THE IMPACT OF INFLATION ON THE ELDERLY

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The elderly are frequently singled out as the group affected the most by inflation, primarily because of generally low, fixed income levels. Since the mid-1960's, however, both public and private actions have helped to offset some of the adverse effects of inflation on the elderly. For example, liberal increases in Social Security benefits in recent years have resulted in a rapid growth of real income for the elderly (greater than that achieved by the the general population).

According to this study of the effects of inflation on the elderly, there is little evidence to suggest that the cost of living has risen faster for the elderly than for the population as a whole. While consumer price increases for certain types of goods and services—such as food at home, shelter, and public transportation—hurt the elderly more than the urban wage and clerical worker, price increases for other items—such as food away from home, apparel and upkeep, and private transportation—affect them less. Moreover, the implementation of Medicare has resulted in a reduction of the share of income the elderly must devote to medical expense.

The effect of inflation on assets held by the elderly is more difficult to ascertain than for income. The principal asset of most elderly persons is a home. While property values have increased sharply since the early 1960's, property taxes and maintainenance costs have risen even more steeply. Financial assets held by the majority of elderly persons are relatively small, and apparently the recent wave of inflation has had only a minor effect on the income that the elderly receive from these assets.

Inflation presents many problems. One problem is that inflation—and attempts to curb it—affects the distribution of income and wealth of different groups in unequal ways. Some people are gainers and others are losers. Of all major groups, the elderly are widely believed to be among the principal victims of inflation. Typical of that view among economists is the statement by one former chairman of the Council of Economic Advisers,

> It is remarkably difficult to determine who gained and who got hurt (by inflation) in terms of real income. The retired aged are the only major specific demographic group of Americans that I can confidently identify as income losers.[1]

The impact of inflation on the elderly has been a matter of serious concern within the Congress, as exemplified by the following:

> Inflation is widely regarded as 'unfair' in its effects on income distribution. All too little is known about the distributional effects of inflation, and much more research needs to be done in this area. One group which obviously is hurt by inflation is older persons living on fixed retirement income.[2]

This article focuses on some of the major aspects of inflation as they affect the economic well-being of this nation's elderly population. First, the article discusses the general nature of the problem and some limitations inherent in the analysis of the data. At the forefront, emphasis is placed on the problem of inflation and the elderly poor and on how the poverty status of the aged has changed during the past decade or so. The question of the effects of inflation on expenditure patterns, cost of living, and income levels of the elderly is then examined. Because Social Security benefits figure importantly in the income of the aged, the history of changes in these benefits against the background of rising prices and wages is analyzed. The labor force status of the elderly, another major factor affecting income, is also discussed. Finally, the article examines the impact of inflation on the homeownership and financial asset positions of the elderly.

GENERAL NATURE OF THE PROBLEM

Rising prices have characterized the United States economy for most of the post-World War II period, and inflation has been a particular problem since the mid-1960's. The consumer price index rose at an average annual rate of 2.6 percent during the past quarter century and has averaged more than 4 percent a year since 1965. As a conservative estimate, most economists would probably agree that the cost of living is likely to rise by at least 2 percent a year for the next decade or so. Accordingly, for the person who retires today, the prospect of continued inflation is a serious matter. At age 65, life expectancy ranges from 12.1 years for nonwhite males to 16.4 years for white females, with 14.6 years the average for all persons. By way of example, a 2.6 percent annual rate of inflation would increase the cost of living by about one-third in 11 years, and by one-half in just less than 16 years.

There are more than 20 million persons in the United States—about 10 percent of the population—aged 65 or over. Most of the elderly have relatively low incomes, which are subject to an erosion of purchasing power as prices rise. In 1971, more

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[1] Arthur M. Okun, "Inflation: The Problems and Prospects Before Us," *Inflation: The Problems It Creates and the Policies It Requires,* (New York, New York University Press, 1970.)

[2] U. S. Congress, Joint Economic Committee, *Price and Wage Control: An Interim Report.* (Washington, D. C.: Government Printing Office, 1972.)

than half of all households with the head aged 65 or over had incomes below $4,000. About 5 million elderly Americans are living under conditions of poverty. Financial assets held by most elderly persons are also relatively low, and the annual income from those assets typically is only a few hundred dollars. Inflation can affect both the purchasing power and the yields of financial assets.

Fortunately, there are measures to reduce or offset some of the adverse effects of inflation on the elderly. Such measures may stem from actions by private institutions, by Federal, state, and local governments, or may be the result of impersonal market forces. For example, in recent years, there has been a considerable amount of Congressional legislation undertaken on behalf of the elderly (no doubt stimulated by cognizance of the damage that inflation was inflicting upon the aged—or the damage that would be done if action were not taken). Of all major groups in the economy, Social Security recipients have experienced the most pronounced adjustment to inflation in recent years. Benefits have been increased well in excess of the rise in the cost of living since 1965. Other sources of income of the elderly, such as interest and rent, wages and salaries for those who work beyond age 65, welfare payments, and many types of pensions also tend to adjust to rising price levels (albeit at irregular rates and with varying lags). In short, partly because of inflation, income levels of most elderly persons have risen by more than the price level during the past five years (as will be discussed later).

Cause and effect relationships between inflation and other economic variables tend to run in several directions. Consequently, it is a difficult task to disentangle the effects of inflation from other economic forces on the economic well-being of the elderly (or for that matter, any particular group in our society). Economic well-being, or the standard of living, basically reflects the level and pattern of expenditures, which depend importantly on income and relative prices. As shown by the diagram in Chart 1, inflation is one major factor affecting both income and spending, while spending patterns in turn influence things such as job opportunities for the elderly and the rate of inflation itself.

