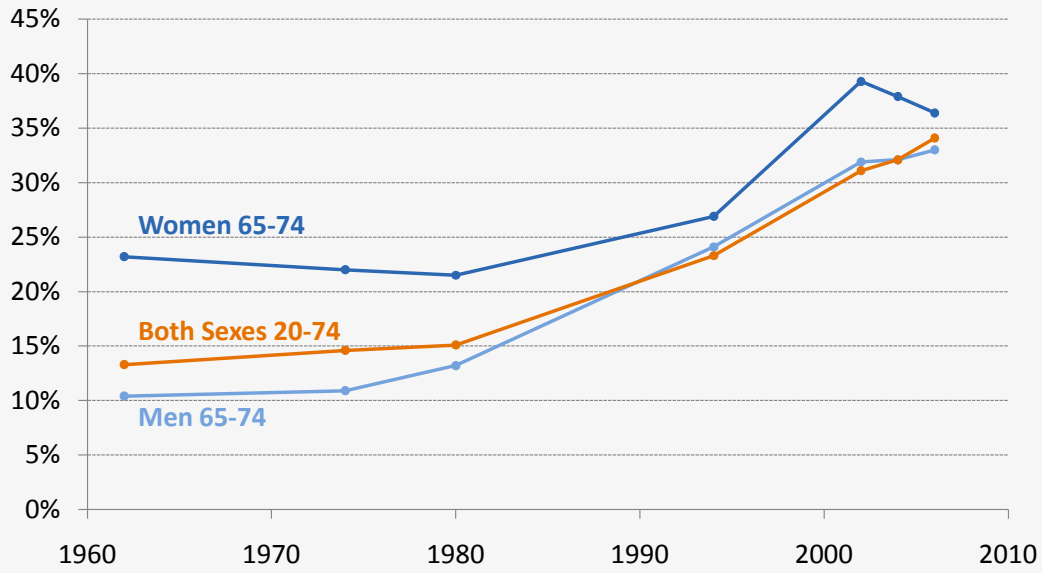
- In 2005, about 18 million adults, or 8% of Americans age 18+, had arthritis-attributable activity limitations. By 2030, an estimated 25 million people, or 9.3% of the adult population, will have such limitations.
- The costs associated with arthritis and other rheumatic conditions in 2003 were estimated at $128 billion. These costs included $81 billion in medical care expenditures due to arthritis and $47 billion in earnings losses to people because of their arthritis (Yelin et al., 2007).

Definition: In these data, the term **arthritis**, a chronic disease of the joints, indicates any form of arthritis, rheumatoid arthritis, gout, lupus or fibromyalgia.

- *How effective has spending on arthritis research been? What progress has been made in preventing and treating arthritis?*
- *How are decisions made about spending on arthritis research?*
- *What practices can reduce the number of cases, or at least the number of cases that lead to activity limitations?*

Obesity rates have generally increased at all ages over the past 30 years.

Obesity prevalence by age



Note: Obesity defined as Body Mass Index ≥ 30 kg/m²
Source: Centers for Disease Control, 2008.

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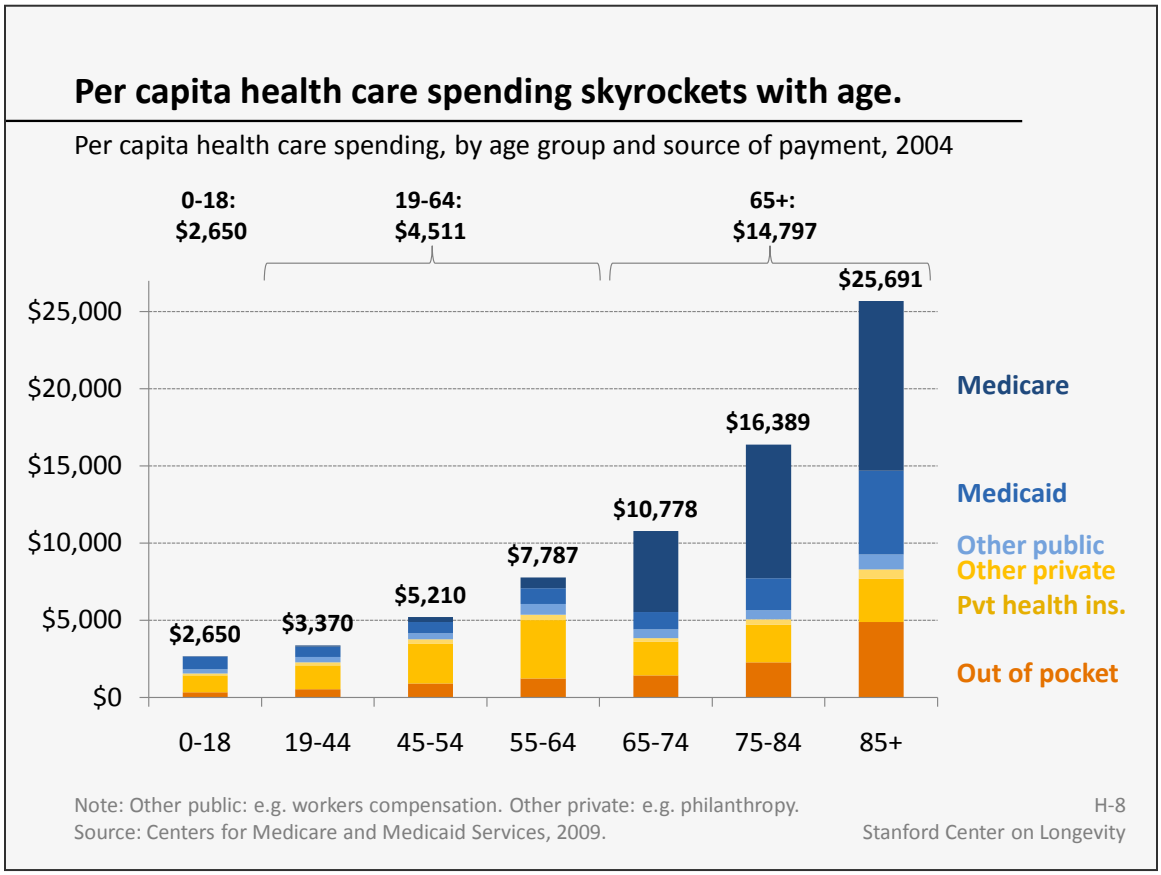
The share of adults 20-74 who are obese more than doubled, from 15% in 1971-74, to 34% in 2003-06.

