

Chapter 3: Promoting Financial Self-Sufficiency

For most people, financial self-sufficiency is achieved through a combination of employment earnings and savings. Labor markets derived from the products and services produced in the state, reflect opportunities and result in earnings and benefits for state residents. Prior to 1970, a high school graduate could earn a modest living for a family of four. In more recent years, a modest standard of living has required two salaries and a college education for at least one of the two workers.

Employer-provided benefits, along with public programs such as Social Security, are critical in pooling the financial risks associated with many of life's contingencies. To successfully meet the financial challenges associated with a long life expectancy, individuals must still save for retirement and purchase insurance for gaps in coverage not provided through employer-provided benefits or public programs. The biggest gaps in coverage for older people are for health care expenses not covered by employer-provided benefits or Medicare and for long-term care. Moreover, older people whose largest source of retirement income is Social Security are not likely to be able to live much beyond a subsistence level without substantial savings.

Over the next 20 years, more and more people turning age 65 and older will have graduated from high school after 1970. This new population of seniors experienced a different labor market, including different employee benefits, than the labor market many of today's seniors experienced. The new population of seniors also confronted very different housing and equity markets than their predecessors. People turning age 65 and older in the next two decades have already adjusted for many of these differences by acquiring more education, delaying marriage, having fewer children, and living in families where both spouses are working.

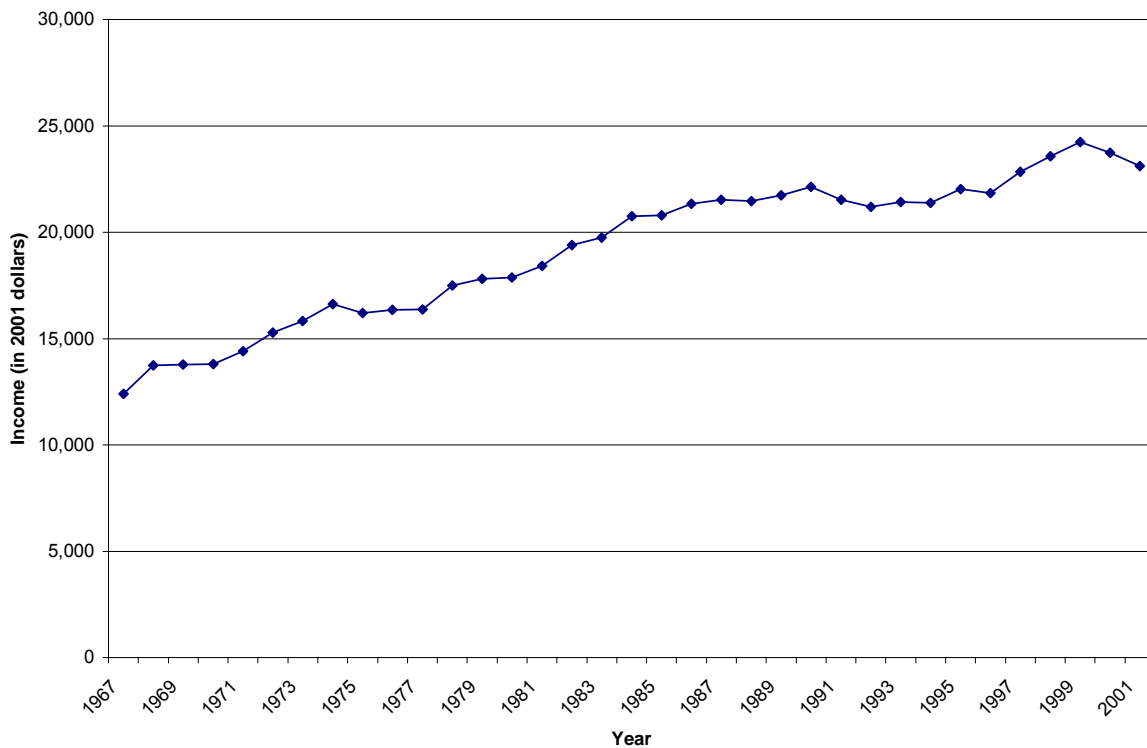
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The financial status of the older population has improved relative to past generations