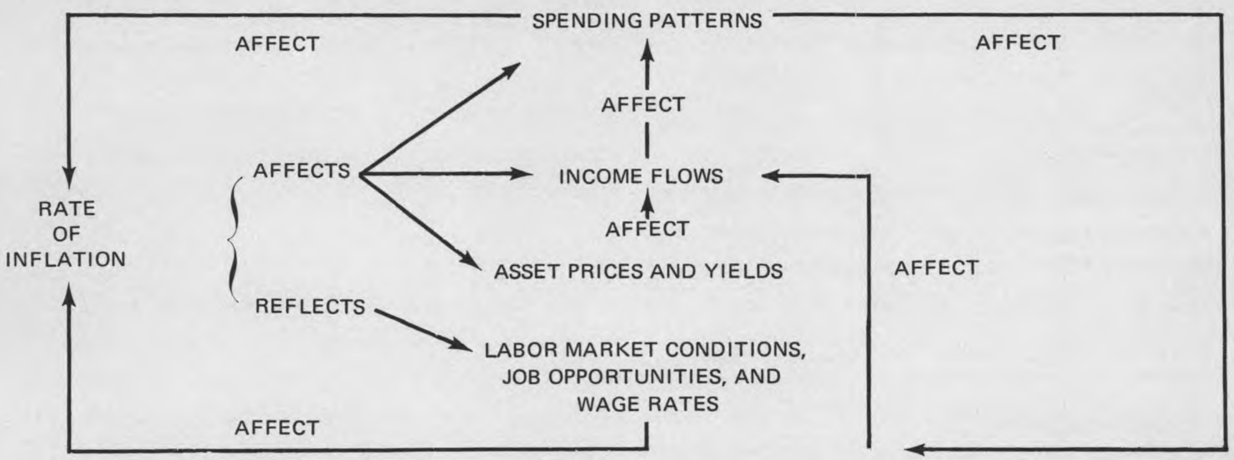
THE ELDERLY POOR

Any rise in the cost of living—even moderate increases of a few percentage points over the short run—can seriously impinge on the living standards of the aged who are considered poor.[3] As shown in Table I, the poverty threshold in 1971 for a two-person elderly family was less than $2,500, and less than $2,000 for elderly unrelated individuals (those living alone or with nonrelatives). Various public and private programs have had a major impact on reducing the incidence of poverty among the elderly during the past decade, despite the inflationary conditions of the late 1960's. The proportion of elderly families and unrelated individuals below the poverty level declined significantly between 1959 (the first year for which poverty data are available) and 1969. Further progress was made between 1969 and

[3] Poverty is a subjective concept, depending on factors such as age, size, and composition of a family, and place of residence. Poverty thresholds for elderly persons (and other demographic groups), based on the minimum money income necessary to support a family of a given composition at the lowest level consistent with the standards of living prevailing in this country, have been estimated by the Federal Government. The poverty thresholds are revised each year in line with increases in the cost of living. See Mollie Orshansky, "How Poverty is Measured," *Monthly Labor Review,* February 1969.

CHART 1.

INTERACTION OF INFLATION WITH KEY ECONOMIC VARIABLES



1971. Notwithstanding the improvement that has occurred, there were still more than one million elderly families and more than 2.5 million elderly unrelated individuals who lived below the poverty threshold in 1971.

An income equal to 125 percent of the poverty threshold is considered near-poverty status, according to the Federal Government. In 1971, more than one-fifth of the elderly families headed by a male had incomes below 125 percent of the poverty threshold (that is, their incomes were under $3,012). Almost one-third of the elderly families with a female head were living in poverty or near-poverty conditions last year. Of all aged groups, females living alone or with nonrelatives are the least well off (almost 60 percent lived in poverty or barely above the poverty level in 1971). Elderly unrelated Negro females, in particular, are overwhelmingly poor.

Without public welfare programs, the poverty numbers cited in Table I would be even larger. More than 2 million persons received Old-Age Assistance in 1971, with an average monthly payment of $77.50. The incidence of poverty among the elderly should be reduced further by Congressional legislation enacted in October 1972.

EXPENDITURE PATTERNS OF THE ELDERLY AND THE COST OF LIVING

Inflation will erode the real value of goods and services received from a steady stream of expenditures. The 25 percent increase in the consumer price index from 1967 to mid-1972 means that the purchasing power of the average consumer's dollar has declined to 80 cents. In other words, in mid-1972, one dollar could buy only 80 percent of the market basket of goods and

TABLE I

Poverty Status of Elderly Persons
1959, 1969, and 1971
(Thousands of Persons and Percent Distribution)

Families	Number as of March 1972	Poverty Threshold 1971	Below 125 percent of Poverty Level, 1971		Below Poverty Level, 1971		Below Poverty Level, 1969	Below Poverty Level, 1959
			Number	Percent	Number	Percent	Percent	Percent
Male head, 65 and over	6,461	$2,450*	1,382	21.4%	828	12.8%	16.4%	29.1%
Female head, 65 and over	1,017	2,437*	334	32.8	234	23.0	23.6	28.8
Unrelated Individuals								
Males, 65 and over	1,365	1,959†	627	45.9	445	32.6	39.8	59.0
Females, 65 and over	4,695	1,934†	2,797	59.6	2,118	45.1	49.9	63.3
White	4,348		2,509	57.7	1,884	43.3	47.7	55.6
Negro	334		282	84.4	228	68.4	77.4	84.6

NOTE: Details may not add to totals because of rounding.
* Two-person families on nonfarm residence. Poverty thresholds in 1971 for elderly farm families with male heads and female heads were $2,081 and $2,089, respectively.
† Nonfarm residence. Poverty thresholds in 1971 for elderly unrelated individuals living on farms were $1,666 for males and $1,643 for females.

Source: U. S. Department of Commerce

services that one dollar bought in 1967.[4] Inflation also influences the pattern of spending. If relative prices of various goods and services change during inflation, as they usually do, people tend to rearrange their spending patterns to the extent that substitution is possible.