- According to the Centers for Disease Control, obesity is correlated with excess mortality and an increased risk of heart disease, diabetes, osteoarthritis and disability (Centers for Disease Control, 2008).
- Researchers are exploring the roles of diet, lack of exercise, sedentary behavior, suburbanization and the built environment and other lifestyle factors in explaining the obesity epidemic.
  - One study found that living in a place with mixed land use was correlated with a lower likelihood of obesity, and that each additional hour spent in a car per day was associated with a 6% increase in the likelihood of obesity (Frank et al., 2004).
  - Only 30% of adults reach the minimum recommended guidelines for leisure time physical activity, a situation that is exacerbated by neighborhoods, shopping districts and offices that promote sedentary behavior (Centers for Disease Control, 2008).

Definitions: The terms **obese** and **overweight** are measured using the Body Mass Index, a ratio of weight in kilograms to the square of height in meters. A BMI of 25 or over is classified as overweight, and a BMI of 30 or over is classified as obese. A person 5 feet tall and 153 lbs or more would be classified as obese. For a person who is 5'9" tall, 203 lbs or more is the threshold for obesity.

- ➢ *What factors have contributed to the increase in obesity? How can these factors be controlled?*
- ➢ *How will obesity among children and teens and the increase in the duration of obesity affect their health as they age?*
- ➢ *What changes to communities and lifestyles could reduce obesity?*



Health care spending on the oldest old (85+) in 2004 was more than twice the level of spending on the young old (65-74). Spending on adults 65+ was triple the spending on working-age adults.

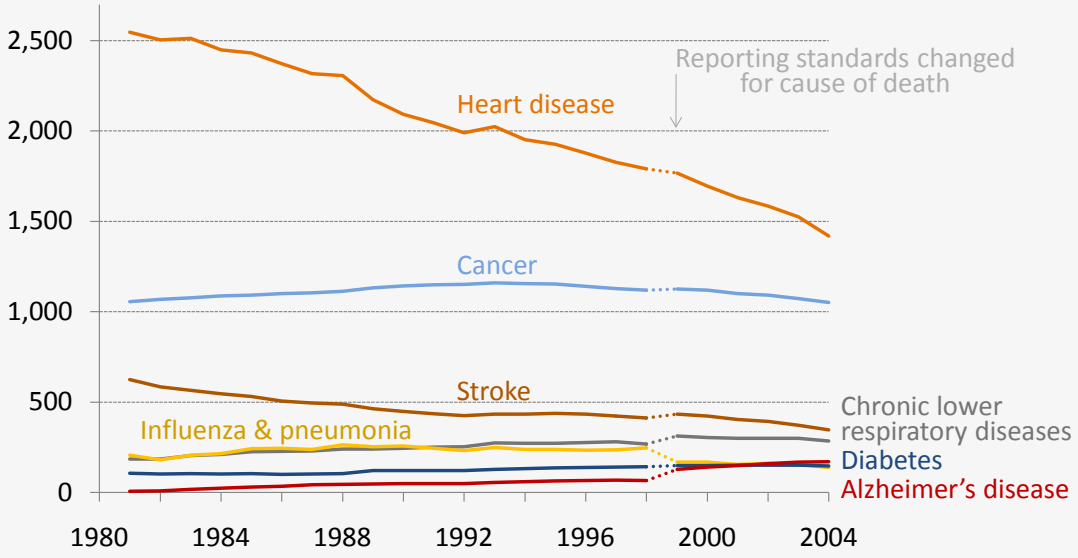
- The share of public spending on health care increases dramatically at age 65 due to Medicare eligibility, with public spending accounting for about two-thirds of total spending for those 65+. For those age 65-74, Medicare accounts for $5,242 of per capita health care spending, or a little less than half. In contrast, for those 85+, Medicare accounts for almost $11,000, or 43% of per capita spending.
- Average out-of-pocket spending also increases with age, from $1,225 for those 55-64, to $1,437 for those 65-74, and $4,886 for the oldest-old (85+).

Note: In 2004 the Medicare prescription drug benefit was not yet in effect.

Definitions: Medicare: Federal health insurance coverage for everyone 65 and older and some disabled people under 65. **Medicaid**: Health program for low-income individuals and families, funded jointly by state and federal agencies. **Other public**: All health care expenditures that are channeled through any program established by public law other than Medicare or Medicaid, e.g. workers' compensation. **Other private**: Philanthropy or support from foundations or corporations, spent directly for patient care or held in an endowment fund to produce income to cover current expenses. **Private health insurance**: Premiums paid to private health insurers. **Out of pocket**: Includes direct spending by consumers for all health care goods and services, including coinsurance, deductibles and any amounts not covered by insurance. Health insurance premiums paid by individuals are counted as part of private health insurance.

The death rates from heart disease and stroke, two of the leading causes of death, declined significantly from 1981 to 2004.

Death rates per 100,000 for leading causes of death, population 65+



Note: Rates are age-adjusted based on the 2000 population.
Source: Federal Interagency Forum on Aging-Related Statistics, 2008.

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Death rates have declined for only some of the leading causes of death among the older population.

- The overall age-adjusted death rate for those 65+ declined by 18% from 1981 to 2004. For heart disease and stroke specifically, death rates fell by about 45% over the same period.
- The death rates for chronic lower respiratory diseases increased by 53% between 1981 and 2004, making it the third most common cause of death for men 65+ and the fourth for women 65+ (Federal Interagency Forum on Aging-Related Statistics, 2008).
- Death rates for diabetes climbed by 38% from 1981 to 2004, corresponding to an increase in obesity rates (Jemal et al., 2005).
- The death rate for Alzheimer's disease climbed by 32% between 1999 and 2004. Reported death rates for Alzheimer's were substantially lower before 1999, in part because of the way cause of death was reported. Reporting standards were revised in 1999, affecting trends in death rates for Alzheimer's disease and for influenza and pneumonia. Under the new set of standards, deaths due to influenza and pneumonia fell 17% between 1999 and 2004.

Note: Revised standards for selecting cause of death, the *International Classification of Diseases 10th edition* (ICD-10), took effect in 1999. The Centers for Disease Control estimate that, among the leading causes of death, the revised standards had a substantial effect on trends for both influenza and pneumonia and Alzheimer's disease. For more on the changes due to ICD-10, see Centers for Disease Control, 2001.