Median Household Income of Householders Age 65 and Older, 1967 to 2001

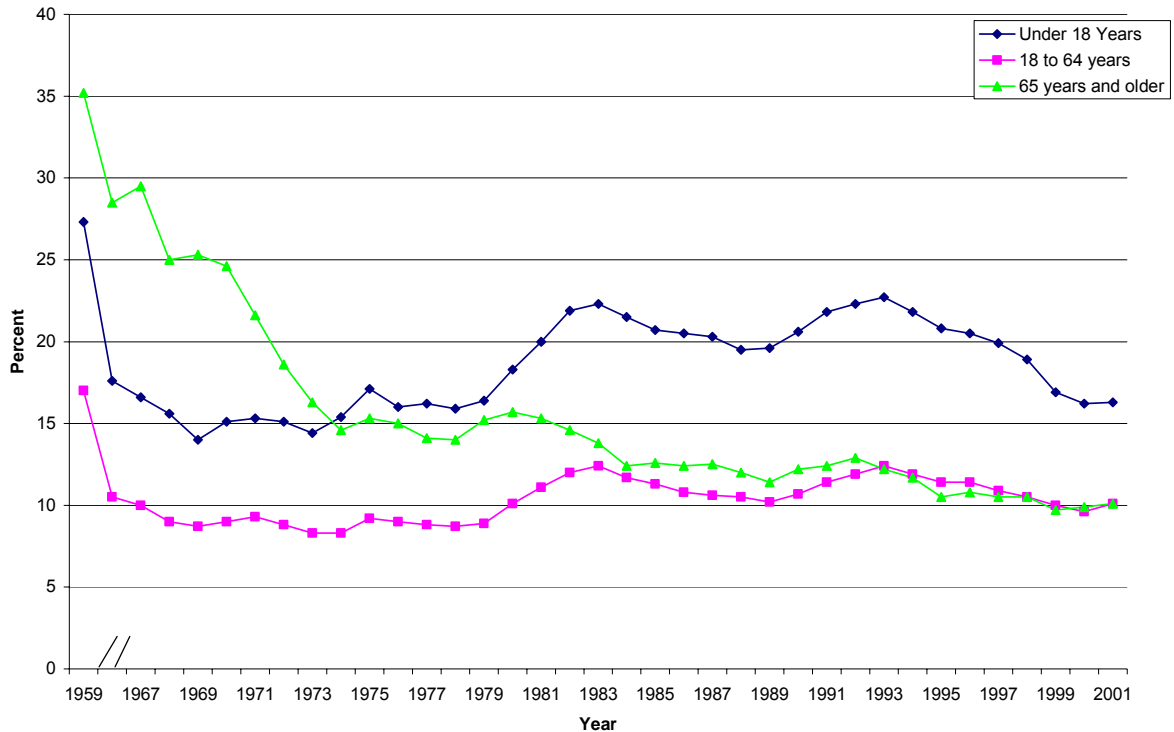


Source: U.S. Census Bureau. *Current Population Survey, Historical Income Tables - Households (Table H-10)* [Data file]
Retrieved from <http://www.census.gov/hhes/income/histinc/histinctb.html>.

Relative to the population age 65 and older in the past, median incomes have increased since 1967. Subsequent cohorts of people reaching age 65 have reached that age with higher incomes and more resources. Such a pattern tends to increase the average income, as do Social Security benefit increases following increases in the cost of living.

Poverty rates, particularly among older people, have declined dramatically in recent decades

Poverty Rate by Age, 1959 to 2001



Source: U.S. Census Bureau. *Current Population Survey, Historical Poverty Tables - People (Table 3)* [Date file]. Retrieved from <http://www.census.gov/hhes/poverty/histpov/perindex.html>.

Note: Data from 1960 to 1965 are unavailable for the population age 18 to 64 and 65 and over.

As recently as the 1960s, old age was strongly associated with poverty. In 1960, for example, more than one-third of the population age 65 and older was poor. Today, however, only about one-tenth of seniors are poor. This change is attributable to a significant degree to Medicare and the automatic annual adjustments in Social Security benefits to a cost of living index. In 2000, the vast majority—90 percent—of the population age 65 and older received Social Security benefits—a much larger percentage than the 69 percent that received Social Security in 1962. Income from assets and pensions is also more prevalent now than in 1962 (although the proportion of people with income from assets and pensions has declined somewhat in recent years). By contrast, reliance on public assistance among the population age 65 and older, has decreased considerably. In 2000, only 5 percent of seniors received public assistance, compared with 14 percent of seniors in 1962.