Unquestionably, inflation—coupled with the rise in income—has affected the level and composition of expenditures by the elderly over time. The 1972-1973 Survey of Consumer Expenditures, now being conducted by the Bureau of Labor Statistics, will shed some light on this matter when the results become available.

The latest information on actual spending patterns of the elderly, for the years 1960-1961, is shown in Table II. Compared with urban wage earners and clerical workers, retirees allocated relatively more of their budget for current consumption on food at home, shelter (both rental and homeownership), fuel and utilities, public transportation, and medical care. Price increases for these types of goods and services therefore hurt the retiree more than the urban wage and clerical worker. Retirees spent relatively less of their budget on food away from home, apparel and upkeep, private transportation, personal care, reading and recreation, and other goods and services. Price increases for these items hurt the retiree proportionately less than the urban wage and clerical worker.

On balance, there is little evidence that the cost of living has risen faster for the elderly than for the general population. Reweighting the price changes for twelve major spending categories of

[4] The purchasing power of the dollar varies inversely with the rise in prices. Thus a price increase of 25 percent (125/100) is equivalent to a 20 percent decline in purchasing power (100/125).

TABLE II

Distribution of and Percent Change in Major Expenditure Classes in the Consumer Price Index
Retirees and Urban Workers
Selected Periods

Expenditure Class	Percent Distribution of Expenditures* Retirees	Urban Workers	Change in Price 1960-1961 to mid-1972†	1967 to mid-1972†
Food	26.4%	25.2%	39.5%	23.6%
At home	22.6	20.0	35.2	21.7
Away from home	3.8	5.2	59.3	31.1
Housing	33.9	28.4	42.7	29.3
Shelter	16.8	13.3	52.5	34.5
Rent	7.7	6.5	28.8	18.9
Homeownership	8.3	6.3	61.9	40.2
Fuel and utilities	6.6	4.4	24.6	20.2
Household furnishings and operation	10.5	10.7	29.1	21.1
Apparel and upkeep	6.8	10.7	35.1	21.6
Transportation	11.0	15.1	33.3	20.1
Private	8.9	13.5	29.2	17.6
Public	2.1	1.6	72.9	43.2
Health and recreation	21.9	20.6	46.9	26.2
Medical care	10.2	6.2	65.1	32.6
Personal care	2.7	3.0	32.7	20.0
Reading and recreation	3.9	5.7	39.3	23.0
Other goods and services	5.1	5.7	42.5	25.7
All items	100.0%	100.0%	40.5%	25.3%

* 1960-1961.
† Average of June-July, 1972

Source: U. S. Department of Labor

urban wage and clerical workers by the expenditure weights of retirees indicates that, since 1960-1961, the cost of the retiree's market basket of goods and services has risen only 2 percentage points more than that of the urban wage and clerical worker. That extra 2 percent appears to have been offset by the effect of the Medicare program, which has helped to relieve the elderly (and their children) from the financial burden of illness in old age. Despite the rapid rise in the costs of medical care during recent years, out of pocket payments by the elderly for medical care declined from an average of $234 in fiscal year 1966 (the year before Medicare became effective) to $225 in fiscal year 1971. After reducing the 1960-1961 weight of the retiree's expenditures for medical care by 40 percent (to compensate for Medicare), the cost of living appears to have risen by virtually the same amount for retirees as for urban wage and clerical workers since 1967.

The reader should be cautioned that the crude reweighting procedures (referred to above) do not provide an accurate measure of any differences in the rise in living costs between retirees and urban wage and clerical workers. The expenditure categories are too broadly defined to permit accurate comparisons. For example, the 62 percent increase in the cost of homeownership since 1960-1961 has been significantly influenced by the rise in mortgage interest rates, which account for about one-fifth the weight of homeownership. Most elderly homeowners, however, do not have any mortgage debt. As another case in point, the medical care component of the consumer price index would be inappropriate for the elderly because it includes items such as obstetrical care and pediatricians' services.

It would be extremely useful if there were a consumer price index (CPI) designed specifically for retirees. The increasing use of escalation clauses in public and private pension plans (based on the CPI) indicates that there is a need for a retiree's CPI.[5] Such an index would be weighted by the types of goods and services purchased by retirees (according to the types of stores where they shop), and by the appropriate geographical population weights of the elderly.

INCOME OF THE ELDERLY

Until evidence is available as to what a price index for retirees would show, it seems logical to assume that the rise in the cost of living for elderly persons has not differed significantly from that experienced by the younger urban population. Income then becomes the crucial factor for determining the course of economic well-being among the elderly during an inflationary period. The following considerations are among the most important: First, how does the level of income of elderly persons compare with the national average? Second, have gains in income of the elderly been keeping pace with the national average over time? Last, but not least, what has been the trend in real income of the elderly—i.e., how has income changed after allowance for rising prices?

Median income of all families in the United States is used in Table III as a benchmark in comparing income trends of elderly persons since 1960. In that year, median income of families where the head is age 65 or over was 51.5 percent of the median income of all families. Median income of elderly unrelated individuals was only 36.3 percent of the level attained by elderly families. In judging the adequacy of these income levels of the elderly, it should be noted that both individual and family budgets for a given level of earning vary considerably because of factors such as family size and composition, age, and location. The Bureau of Labor Statistics has estimated that a two-person family where the head is age 65 or over would need 52 percent of the income required by a typical family to provide the same level of living.[6] Equivalent consumption costs for single retired persons living alone are estimated to be 55 percent of the consumption total for a retired couple. Thus, the standard of living of the majority of elderly unrelated individuals in 1960 was (and still is) below that achieved by the average elderly family.

During the 1960-1965 period, when the consumer price index rose at an average annual

[5]See Janet L. Norwood, "Cost-of-Living Escalation of Pensions," *Monthly Labor Review,* June 1972.

[6]The typical or base family consists of a working husband, age 35-54, a wife, and two children (the older child between 6 and 15 years). See *Revised Equivalence Scale for Estimating Equivalent Incomes or Budget Costs by Family Type,* Bulletin No. 1570-2, U. S. Department of Labor, November 1968.