➢ *What medical advances or cultural changes could reduce death rates for Alzheimer's disease, diabetes and chronic lower respiratory diseases?*

Questions for research and discussion:

- *Will rising levels of obesity cancel out or even reverse projected increases in life expectancy? What is the best way to tackle obesity, and how much would be saved by reversing the trend?*
- *What particular lines of research in arthritis prevention or detection, and what potential new treatments, are most promising in the quest to reduce the number of associated activity limitations and allow people to continue to work and stay active?*
- *Will mortality rates for dementia continue to rise? What medical breakthroughs might reduce the prevalence, age of onset or speed of progression?*
- *How will rising health care spending threaten personal and national financial security as the population ages?*

PERSONAL FINANCE

Highlights

People have been spending more years in retirement as life expectancy has continued to rise. For men, the number of years spent in retirement increased from eight years in 1950 to 19 years in 2000. Those years were less likely to be spent in poverty thanks to Social Security, but the outlook for tomorrow's retirees is uncertain. Many risk not having sufficient financial security for retirement if they stop working at 65. The share of older people working has been increasing, and by 2016 one-third of men and one-quarter of women age 65-74 are projected to be in the labor force.

Older households on average have lower incomes but also lower expenses and more assets than younger households. Median household income for older householders, $28,000 in 2006, was about half the level of income for younger householders. Median net worth for older households exceeded $200,000 in 2007, but has likely declined substantially since then.

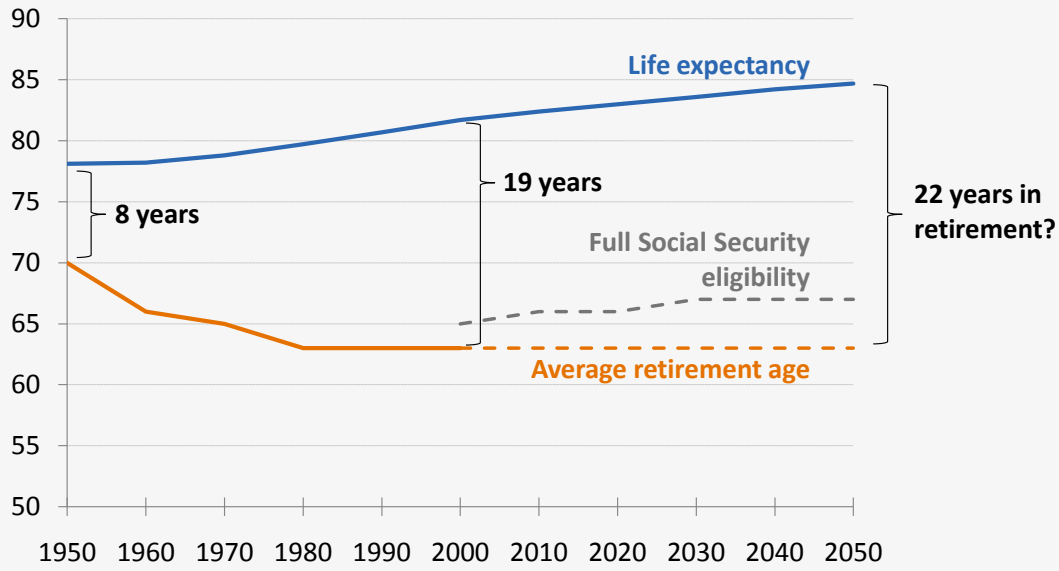
Compared with younger age groups, older households spent a similar share on housing, but a greater share on health care. Housing is the largest expense category for all ages, accounting for a third or more of all household expenses. On average older households spent $37,000 per household in 2008 with $13,000 (35%) devoted to housing and $4,600 (12%) to health care.

The poorest older households rely largely on Social Security, which accounts for 84% of their income, compared with 17% for the wealthiest households. In 2008, Social Security benefits averaged about $14,000 for an individual and $23,000 for a couple.

Contents

Retirement now lasts nearly 20 years.

Retirement age and life expectancy at age 65, men



Source: Center for Retirement Research at Boston College, 2006 and U.S. Social Security Administration, 2009.

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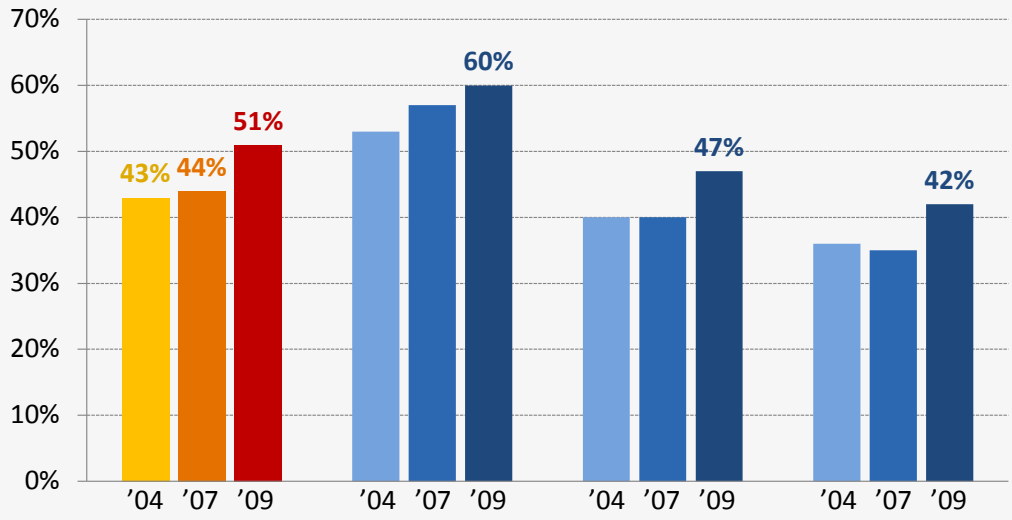
The current average of 19 years in retirement for men will increase to 22 years by midcentury if average retirement age remains unchanged.

- Due to increasing life expectancy and decreasing average retirement age, the number of years men spent in retirement increased substantially, from eight years in 1950 to 19 years in 2000.
- As the number of years in retirement increases, people must save more in order to maintain their standard of living throughout retirement.
- Average retirement age has remained flat at about 63 years since 1980, but will likely increase due to the recent economic crisis and the scheduled increase from 65 to 67 of the "normal retirement age" for Social Security — the age at which people are eligible to receive their full benefit.

- *How should government policies be modified to account for increased life expectancy and lower rates of disability? How might such policies be changed to encourage longer work lives by those who are able? How should current disincentives for work be adjusted?*
- *How can private enterprises adjust their hiring policies to accommodate and benefit from older workers? What other benefits (besides income) does work provide?*
- *What actions should government take to insure that people are adequately preparing for their retirement? What are the most effective tools for estimating financial resources needed for retirement?*

Half of all households risk being unable to maintain their standard of living in retirement if they stop work at 65.