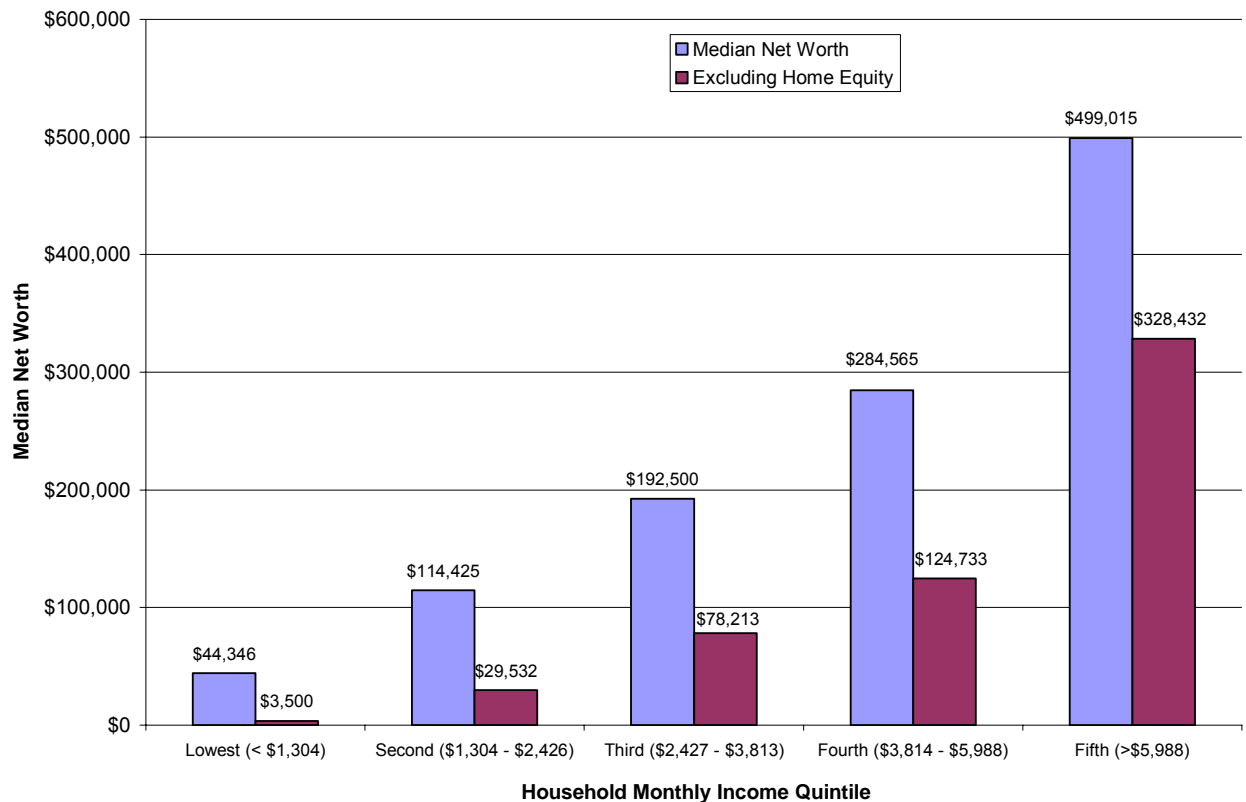
Poverty rates vary by state

State	% Under 18 that is Below Poverty Level	% 18 to 64 that is Below Poverty Level	% 65 Years and Over	
			Below Poverty Level	Below 200% of Poverty Level
United States	16.6	11.1	9.9	30.7
Alabama	21.5	14.0	15.5	40.8
Alaska	11.8	8.5	6.8	24.3
Arizona	19.3	12.7	8.4	27.4
Arkansas	21.8	13.7	13.8	40.4
California	19.5	13.0	8.1	28.6
Colorado	11.3	8.7	7.4	26.5
Connecticut	10.4	7.0	7.0	24.9
Delaware	12.3	8.2	7.9	25.2
District of Columbia	31.7	17.4	16.4	34.4
Florida	17.6	11.6	9.1	28.9
Georgia	17.1	11.2	13.5	36.5
Hawaii	14.1	10.1	7.4	21.9
Idaho	14.3	11.2	8.3	32.8
Illinois	14.3	9.6	8.3	27.7
Indiana	12.2	8.7	7.7	30.7
Iowa	11.0	8.7	7.7	30.6
Kansas	12.0	9.3	8.1	28.9
Kentucky	20.8	14.2	14.2	40.7
Louisiana	26.6	17.0	16.7	42.7
Maine	13.7	10.0	10.2	36.9
Maryland	10.7	7.6	8.5	25.1
Massachusetts	12.0	8.4	8.9	29.7
Michigan	13.9	9.6	8.2	29.0
Minnesota	9.6	7.2	8.2	29.3
Mississippi	27.0	16.9	18.8	45.4
Missouri	15.7	10.4	9.9	33.0
Montana	19.0	13.9	9.1	33.8
Nebraska	12.3	8.9	8.0	30.4
Nevada	14.0	9.7	7.1	25.9
New Hampshire	7.8	5.9	7.2	28.1
New Jersey	11.1	7.6	7.8	25.3
New Mexico	25.0	16.5	12.8	35.4
New York	20.0	13.1	11.3	32.2
North Carolina	16.1	10.6	13.2	36.5
North Dakota	14.0	11.1	11.1	35.1
Ohio	14.4	9.5	8.1	29.8
Oklahoma	19.6	13.4	11.1	36.2
Oregon	14.7	11.2	7.6	29.2
Pennsylvania	14.7	10.0	9.1	33.1