TABLE III

Trends in Median Income
Selected Years

Year	Median Income: All Families		Median Income: Families with Head Aged 65 & Over		Median Income: Unrelated Individuals Aged 65 & Over		Ratio of Median Income: 65 & Over Families to All Families	Ratio of Median Income: 65 & Over Unrelated Individuals to 65 & Over Families
1960	$5,620		$2,897		$1,053		.515	.363
1965	6,882	(22.5%)	3,460	(19.4%)	1,348	(28.0%)	.503	.390
1966	7,436	(8.0%)	3,645	(5.3%)	1,443	(7.0%)	.490	.396
1967	7,974	(7.2%)	3,928	(7.8%)	1,480	(2.6%)	.493	.377
1968	8,633	(8.3%)	4,592	(16.9%)	1,734	(17.2%)	.532	.378
1969	9,433	(9.3%)	4,803	(4.6%)	1,855	(7.0%)	.509	.386
1970	9,867	(4.6%)	5,053	(5.2%)	1,951	(5.2%)	.512	.386
1971	10,285	(4.2%)	5,453	(7.9%)	2,199	(12.7%)	.530	.403
Change 1965-1971		49.4%		57.6%		63.1%		

NOTE: Percent changes from preceding period in parentheses.

Source: U. S. Department of Commerce

rate of 1.3 percent, median income of elderly families increased 3 percent less than median income of all families, while median income of elderly unrelated individuals rose about 5 percent more than that of all families. As a result, the relative income position of elderly families worsened slightly during the first half of the 1960's, while the relative income position of elderly unrelated individuals improved somewhat. Between 1965 and 1971, when the consumer price index rose at an average annual rate of 4.3 percent, income gains of both elderly families and elderly unrelated individuals outstripped median income gains of all families. Relative income positions of the aged were therefore better in 1971 than in 1965 or 1960.

Data in Table IV provide evidence that the aged, in general, have not been hurt by the inflationary conditions of the late 1960's. As shown in the table, there was a considerable improvement in the growth rate of real income of elderly persons between 1960-1965 and 1965-1971, particularly for elderly females. All categories of the elderly (families, unrelated individuals, males, and females) enjoyed growth rates in real income above the national average.

Social Security and Other Pensions. The old-age, survivors, disability, and health insurance program (more commonly referred to as Social Security) provides the basic source of income for the overwhelming share of the retired population. Ninety-three percent of America's citizens reaching age 65 in 1972 are eligible for Social Security benefits. About 28 million persons are currently receiving Social Security benefits, including 18 million persons aged 65 and over. (Persons under age 65 receiving Social Security benefits include 1.4 million retired workers, 1.7 million disabled workers, and 6.5 million survivors and dependents.)

In view of the growing importance of Social Security, the record of Congress in periodically

TABLE IV

Average Annual Rate of Change in Median Income
Based on Constant Dollars
1960-1971

	1960-1965	1965-1971
All families	2.8%	2.6%
Families with head, 65 & over	2.3	3.5
Unrelated individuals, 65 & over	3.7	4.1
All males, 14 & over	2.1	1.8
Males, 65 & over	3.2	4.1
All females, 14 & over	3.1	3.1
Females, 65 & over	2.4	5.1

Source U. S. Department of Commerce

TABLE V

Percent Changes in Social Security Benefits, Consumer Prices, and Average Hourly Earnings*

Date of Increase in Social Security Benefits	Average Benefit Increase	Change in CPI Since Last Benefit Increase	Change in Average Hourly Earnings Since Last Benefit Increase
August 1952	12.5%	9.4%†	12.9%
September 1954	9.0	0.4	8.5
January 1959	7.0	8.0	21.9
January 1965	7.0	7.8	18.9
February 1968	13.0	9.3	14.0
January 1970	15.0	10.8	11.9
January 1971	10.0	5.2	6.4
September 1972	20.0	5.9	10.0

* Production workers, manufacturing.

† Measured from September 1950 to August 1952. (First amendment to Social Security Act was in September 1950, when benefits were raised between 50 percent and 100 percent.)

Sources: U. S. Department of Health, Education, and Welfare; U. S. Department of Labor

adjusting benefits to compensate for the rise in the cost of living and to provide recipients an increased standard of living merits some examination. The history of benefit adjustments, shown in Table V, is spotty—at least until 1968. Since the original Social Security Act was passed in 1935, Congress has raised benefits on nine occasions. The first and largest adjustment took place in 1950 and was aimed at restoring the purchasing power of benefits deteriorated by the inflation of World War II. After 1950, increases in Social Security were not always large enough to offset the rise in consumer prices that had occurred since the previous benefit increase. Amendments of 1959 and 1965 are cases in point. It should also be emphasized that, during intervals between benefit increases, inflation has continuously eroded the value of fixed benefits. Apart from cost of living considerations, benefit increases during the better part of the past two decades failed to match the wage gains achieved by workers. Social Security recipients therefore frequently suffered an erosion of purchasing power of their benefits, or their standard of living failed to rise in line with that of the working population.

Beginning in 1968, Congress has been far more liberal with benefit increases than previously. The Social Security increases of 1968, 1970, 1971, and 1972 amounted to a cumulative gain of 71.5 percent, well above the rise in prices or wages. With the Social Security Amendments that were enacted in July 1972, for the first time Congress included an escalator clause that provides for an automatic increase in benefits to keep pace with the rise in the cost of living. Under the new law, Social Security benefits will be increased whenever the consumer price index rises by 3 percent or more.[7]

In recent years, it has been the express intent of Congress to raise Social Security benefits by more

[7] Barring future Congressional legislation raising Social Security benefits, the first escalator increase could occur in January 1975 if the consumer price index in the second quarter of 1974 is at least 3 percent above the CPI of the third quarter of 1972.