National Retirement Risk Index: % of households projected to be "at risk" of insufficient retirement savings at age 65



Income group:	All	Bottom third	Middle third	Top third
Median hhld income (2004):		$18,000	$51,000	$100,000

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Source: Center for Retirement Research at Boston College, 2009. Stanford Center on Longevity

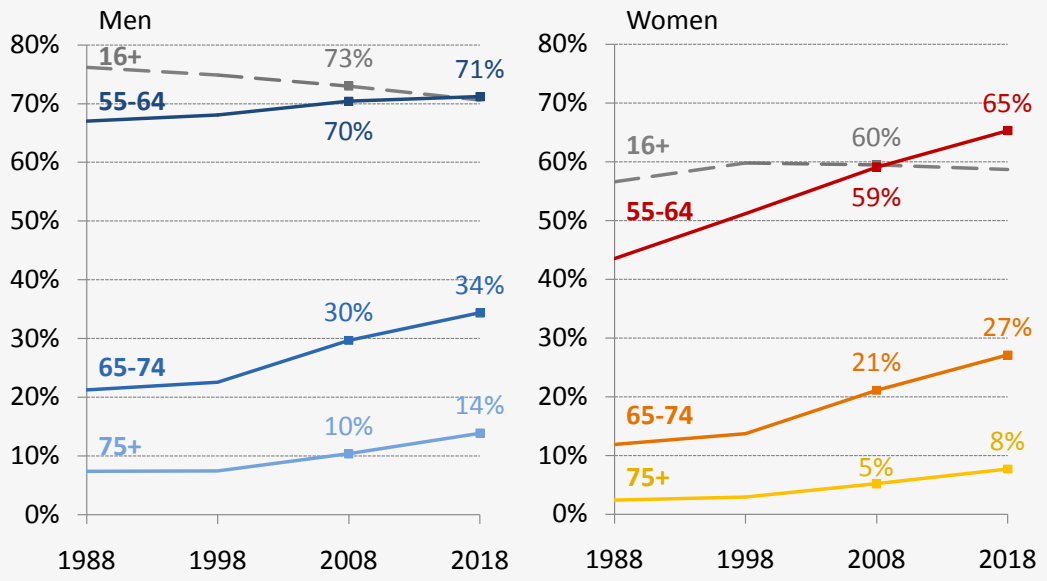
The National Retirement Risk Index indicates that the share of American households at risk for being unable to maintain their standard of living in retirement increased from 44% in 2007 to 51% in 2009.

- The share of American households at risk has increased because of the financial crisis, with most of the increase due to the decline in housing prices. Extrapolating from market conditions as of mid-2009, the Center for Retirement Research at Boston College reports that 51% of households are at risk of being unable to maintain their standard of living in retirement. The calculations take into account that people tend to need less income in retirement because they no longer commute, pay as much in taxes or need to save for retirement. The calculations also assume that households "work to age 65 and annuitize all their financial assets, including the receipts from reverse mortgages on their homes."
- Among the three income groups (the top, middle and bottom thirds), the top two-thirds experienced the biggest increase in risk, because they hold most of the assets affected by the crisis (housing and stocks). The lowest income group still has the highest share of people at risk (Center for Retirement Research at Boston College, 2009).
- Other studies of retirement preparedness using different methodologies are more optimistic. One study found that among households age 51-61 in 1992, fewer than 20% had saved too little for retirement (Scholz et al., 2006). Another study found that about 20% of couples and about 50% of singles in their late 60s in 2004 were inadequately prepared for their retirement (Hurd and Rohwedder, 2006).

➢ *What are the barriers to people of all income groups, generations, races and genders to understanding and making sound financial decisions about retirement?*

The share of older people who work is increasing.

Labor force participation rates by age and sex



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Source: Bureau of Labor Statistics, 2009.

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Labor force participation rates have been increasing for older age groups and are expected to continue to climb. Women at all ages are less likely than men to be in the work force.

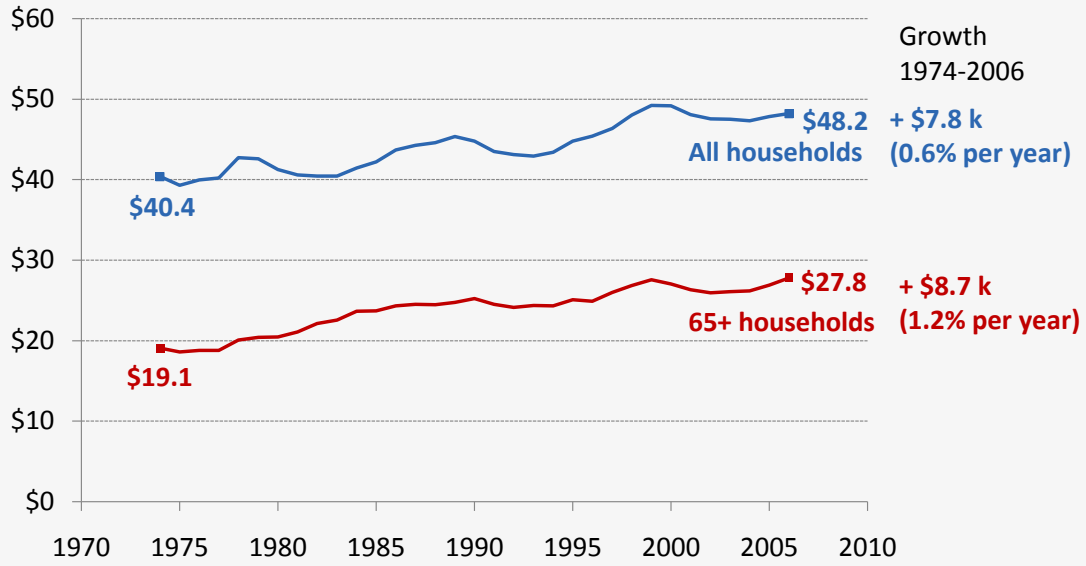
- The share of women 55-64 in the labor force increased from 44% in 1988 to 59% in 2008 and is projected to increase to 65% by 2018.
- By 2018 more than one third of men and one quarter of women 65-74 will be in the labor force.
- Survey results support the idea that the next generation of older Americans will work longer. According to a recent Retirement Confidence Survey, 72% of workers in 2009 are planning to work for pay after they retire (Employee Benefit Research Institute, 2009). Labor economists note that because the number of jobs is not finite, older people can remain in the work force without negatively affecting employment opportunities for younger people.
- Though older workers tend to have lower unemployment rates than younger workers, they face particular challenges finding work if they become unemployed. One study found that for entry-level jobs, "younger workers were more than 40% more likely to be offered a job interview than older workers." Research also suggests that employers may overestimate the costs and underestimate the benefits of hiring older workers (Taskforce on the Aging of the American Workforce, 2008).