Rhode Island	16.9	10.3	10.6	34.4
South Carolina	18.8	12.2	13.9	37.5
South Dakota	17.2	11.8	11.1	35.3
Tennessee	18.0	11.7	13.5	38.1
Texas	20.5	13.4	12.8	35.2
Utah	10.1	9.5	5.8	23.5
Vermont	11.4	8.8	8.5	31.6
Virginia	12.3	8.6	9.5	28.9
Washington	13.7	9.9	7.5	25.5
West Virginia	24.3	17.1	11.9	40.0
Wisconsin	11.2	7.9	7.4	29.6
Wyoming	14.5	10.6	8.9	31.7

Poverty rates vary across age groups, nationally, but also among states. Poverty rates among the population age 65 and older averaged 9.9 percent nationwide but varied from 6.8 to 18.8 percent across states. Another 18 to 28 percent of the population age 65 and older have families incomes above the poverty level but within 200 percent of the poverty level. For a couple, the difference between an income at the poverty level and 200 percent of the poverty level is \$10,874—about the cost of 71 days in a nursing home.

Wealth distribution is uneven and consists primarily of home equity

Median Net Worth and Median Net Worth Excluding Home Equity of Households Age 65 or Older, by Household Income Quintile, 2000



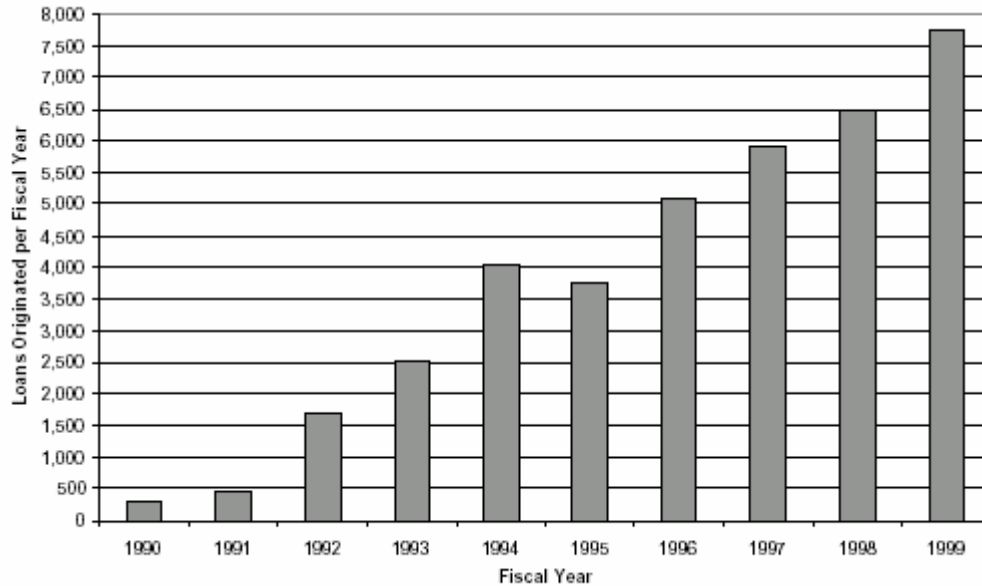
Source: Orzechowski, S. and Sepielli, P. (2003). *Net Worth and Asset Ownership of Households: 1998 to 2000* (Current Population Reports No. P70-88). Retrieved from the U.S. Census Bureau Web site, <http://www.census.gov/main/www/cprs.html>.