TABLE VI

Cumulative Percent Changes in Social Security Benefits, Consumer Price Index, and Wages* from Date of Retirement to Date of Increase in Benefits
1955-1972

Retiree (Month/ Year)	January 1959			January 1965			February 1968			January 1970			January 1971			September 1972		
	S.S.	CPI	Wages	S.S.	CPI	Wages	S.S.	CPI	Wages	S.S.	CPI	Wages	S.S.	CPI	Wages	S.S.	CPI	Wages
6/55	7.0	8.4	17.9	14.5	16.9	40.2	29.4	27.7	59.8	48.8	4.14	78.8	63.7	48.8	90.2	96.3	56.9	106.0
6/56	7.0	6.6	11.3	14.5	15.0	32.3	29.4	25.7	50.8	48.8	39.2	68.7	63.7	46.4	79.5	96.3	54.4	94.4
6/57	7.0	3.0	6.4	14.5	11.0	26.5	29.4	21.4	44.1	48.8	34.4	61.3	63.7	41.4	71.6	96.3	49.1	85.8
6/58	7.0	0.1	3.3	14.5	8.0	22.9	29.4	18.0	40.0	48.8	30.7	56.7	63.7	37.5	66.7	96.3	45.0	80.5
6/59				7.0	7.2	16.7	20.9	17.2	33.0	39.0	29.8	48.9	52.9	36.5	58.4	83.5	44.0	71.5
6/60				7.0	5.5	14.2	20.9	15.3	30.1	39.0	27.7	45.6	52.9	34.4	54.9	83.5	41.7	67.7
6/61				7.0	4.7	11.2	20.9	14.4	26.7	39.0	26.7	41.8	52.9	33.3	50.9	83.5	40.6	63.4
6/62				7.0	3.4	7.9	20.9	13.0	23.0	39.0	25.2	37.7	52.9	31.7	46.4	83.5	38.9	58.6
6/63				7.0	2.1	4.9	20.9	11.6	19.5	39.0	23.6	33.7	52.9	30.0	42.3	83.5	37.1	54.1
6/64				7.0	0.8	2.0	20.9	10.1	16.2	39.0	22.0	30.0	52.9	28.3	38.3	83.5	35.3	49.8
6/65							13.0	8.0	12.6	30.0	19.6	26.1	43.0	25.9	34.1	71.5	32.7	45.2
6/66							13.0	5.4	8.5	30.0	16.7	21.4	43.0	22.8	29.2	71.5	29.5	39.9
6/67							13.0	2.6	4.3	30.0	13.6	16.7	43.0	19.6	24.1	71.5	26.1	34.4
6/68										15.0	8.9	9.7	26.5	14.6	16.7	51.8	20.9	26.3
6/69										15.0	3.3	3.5	26.5	8.7	10.1	51.8	14.6	19.2
6/70													10.0	2.5	4.2	32.0	8.1	12.8
6/71																20.0	3.5	10.2
6/72																20.0	1.0	1.6

* Average hourly earnings, production workers in manufacturing.

Sources: U. S. Department of Labor; U. S. Department of Health, Education, and Welfare

than the rise in prices in order to provide the elderly and other Social Security beneficiaries with a higher standard of living. Even though recent benefit increases have been large in percentage terms, the bases on which they were computed have been relatively low. Thus, the September 1972 benefits for an average retired couple were raised to $270 a month, or $3,240 a year (which is about 68 percent of the budget the BLS estimates is necessary to provide an intermediate level of living for a retired couple as of autumn 1971). The new legislation raises benefits for the typical retired individual to $161 a month, or $1,932 a year (which is still below the poverty threshold and only 70 percent of the BLS intermediate budget for aged single persons).

How well retirees covered under the Social Security program have fared over time (that is, the extent to which benefits have kept pace with inflation and the general improvement in the standard of living of the working population) depends on when a worker retired. Table VI documents the history of Social Security benefits, prices, and wages (from the standpoint of retirees as of June each year beginning with 1955).[8] A worker who retired in June 1955, had to wait until January 1959 to receive a 7 percent increase in Social Security benefits. Meanwhile, prices had risen 8.4 percent and wages had risen 18 percent.

[8] Less than 8 percent of retired workers currently drawing Social Security benefits retired prior to 1955.

Benefits for the 1955 retiree still lagged the rise in prices and wages with the Social Security increase in January 1965. Not until February 1968, did benefits for the 1955 retiree catch up with the cumulative rise in prices since retirement, and only with the September 1972 Social Security increase did his benefits begin to approach parity with the cumulative wage increases that had occurred since retirement.

Retirees of more recent years have fared much better than those who retired in the 1950's or early 1960's. For example, a 1967 retiree has experienced gains in Social Security benefits consistently above increases in prices and wages. As of September 1972, the 1967 retiree had been given a cumulative increase in benefits amounting to 72 percent, while prices had risen 27 percent and wages 37 percent since June 1967.

Chart 2 provides graphic perspective on trends in Social Security benefits, prices, and wages for retirees of 1959 and 1965.[9] The step increases in benefits are shown against the background of continuous increases in prices and wages, with the gaps periodically widening and then narrowing. Clearly, the 1965 retiree has had a more favorable experience than the 1959 retiree.

Some public retirement programs, in addition to Social Security, provide a purchasing power guarantee, based on either the rise in consumer prices or wage levels. Since 1963, military pensions have been adjusted automatically by the behavior of the consumer price index. Pensions for Federal civil service retirees and their beneficiaries have been raised automatically since 1965 by a formula linking benefits to increases in the cost of living. The Federal judiciary system and some state and local government agencies increase retirement benefits in line with changes in wage levels of the positions formerly held by the retiree.[10]

About 5 million persons in the United States currently receive private pensions. Most private pension programs, with the exception of a large number of collectively bargained plans, do not automatically raise benefits for retired workers.[11] As a general matter, that portion of the elderly's income provided by a private pension appears to be most vulnerable to a depreciation of purchasing power during inflation. Although comprehensive information is not available, the inflation of recent years has induced a number of ad hoc adjustments in the private pensions of workers already retired. (Retirees of the 12 Federal Reserve Banks, for example, have experienced ad hoc cost of living adjustments.)