Definition: Labor force participants are those who are employed or actively searching for employment.

- *What policies successfully encourage job creation and employment of older workers?*
- *What government and workplace policies could increase job opportunities for workers of all ages and encourage older workers to remain in the work force? What policies and attitudes keep older people out of the work force?*

Median income for older households is lower than average, but the difference has narrowed since 1974.

Median household income, $ thousands, 2006



Source: Federal Interagency Forum on Aging-Related Statistics, 2008 and U.S. Census Bureau, 2007a.

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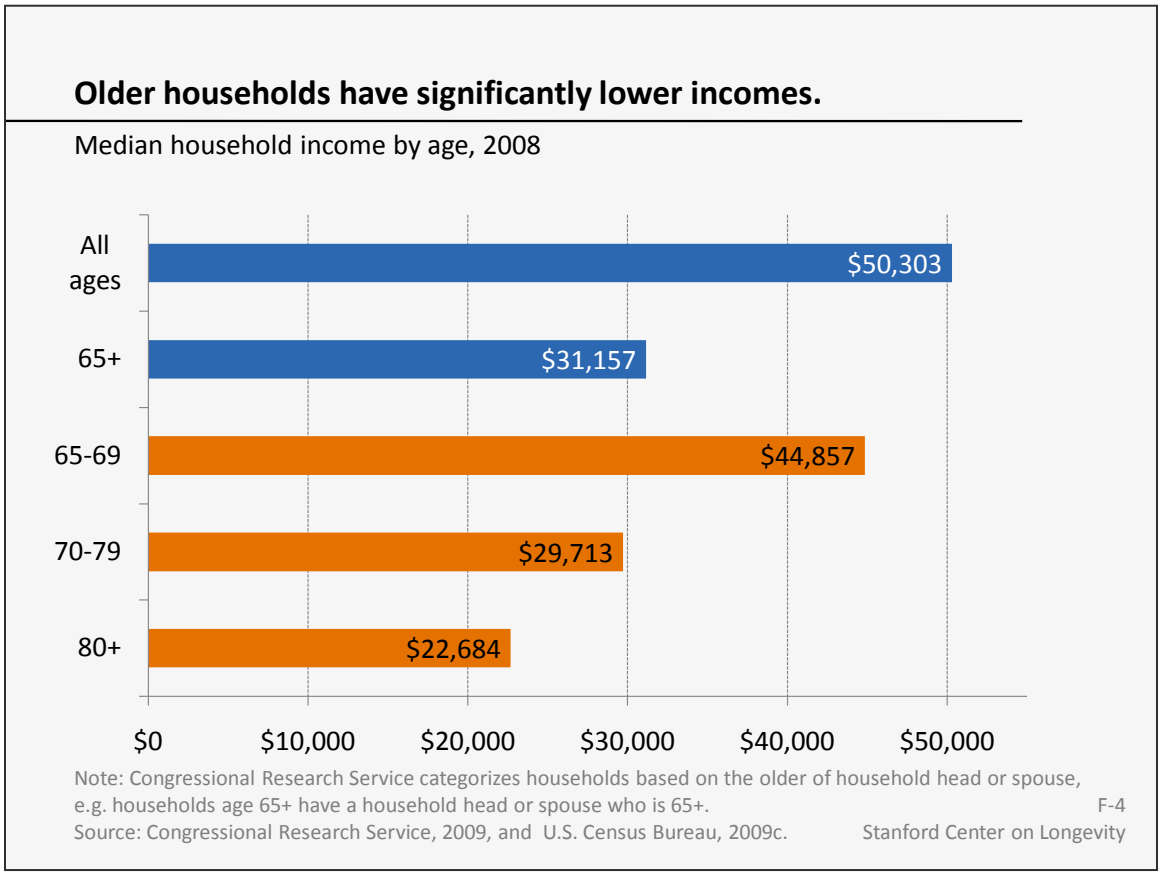
Real median income increased over the last 30 years for all households, including those headed by someone 65+. Older households have less income than younger households, but the difference has narrowed.

- Real median household income for those 65+ increased from $19,086 in 1974 to $27,798 in 2006. Measured in 2006 dollars, this is an increase of $8,712 or 46%.
- Median household income for 65+ householders was $27,798 in 2006, 60% of the level for all households, but only 50% of the level for householders under 65. Median income for these younger households was $54,726 in 2006 (U.S. Census Bureau, 2007a).
- In 2006, real median income for all households and for households 65+ was about the same level as in 1999.

- *How much of the increase in household income is due to women entering the work force in greater numbers? Will median income continue to increase?*
- *What is the variation around the median? Is income inequality increasing?*



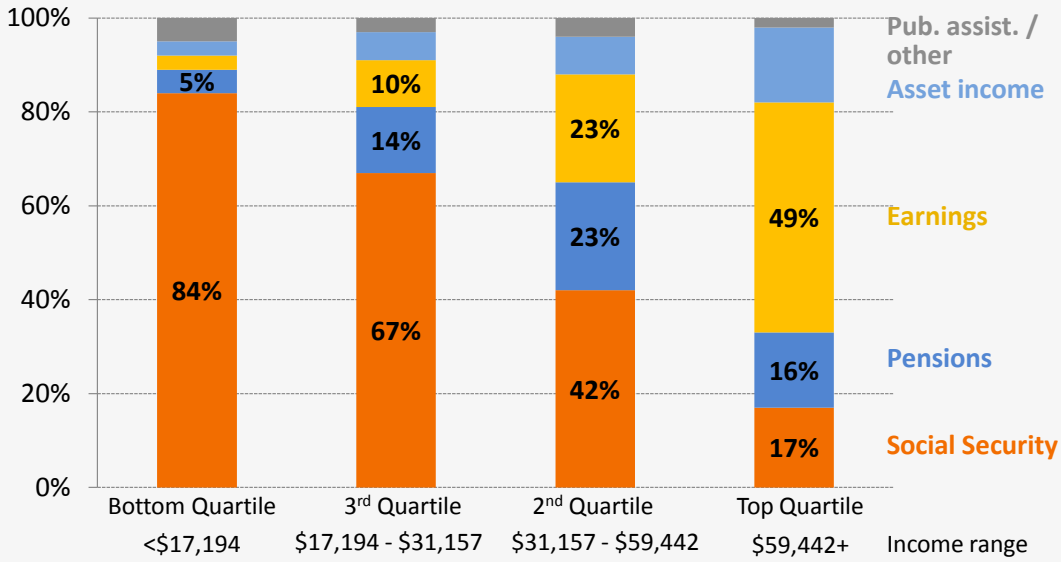
Older households have lower median incomes, but also tend to have fewer people and lower expenses.