For most people, wealth reflects a lifetime of saving. In 2000, overall median wealth among people age 65 and older was \$108,885. Most of this wealth is in the form of home equity. Excluding home equity, the median net wealth of the population age 65 and older in 2000 was \$23,369.¹

¹ Median wealth measures total assets (excluding income from pensions and Social Security) minus liabilities.

Home equity conversions are on the rise

Volume of Home Equity Conversion Mortgage Loans by Year of Origination



Source: Rodda, D.T., Herbert, C. & Lam, H-K. (2000, March). *Evaluation of the FHA Home Equity Conversion Mortgage Insurance Demonstration—Final Report*. Washington, DC: Abt Associates Inc.

Home equity conversion mortgage loans (HECMs), or reverse mortgages, allow older people to remain in their homes and convert equity in their home to income. The value of home equity conversions is based on the home equity and the age of the homeowner. The home belongs to the bank, which makes a monthly payment to the homeowner and then takes possession of the home after the homeowner dies or can no longer live there. In the early 1990s, fewer than 500 home equity loans were initiated per year. By the end of the 1990s, more than 7,500 loans were initiated each year.

Relatively few older homeowners have reverse mortgage loans

Penetration of Home Equity Conversion Mortgage Loans by State, 1999

<i>Highest Ten</i>			<i>Lowest Ten</i>		
<i>State</i>	<i>Number of HECM Loans Orginated by October 1999</i>	<i>Number of HECM Loans Orginated per 1,000 Elderly Homeowners</i>	<i>State</i>	<i>Number of HECM Loans Orginated by October 1999</i>	<i>Number of HECM Loans Orginated per 1,000 Elderly Homeowners</i>
Utah	1,083	12.9	South Carolina	196	0.9
Colorado	2,030	12.4	Nebraska	84	0.7
District of Columbia	344	11.5	West Virginia	108	0.7
Rhode Island	590	9.9	Kentucky	154	0.6
Washington	1,758	6.1	Iowa	131	0.6
Idaho	360	5.4	Massachusetts	198	0.6
Connecticut	1,010	5.0	Alabama	165	0.6
Nevada	278	4.9	Mississippi	95	0.5
Alaska	47	4.3	South Dakota	25	0.5
New Jersey	1,973	4.2	North Dakota	18	0.4

Source: Rodda, D.T., Herbert, C. & Lam H-K. (2000). *Evaluation of the FHA Home Equity Conversion Mortgage Insurance Demonstration - Final Report*. Washington, DC: Abt Associates Inc.

Note: Home Equity conversions in Texas were not possible until 2000.

Although the number of home equity conversions continues to grow dramatically, most elderly homeowners have not arranged to use the equity in their homes in this fashion.

States use different strategies to encourage the purchase of long-term care insurance

State Strategies to Encourage the Purchase of Long-Term Care Insurance

<i>State</i>	<i>Tax Treatment of LTC Insurance ^a</i>	<i>State Offers LTCI to State Employees/Retirees ^b</i>	<i>State Endorses LTCI tied to Special Access to Medicaid ^c</i>
Alabama	Tax Credit or Deduction More Generous than Federal		
Alaska	No Broad-Based State Income Tax	√	
Arizona	Tax Credit or Deduction More Generous than Federal		
Arkansas	Tax Deduction Same as Federal		
California	Tax Deduction Same as Federal	√	√
Colorado	Tax Credit or Deduction More Generous than Federal	√	
Connecticut	No Tax Incentives	√	√
Delaware	Tax Deduction Same as Federal		
District of Columbia	Tax Deduction Same as Federal		
Florida	No Broad-Based State Income Tax	√	
Georgia	Tax Deduction Same as Federal	√	
Hawaii	Tax Deduction Same as Federal	√	
Idaho	Tax Credit or Deduction More Generous than Federal		
Illinois	Tax Credit or Deduction More Generous than Federal	√	
Indiana	Tax Credit or Deduction More Generous than Federal	√	√
Iowa	Tax Credit or Deduction More Generous than Federal		
Kansas	Tax Deduction Same as Federal	√	
Kentucky	Tax Credit or Deduction More Generous than Federal	√	
Louisiana	No Tax Incentives		
Maine	Tax Credit or Deduction More Generous than Federal		
Maryland	Tax Credit or Deduction More Generous than Federal	√	
Massachusetts	Tax Deduction Same as Federal	√	
Michigan	No Tax Incentives	√	
Minnesota	Tax Credit or Deduction More Generous than Federal	√	
Mississippi	Tax Deduction Same as Federal		
Missouri	Tax Credit or Deduction More Generous than Federal		
Montana	Tax Credit or Deduction More Generous than Federal	√	
Nebraska	Tax Deduction Same as Federal	√	
Nevada	No Broad-Based State Income Tax	√	
New Hampshire	No Broad-Based State Income Tax		
New Jersey	Tax Credit or Deduction More Generous than Federal	√	
New Mexico	Tax Credit or Deduction More Generous than Federal		
New York	Tax Credit or Deduction More Generous than Federal		√
North Carolina	Tax Credit or Deduction More Generous than Federal	√	
North Dakota	Tax Credit or Deduction More Generous than Federal	√	
Ohio	Tax Credit or Deduction More Generous than Federal	√	
Oklahoma	Tax Deduction Same as Federal		
Oregon	Tax Credit or Deduction More Generous than Federal	√	
Pennsylvania	No Tax Incentives		
Rhode Island	Tax Deduction Same as Federal		
South Carolina	Tax Deduction Same as Federal	√	
South Dakota	No Broad-Based State Income Tax		
Tennessee	No Broad-Based State Income Tax		
Texas	No Broad-Based State Income Tax	√	
Utah	Tax Credit or Deduction More Generous than Federal		
Vermont	Tax Deduction Same as Federal		
Virginia	Tax Credit or Deduction More Generous than Federal		
Washington	No Broad-Based State Income Tax	√	
West Virginia	Tax Credit or Deduction More Generous than Federal		
Wisconsin	Tax Credit or Deduction More Generous than Federal	√	
Wyoming	No Broad-Based State Income Tax		