Labor Force Status of the Elderly. The net impact of inflation on the elderly depends to some extent on whether public policy is passively allowing inflation to occur. For example, when tight labor markets accompany inflation (as in the late 1960's), an inflationary environment actually may benefit the elderly, on balance, to the extent that more jobs are available for those who wish to supplement their incomes. (It should be noted that the Social Sacurity laws have always included a restriction on earnings without loss of some benefits; in the legislation enacted in October

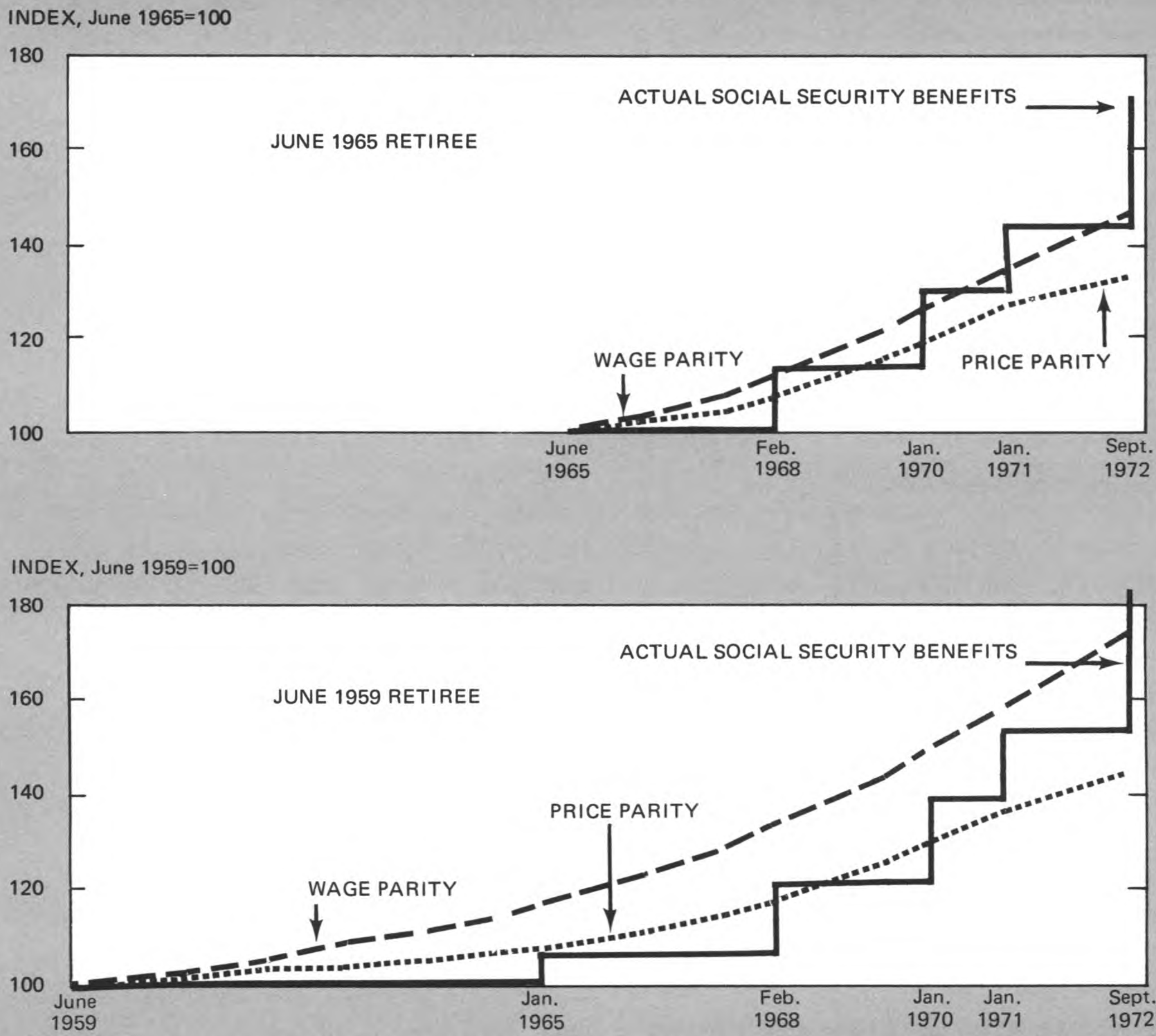
[9] More than three-fourths of the retirees currently drawing benefits retired after 1958.

[10] See Daniel N. Price and Robert O. Brunner, "Automatic Adjustment of OASDHI Cash Benefits," *Social Security Bulletin,* May 1970.

[11] See Walter W. Kolodrubetz, "Two Decades of Employee-Benefit Plans, 1950-1970: A Review," *Social Security Bulletin,* April 1972; Peter Henle, "Recent Trends in Retirement Benefits Related to Earnings," *Monthly Labor Review,* June 1972; and Janet L. Norwood, *op. cit.*

CHART 2.