- Median household income in 2008 for those 65+ was 62% of median household income for all ages. For those 80+, median household income was about half the level of household income for those 65-69.
- Comparing household and individual income suggests that the difference in household income by age depends to some degree on the size of household. Those 80+ have a lower median household income in part because they are more likely to live alone. For those 80+, median *individual* income ($16,491) was 75% of income for individuals 65-69 ($22,057) (Congressional Research Service, 2009).
- Like income, spending also varies by age. Expenditures for older households were 73% of the median household expenditures for all ages in 2008 (Bureau of Labor Statistics, 2008).

➢ *What is the projected median income for the first baby boomers at age 65 (2011) and at age 80 (2026)? Will income differences by age continue?*

The poorest 25% of older households receive 84% of their income from Social Security.

Sources of income for households age 65+ by quartile, 2008



Note: Congressional Research Service categorizes households based on the older of household head or spouse, e.g. households age 65+ have a household head or spouse who is 65+.
Source: Congressional Research Service, 2009.

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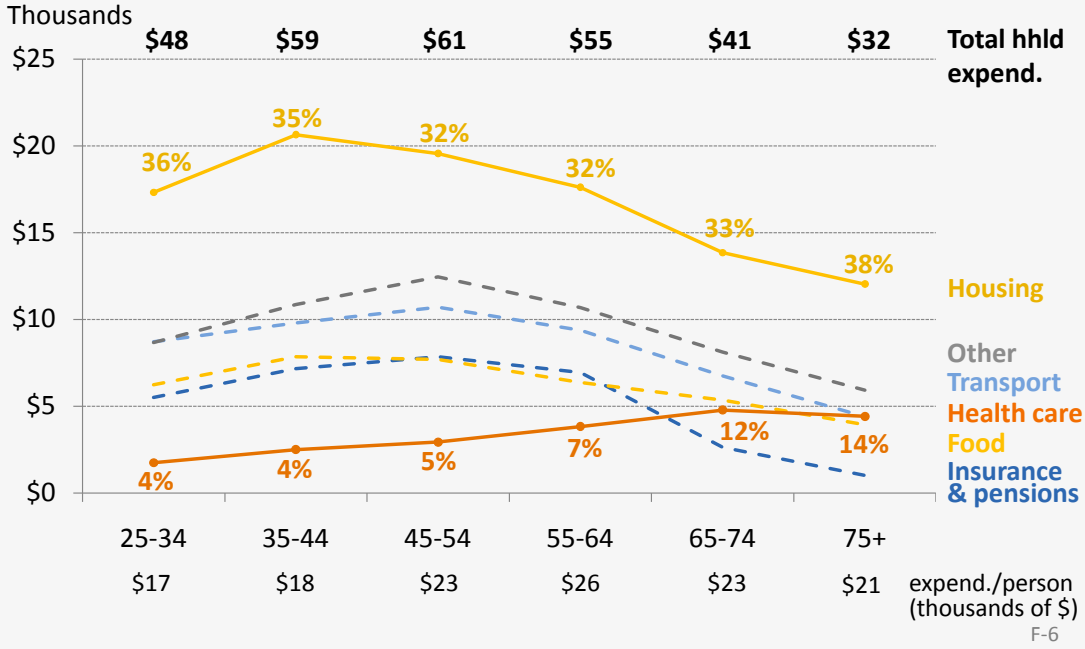
The share of income from Social Security decreases by income quartile. In contrast, the share from earnings (work) and assets (interest, dividends, rents and royalties) increases by quartile; the top quartile received the bulk of their income from these two sources.

- In December 2008, the average monthly Social Security benefit for a retired worker was $1,153 ($13,836 per year) and $1,877 for a couple ($22,524 per year). In 2008, 18% of households 65+ receiving benefits got less than $10,000, and 32% got more than $20,000.
  - In 2008, Social Security paid benefits to 86% of people age 65+.
  - For 28% of elderly households and 41% of elderly individual recipients, Social Security accounted for more than 90% of their income in 2008.
  - Social Security payments, though accounting for a large share of income for many older households, are small compared to pre-retirement income. Social Security benefits replace 55% of earnings for a career-long low-wage earner, 41% for an average-wage earner, and 27% for a career-long high-wage earner.
- Pensions include public and private pensions, encompassing defined benefit and defined contribution packages. In 2008, 34% of individuals 65+ received income from a pension, with about a third receiving public-sector pensions (median $18,000 per year) and two-thirds receiving benefits from a private-sector pension plan (median $7,584 per year) (Congressional Research Service, 2009).

➢ *What will be the impact on future income for older Americans from the reduction in defined benefit plans and the increase in 401(k) defined contribution plans?*

Housing is the largest expense at all ages; health care spending increases with age.

Average annual household expenditures by age of household head, 2008



Source: Bureau of Labor Statistics, 2008.

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On average 34% of all household expenditures are devoted to housing, making it the largest expense category. Spending patterns are similar across age groups, with the exception of spending on health care, which increases with age, and personal insurance and pensions, which decrease with age.

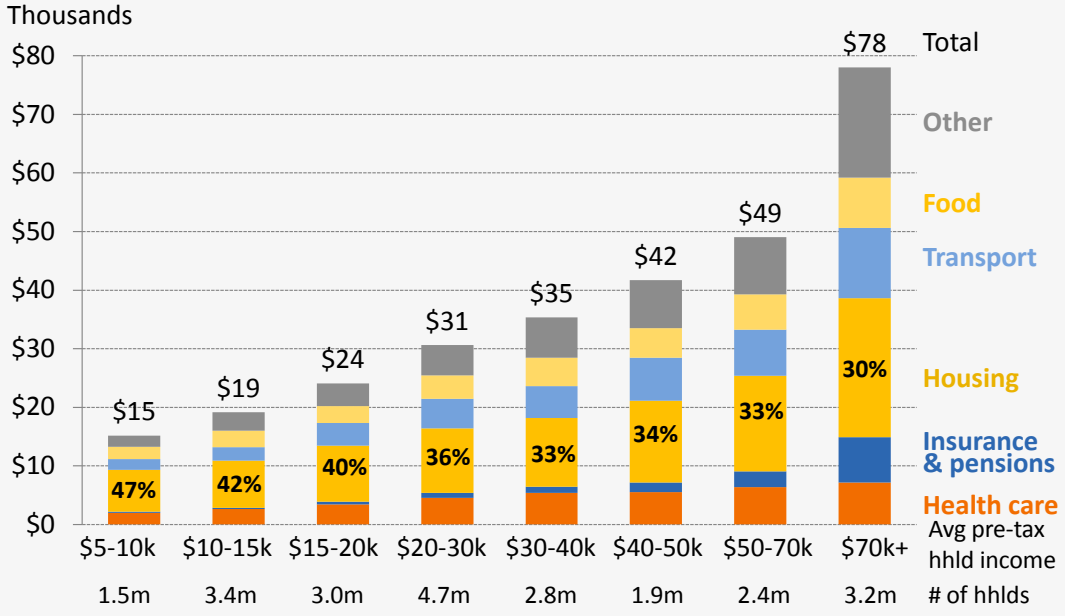
- Households with a household head 65+ spent $36,844 per household on average; $12,993 was devoted to housing and $4,605 to health care. Compared to younger age groups, households 65+ spent a similar proportion on housing, but more on health care and less on personal insurance and pensions.
- Older households spend less overall than younger households, in part because they tend to have fewer people. Households headed by someone 65-74 are on average only half the size (1.7 people) of households headed by someone 35-44 (3.3 people).