Source: a Gregory, S.R. & Gibson, M.J. (2002). *Across the States 2002: Profiles of Long-Term Care*. Washington, DC: Public Policy Institute, AARP.

b Minnesota's Long-Term Care Insurance Initiative. (2001). *Survey of States that Offer or Plan to Offer Long-Term Care Insurance to Employees and/or Retirees*. Retrieved from the Minnesota Department of Employee Relations website, <http://www.doer.state.mn.us/ei-gen/transfers/STATESUR.pdf>.

c Meiners, M.R. (2003). *Partnership for Long-Term Care - Fact Sheet*. Retrieved from the University of Maryland, Center on Aging Web site, <http://www.hhp.umd.edu/AGING/PLTC/fact.html>.

Most states encourage the purchase of private long-term care insurance.

States encourage saving for college differently

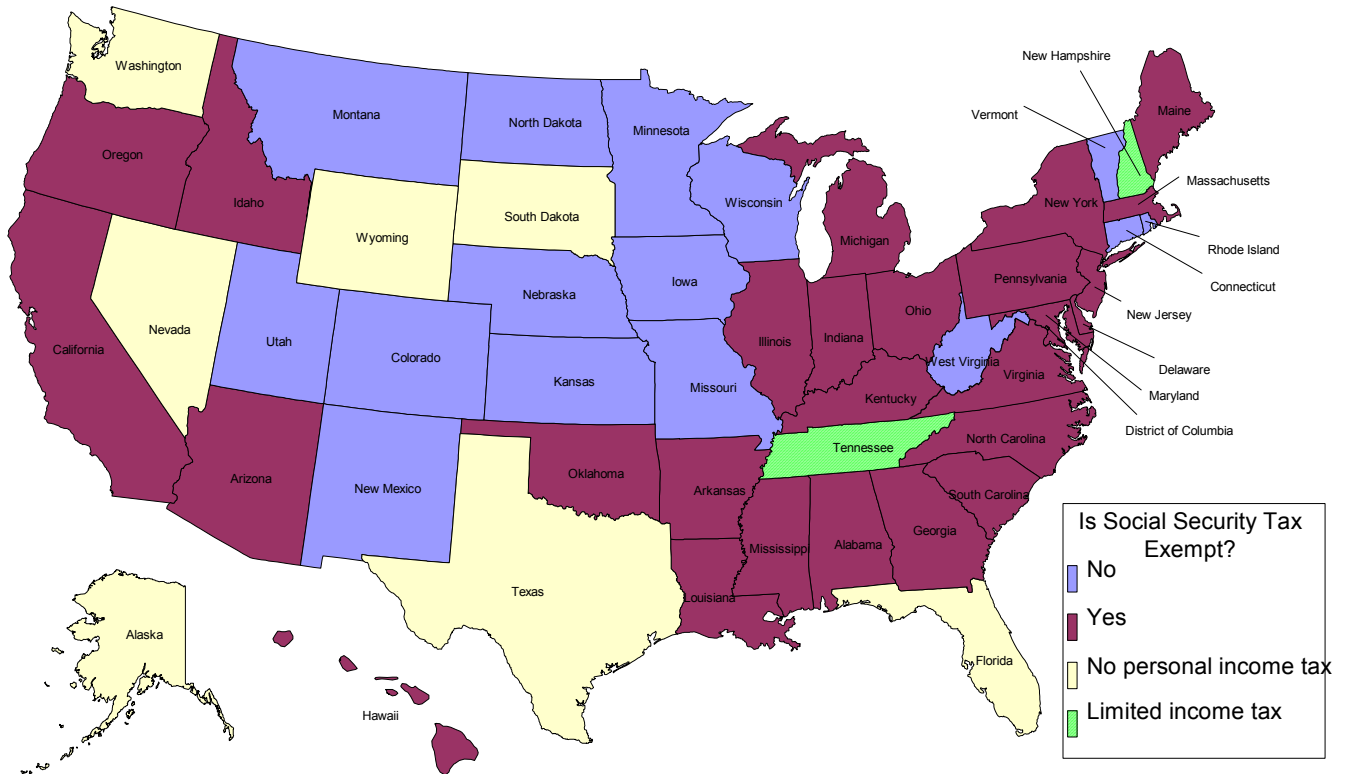
State Tax Deductions for 529 Contributions