SOCIAL SECURITY BENEFITS FOR RETIREES OF JUNE 1959 AND JUNE 1965, AND BENEFITS NEEDED TO MAINTAIN PARITY WITH WAGES AND PRICES FROM DATE OF RETIREMENT



Last entry: September 1972

Source: U. S. Department of Labor; Department of Health, Education and Welfare

TABLE VII

Labor Force Status of Persons Aged 65 & Over
Selected Years

Males	1960	1965	1969	1970	1971
Participation rate	33.1%	27.9%	27.2%	26.8%	25.5%
Number in labor force (000's)	2,287	2,131	2,170	2,164	2,089
Percent unemployed	4.2%	3.5%	2.2%	3.3%	3.4%
Percent working full time*	45.5	46.2	46.4	43.7	42.5
Percent working part time, voluntarily*	16.3	20.4	23.7	25.1	25.0
Percent working part time, economic reasons*	3.1	1.9	2.1	2.1	2.2
Females					
Participation rate	10.8%	10.0%	9.9%	9.7%	9.5%
Number in labor force (000's)	907	976	1,056	1,056	1,057
Percent unemployed	2.8%	2.8%	2.3%	3.1%	3.6%
Percent working full time*	49.2	44.9	44.8	44.8	39.2
Percent working part time, voluntarily*	33.3	35.9	40.2	39.1	41.3
Percent working part time, economic reasons*	4.0	3.8	2.6	3.3	3.8

* Payroll employment, nonagricultural industries. Unallocated share employed in agriculture or self-employed.

Source: U. S. Department of Labor

1972, maximum earnings without any reduction in benefits were raised from $1,680 to $2,100 a year.) On the other hand, when public policy is actively attempting to curb inflation by restraining the rise in aggregate demand, which leads to higher unemployment rates (as in 1970 and 1971), job opportunities for the elderly can be adversely affected.

Data in Table VII provide evidence that the foregoing occurred. As shown in the table, there are about 2 million elderly males and I million elderly females in the labor force, most of whom are employed either full- or part-time. When the rate of inflation accelerated between 1965 and 1969 and labor markets tightened, there was an increase in employment among the aged and a decline in unemployment. By 1969, the unemployment rate of elderly males had declined to a post-World War II low of 2.2 percent, while unemployment among elderly females was at a similar low rate of 2.3 percent. Between 1969 and 1971, when growth in aggregate demand slowed in response to anti-inflationary public policies, unemployment rates of both elderly males and females increased, and there was a decline in the percent of the aged labor force working full-time.

ASSETS OF THE ELDERLY

It is far more difficult to assess the impact of inflation on the asset position of the elderly than on their income position. One reason is that comprehensive asset data are not published on a regular basis. The price of each asset, or its yield, probably adjusts to inflation in its own unique way, and it would be difficult to find any single asset whose price or yield is perfectly correlated with the rate of inflation.

One major asset held by most elderly persons is a home. As shown in Table VIII, the overwhelming

TABLE VIII

Homeownership Status of Elderly Units, 65 Years & Over
1967

Distribution	All Units	Married Couples	Nonmarried Persons
Total elderly units (000's)	15,779	5,989	9,789
Homeowners (000's)	8,234	4,598	3,635
Percent of total	52%	77%	37%
Reporting on home equity (000's)	7,102	4,086	3,016
Equity			
Under $5,000	15%	13%	18%
$5,000-$9,999	25	24	26
$10,000-$14,999	23	24	23
$15,000-$19,999	16	16	16
$20,000 or more	21	23	17
Total	100%	100%	100%
Median equity	$11,000	$12,000	$10,000
Percent of homeowners mortgage fee	82%	79%	86%

Source: U. S. Department of Health, Education, and Welfare

majority of elderly married couples and a significant number of elderly nonmarried persons are homeowners. Most of these homeowners have no mortgage debt, and the 1967 median equity values of their homes were in the range of $10,000 to $12,000 (probably somewhat higher in 1972). The fact that elderly persons who live in their own homes receive an imputed income should also be taken into consideration.

Inflation can be a mixed blessing for elderly homeowners. On the one hand, property values of their homes presumably increase during inflation, more or less in line with values of new homes. According to the Bureau of the Census, prices of new one-family homes have risen more than 40 percent since 1964 and more than 27 percent since 1967.[12] But rising property values do not necessarily benefit the elderly unless they sell their homes, and many are reluctant to do so. If they sell, there is still the problem of buying another home or renting at current values, or investing the proceeds of their equity position to protect the purchasing power. Increases in property taxes can impose a severe burden on elderly homeowners. Since 1964, property taxes have risen by 65 percent, the cost of maintenace and repairs by58 percent, and home insurance rates by 47 percent. No doubt there are instances in which some elderly persons have been forced to sell their homes because they could no longer afford the outlays for taxes and upkeep.

According to a staff report of the Advisory Commission on Intergovernmental Relations,

> When compared to the property tax burden borne by the average family, the property tax load carried by elderly householders appears so heavy as to constitute a national scandal.[13]

[12]Those percent increases are based on actual sales prices of new homes that are essentially the same in physical characteristics (with the value of the land included).

[13]U. S. Advisory Commission on Intergovernmental Relations, preliminary draft report on property tax, September, 1972.

TABLE IX

Financial Assets and Income from Assets of Elderly Units, 65 Years & Over
1967

Distribution	All Units	Married Couples	Nonmarried Persons
Total	15,779	5,989	9,789
Reporting on financial assets (000's)	12,040	4,397	7,643
Amount of assets			
None	36%	26%	42%
$1-$999	19	17	19
$1,000-$2,999	12	15	11
$3,000-$4,999	7	8	6
$5,000-$9,999	10	12	9
$10,000-$19,999	8	11	7
$20,000 or more	8	13	5
Total	100%	100%	100%
Median amount			
All reporting units	$ 550	$1,800	$ 250
Units with financial assets	$3,000	$4,000	$2,200
Income from assets			
None or loss	52%	42%	57%
$1-$149	18	19	17
$150-$999	22	26	19
$1,000-$1,999	4	7	4
$2,000-$2,999	2	3	1
$3,000-$4,999	1	2	1
$5,000 or more	1	2	1
Total	100%	100%	100%
Median income of units with asset income	$250	$300	$210

Source: U. S. Department of Health, Education, and Welfare

The report states that in 1970, the average homeowner paid 3.4 percent of his income in residential real estate taxes, while elderly homeowners paid an average of 8.1 percent of their income in property tax. Over one million elderly homeowners with incomes less than $2,000 paid real estate taxes equal to 15.8 percent of their income, and in the high-tax Northeastern part of the nation, low-income elderly homeowners paid almost 30 percent of their income in property tax. The report, however, also notes that "States are beginning to take action to relieve extreme property tax overburdens, especially for the elderly."