Definitions: **Health care** includes out-of-pocket payments for health insurance premiums, co-pays and other service costs, drugs and medical supplies. **Insurance and pensions** includes payments to pensions and Social Security, as well as life and other personal insurance (insurance related to housing is covered in housing, vehicle insurance in transportation). **Housing** includes mortgage, rent, utilities, maintenance, property taxes, housekeeping supplies, as well as household operations, furnishing and equipment. **Other** includes alcohol, apparel and services, entertainment, personal care services and products, reading and education.

- *How do the components of housing costs change with age: mortgage vs. utilities and maintenance?*
- *What kinds of financial services and products might households of different ages be interested in purchasing?*

Older households with lower incomes spend more than 40% on housing.

Average annual expenditures, households age 65+ by income group, 2007-08



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Source: Bureau of Labor Statistics, 2008.

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Housing expenditures accounted for at least 30% of total expenditures for older households; the share spent on housing was especially high for lower income groups, which allocated more than 40% to housing.

- For households in the lowest three income brackets, total household spending exceeds pre-tax household income. These households are spending 40% or more of their budgets on housing.
- The 3.2 million older households with incomes of $70,000 or more spent an average of $78,014, of which 30% or $23,742 was spent on housing.
- Many households, especially lower income households, have housing expenses above the 30% threshold for affordability as suggested by the U.S. Department of Housing and Urban Development.

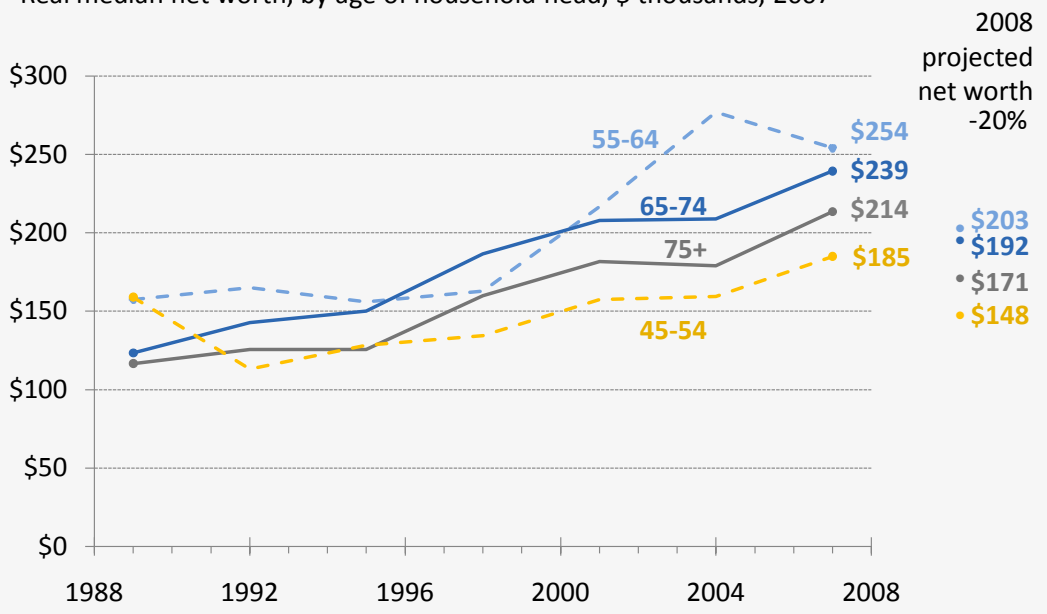
Note: Affordable housing is defined in terms of income, not expenditures. Nearly all income groups of older households allocate more than 30% of their expenditures to housing. This does not indicate that the same share of their income goes to housing, since households may spend more or less than they earn in a given year.

Definitions: **Health care** includes out-of-pocket payments for health insurance premiums, co-pays and other service costs, drugs and medical supplies. **Insurance and pensions** includes payments to pensions and Social Security, as well as life and other personal insurance (insurance related to housing is covered in housing, vehicle insurance in transportation). **Housing** includes mortgage, rent, utilities, maintenance, property taxes, housekeeping supplies, as well as household operations, furnishing and equipment. **Other** includes alcohol, apparel and services, entertainment, personal care services and products, reading and education.

➢ *How can the burden of housing cost be reduced, especially for lower income households?*

Median family net worth for older households exceeded $200,000 in 2007, but has likely declined substantially since then.

Real median net worth, by age of household head, $ thousands, 2007



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Source: Federal Reserve Board, 2009.