<i>State</i>	<i>529 Deduction</i>
Alabama	-
Alaska	No state income tax
Arkansas	-
Arizona	-
California	-
Colorado	Full amount of contribution
Connecticut	-
Delaware	-
District of Columbia	\$3,000 single/\$6,000 joint
Florida	No state income tax
Georgia	\$2,000 per beneficiary
Hawaii	-
Idaho	\$4,000 single/\$8,000 joint
Illinois	Full amount of contribution
Indiana	-
Iowa	\$2,180 single/\$4,630 joint per account
Kansas	\$2,000 single/\$4,000 joint per account
Kentucky	-
Louisiana	\$2,400 per beneficiary
Maine	-
Maryland	\$2,500 per account, 10 year carryforward
Massachusetts	-
Michigan	\$5,000 single/\$10,000 joint
Minnesota	-
Mississippi	\$10,000 single/\$20,000 joint
Missouri	\$8,000 single/\$16,000 joint
Montana	\$3,000 single/\$6,000 joint
Nebraska	\$1,000 per tax return
Nevada	No state income tax
New Hampshire	-
New Jersey	-
New Mexico	Full amount of contribution
New York	\$5,000 single/\$10,000 joint
North Carolina	-
North Dakota	-
Ohio	\$2,000 per beneficiary per contributor or married couple with unlimited carryforward
Oklahoma	\$2,500 per beneficiary per contributor
Oregon	\$2,000 per year
Pennsylvania	-
Rhode Island	\$500 single/\$1,000 joint, with carryforward
South Carolina	Full amount of contribution
South Dakota	No state income tax
Tennessee	-
Texas	No state income tax
Utah	\$1,410 single/\$2,820 jointly
Vermont	-
Virginia	\$2,000 per account per year (no limit age 70 and older)
Washington	No state income tax
West Virginia	Full amount of contribution
Wisconsin	\$3,000 per dependent beneficiary, self, or grandchild
Wyoming	No state income tax

Source: Finaid. *State Tax Deductions for 529 Contributions*. Retrieved on October 10, 2003 from Finaid Web site, <http://www.finaid.org/savings/state529deductions.phtml>.

States treat the distribution of Social Security and pension benefits differently

State Income Tax Treatment of Social Security Benefits, 2000



Source: Baer, D. (2001). *State Taxation of Social Security and Pensions in 2000* (Issue Brief No. 55). Washington, DC: AARP, Public Policy Institute.

Federal income tax laws have dominated the tax incentives encouraging retirement savings. Not all states tax retirement income in the same manner. Some states tax all or a portion of Social Security or pension benefits. Some states tax both and some states tax neither.