Other than a home, relatively few aged persons have a significant amount of assets. Table IX shows the most recent data available covering the financial asset position of the elderly. The major types of financial assets include cash, deposits in banks, savings and loan associations, or credit unions, insurance, U. S. savings bonds, corporate stocks and bonds, and loans and mortgages. Other nonfinancial assets, which may produce income or at least yield services, include equity in homes, various durable goods such as autos, household appliances and furnishings, art collections, investment in business, and real estate.

Only 13 percent of elderly nonmarried persons had financial assets of $20,000 or more in 1967. More enlightening are the median values. Half of all elderly married couples had financial assets under $1,800, and half of all elderly unmarried persons had financial assets under $250. As indicated in the lower portion of the table, income received from the financial assets held by the elderly is relatively low, except for a very small share of the aged. About 14 percent of elderly married couples and 7 percent of elderly unmarried persons received income of $1,000 or more from their financial assets. For most elderly persons, income from financial assets is only a few hundred dollars.

Based on the data shown in Table IV, it seems safe to generalize that, for the large majority of elderly persons, inflation has only a marginal impact on the value of and income from financial assets. The limited financial assets of most elderly persons are mainly in the form of time and savings deposits at banks, savings and loan associations, and credit unions.[14] Maximum interest rates permitted by law on deposits of less than $100,000 have tended to discriminate against the small saver,. During the inflation of recent years, those who had a significant amount of financial assets often were able to realize yields (from, say, large certificates of deposit or corporate and Government bonds) well in excess of those obtained by small savings accounts at financial institutions.

Ownership of corporate stock is assuming a more important role for the elderly and for those who are planning for retirement.[15] According to the 1970 Census of Stockholders conducted by the New York Stock Exchange (NYSE), 4.3 million persons 65 or older (one-fourth of the elderly population) held stock in public corporations in 1970, up about 1 million persons from 1965. The group just below retirement age (55-64) numbered over 6 million in 1970, compared with 3.5 million in 1965. Some elderly persons with low incomes hold sizable stock investments. Within the household income group of under $10,000, there were 819,000 shareholders in 1970 with portfolios valued at over $25,000. The NYSE survey points out that those shareholders were primarily retirees who had built their portfolios during their working years, but were no longer receiving high incomes.

INFLATION AND LIFE INSURANCE BENEFITS TO THE ELDERLY

Inflation can significantly erode the purchasing power of life insurance benefits between the time a policy is taken out and benefits are paid. According to a recent survey, about 40 percent of total death benefits from ordinary life insurance is paid on lives of policyholders aged 65 and over. Twenty-nine percent of ordinary life insurance death benefits are paid on policies in effect 30 years or more, and about 17 percent is on policies in effect between 20 and 30 years.[16] A $10,000

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[14] See Janet Murray, "Homeownership and Financial Assets: Findings From the 1968 Survey of the Aged," *Social Security Bulletin,* August 1972.

[15] The impact of inflation on stock prices is, of course, an unresolved question. The consensus appears to be that stock prices fare better during periods of relative price stability than under inflationary conditions. One major reason is that nominal interest rates on bonds rise in response to inflation, and as a result, yields from common stocks become relatively less attractive.

[16] *Life Insurance Fact Book, 1971,* (New York: Institute of Life Insurance, [1971]).

life insurance policy purchased in 1942 and payable in 1972 to a widow (widows claim most death benefits) has the purchasing power of only $3,900 (in terms of the dollar's value 30 years ago). A $10,000 policy purchased in 1952 and payable in 1972 has had its purchasing power reduced to $6,360 (in terms of the dollar's value 20 years ago). It should be noted, however, that most of the premiums were also paid with dollars whose purchasing power was less than when the policy was purchased.

SUMMARY AND CONCLUSIONS

The major conclusion of this study is that the majority of elderly persons have not been adversely affected by the inflationary conditions of recent years. Although the aged have spending patterns different from the younger population, there is little evidence to support the view that the cost of living has been rising faster for elderly persons than for urban wage and salary workers. The behavior of income is the key factor in determining whether elderly persons are "hurt" during inflation. Compared with the relatively noninflationary years of the early 1960's, growth rates in real income for all major classifications of the elderly (families, unrelated individuals, males, and females) were higher during the inflationary years of the late 1960's and early 1970's. More importantly, the elderly population has experienced growth rates in real income above the national average during the latter period. Liberal increases in Social Security benefits since 1968, coupled with increasing use of escalator clauses to protect the purchasing power of pensions, have helped to bolster income of the elderly. However, the current level of Social Security benefits for the average single retiree is still below the poverty threshold. Tight labor markets and increased job opportunities that accompanied the inflationary conditions of the late 1960's benefited the elderly who wished to supplement their income through part-time or full-time work. Above-average income gains for the elderly in recent years have helped to lift many elderly persons out of poverty. Even so, a significant share of this nation's elderly population still lives in poverty or near-poverty conditions, particularly single elderly persons. Inflation can have a serious impact on the standard of living of the elderly poor.

The majority of elderly persons own their homes, which are mostly mortgage free. Although inflation has raised home property values significantly since the early 1960's, there have also been sharp increases in property taxes, insurance rates, and maintenance and repair costs. Elderly homeowners have been severely burdened with property taxes. Most elderly persons have little in the way of financial assets, and income from those assets typically is only a few hundred dollars per year. Accordingly, it would seem that inflation has relatively little impact on the financial asset position of the elderly compared with their income position. One final conclusion is that elderly widows who recieve life insurance benefits today on policies taken out by their husbands twenty or thirty years ago suffer a significant loss in the purchasing power of the proceeds.