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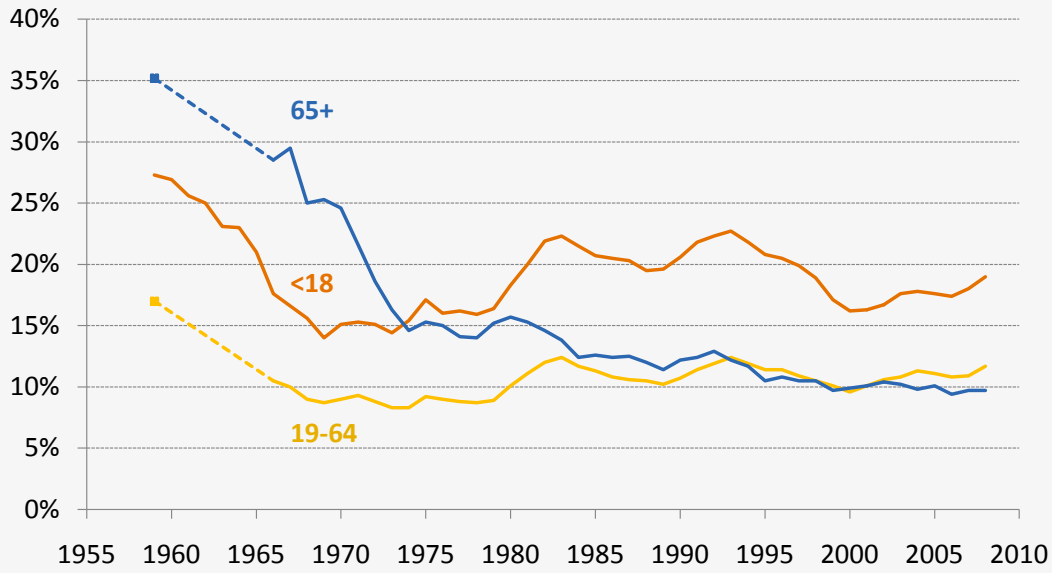
The recent economic downturn may have substantially reduced levels of family net worth.

- Due to the sharp decline in housing and equity prices during the financial crisis, median net worth today is almost certainly below 2007 levels; the Federal Reserve Bulletin estimates a 17.8% drop in median net worth from the time of its 2007 survey to October 2008 (Federal Reserve Board, 2009).
- Net worth includes both financial (bank accounts, stocks, bonds, retirement accounts, etc.) and non-financial (such as homes, cars, other property, etc.) assets.
  - Among older households, home ownership was higher for those 65-74: 85.5% of households 65-74 owned their home, compared with 77% of households 75+. The median home value for homeowners 65-74 was $200,000 in 2007, compared to $150,000 for homeowners age 75+.
  - Households age 65-74 were slightly less likely than those 75+ to have financial assets. Of households age 65-74, 96.1% had some form of financial asset, compared with 97.4% for households 75+.
- In 2007, 56.5% of all families reported saving within the last 12 months. Among those with a household head 55-64, a slightly higher proportion (58.4%) saved (Federal Reserve Board, 2009).

- ➢ *How much of the increase in net worth in the last 20 years was due to increased housing prices? How much of that value was destroyed by the market downturn and recent economic crisis?*
- ➢ *What tools would enable families to calculate the net worth required to maintain their standard of living and prepare accordingly by adjusting savings, spending and work?*

Poverty rates for those age 65+ declined dramatically from 35% in 1959 to around 10% in 2008.

% of population living in poverty, by age group



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Source: U.S. Census Bureau, 2009c.

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Poverty among older adults declined dramatically from 35% in 1959 to around 15% in 1975, largely due to increases in Social Security benefits, and has since continued to decline to around 10%.

- Poverty among older adults in 2008 was 9.7%, lower than the rate for adults 19-64 (11.7%) or children (19%).
- In 2008, the federal poverty level for people 65 and older was annual income of $10,326 for an individual and $13,014 for a couple in which at least one member was 65+.
- The poverty rate in 2008 for older adults, 9.7% overall, varied by sex, marital status, race and ethnicity, age and education.

Poverty rates for 65+ population

All 65+: 9.7%

Women: 11.9%	Not Married: 15.5%	Hispanic: 19.3%	80+: 11.5%	<12 yrs school: 19.3%
Men: 6.7%	Married: 4.9%	Black: 19.3%	70-79: 10.2%	HS grad: 8.2%
		White: 7.6%	65-69: 7.5%	College grad: 4.4%

(Congressional Research Service, 2009)

- *What impact will the financial crisis have on poverty rates?*
- *What are the long-term effects for children who grow up in poverty?*

Questions for research and discussion:

- *What incentive structures would encourage older people to work longer? What barriers and disincentives affect labor force participation rates among older people?*
- *What are the most effective tools for helping people better anticipate the financial needs of longer lives? What are the financial skills and tools necessary for appropriate decision making and planning regarding savings, retirement benefit plans, retirement age, housing choices and health care expenditures in an age of rising costs and asset volatility?*

QUESTIONS FOR RESEARCH AND DISCUSSION

To stimulate discussion about these interrelated issues, selected questions from each section are compiled below.

Aging

- *How will attitudes, behaviors and public policies change as the baby boom generation reaches 65?*
- *How should we change our old-age support programs — Medicare, Medicaid and Social Security — and other age-related polices so that we, as a society and as individuals, can realize the benefits of increased longevity without being overwhelmed by the costs?*
- *What are the economic consequences, now and for future generations of taxpayers, if we fail to adapt our policies to the changing reality of an older population?*

Diversity

- *How will voting patterns and social spending priorities change as the racial and ethnic composition of the country changes?*
- *How does aging differ among the racial and ethnic groups? What are the implications of these differences for well-being among various groups?*
- *How should policy makers account for racial, ethnic and other socio-economic differences in developing strategies to maximize societal well-being?*
- *What are the political ramifications of having an increasingly Hispanic work force pay taxes to fund Social Security and Medicare for the largely white non-Hispanic 65+ population?*
- *How can policymakers capitalize on the growing work force to potentially offset the increasing economic burdens of an aging population?*

Housing

- *What challenges will people face as they "age in place" in the suburbs?*
- *What changes to the suburbs would make them more supportive for people of all ages and conducive to healthy and sustainable lifestyles?*
- *What incentives would lead individuals and communities to make realistic provisions for their long-term care needs and living arrangements, without adding to the already substantial budgetary pressures governments face because of aging populations?*
- *What home-based services available in traditional communities would allow people to remain independent longer? How can communities and states insure that there will be sufficient institutional capacity?*
- *What are the characteristics of age-friendly communities and what are the critical indicators of success?*

Health

- *Will rising levels of obesity cancel out or even reverse projected increases in life expectancy? What is the best way to tackle obesity, and how much would be saved by reversing the trend?*
- *What particular lines of research in arthritis prevention or detection, and what potential new treatments, are most promising in the quest to reduce the number of associated activity limitations and allow people to continue to work and stay active?*
- *Will mortality rates for dementia continue to rise? What medical breakthroughs might reduce the prevalence, age of onset or speed of progression?*
- *How will rising health care spending threaten personal and national financial security as the population ages?*

Personal Finance

- *What incentive structures would encourage older people to work longer? What barriers and disincentives affect labor force participation rates among older people?*
- *What are the most effective tools for helping people better anticipate the financial needs of longer lives? What are the financial skills and tools necessary for appropriate decision making and planning regarding savings, retirement benefit plans, retirement age, housing choices and health care expenditures in an age of rising costs and asset volatility?*

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New Realities of an Older America:
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