Supplemental health insurance coverage differs by state

Supplemental Health Insurance Coverage

<i>Highest Total Coverage</i>			
<i>State</i>	<i>Medicare Beneficiaries with Medicaid (%), 1997 to 1999</i>	<i>Medicare Beneficiaries with Employer Coverage (%), 1997 to 1999</i>	<i>Medicare Beneficiaries with Individual Private Insurance (%), 1997 to 1999</i>
Vermont	20.4	27.0	44.0
Kansas	10.7	24.1	55.9
Montana	11.9	26.3	50.4
Iowa	7.3	28.6	52.1
Washington	16.6	32.0	39.1
Oregon	14.3	28.0	45.3
Michigan	11.4	52.8	22.7
Maine	18.1	34.1	34.5
South Dakota	13.5	19.1	54.1
Minnesota	12.5	27.9	45.8

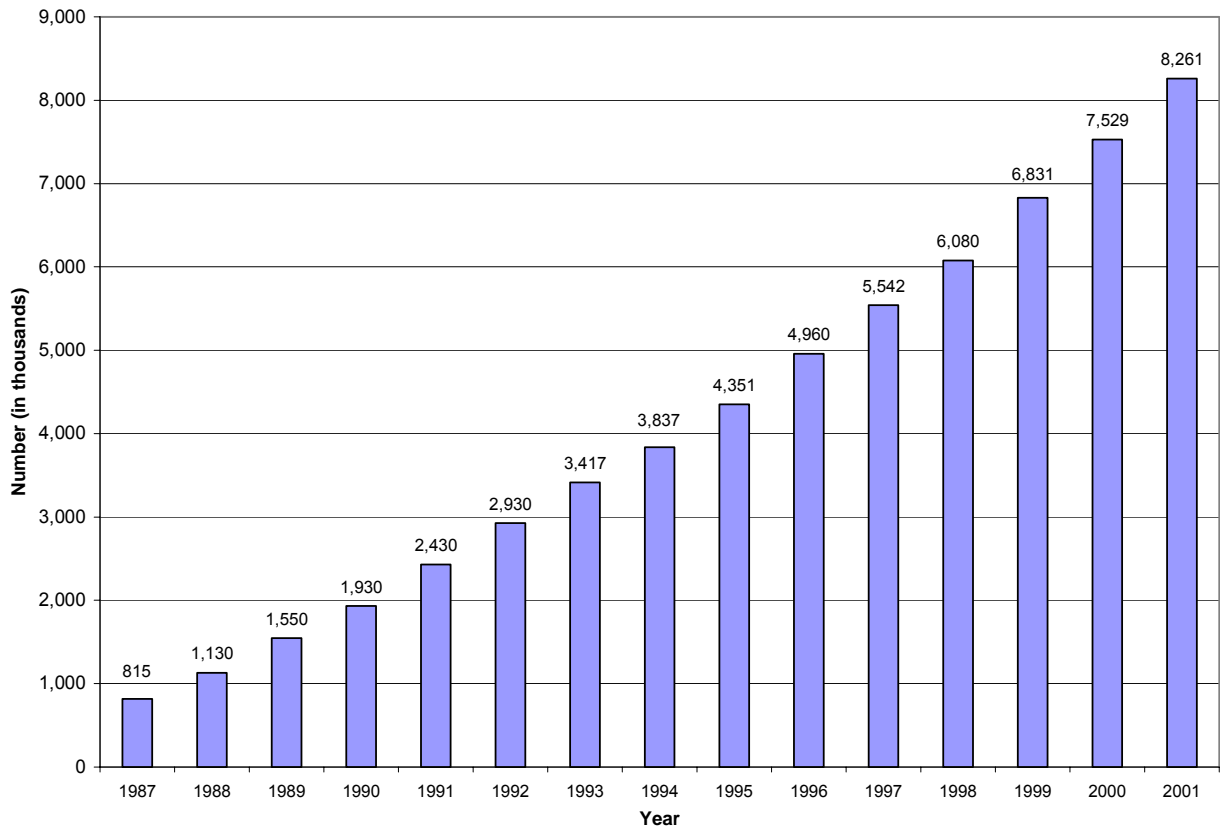
<i>Lowest Total Coverage</i>			
<i>State</i>	<i>Medicare Beneficiaries with Medicaid (%), 1997 to 1999</i>	<i>Medicare Beneficiaries with Employer Coverage (%), 1997 to 1999</i>	<i>Medicare Beneficiaries with Individual Private Insurance (%), 1997 to 1999</i>
New Mexico	15.3	32.6	20.9
Georgia	12.5	32.0	23.9
California	18.3	31.5	17.9
Texas	15.5	26.4	25.7
Florida	11.8	27.4	28.1
Delaware	N/A	46.9	18.7
Massachusetts	13.4	33.1	18.4
Nevada	11.7	27.1	26.1
Arizona	7.5	33.8	21.3
Alaska	N/A	34.6	N/A

Source: AARP, Public Policy Institute. (2002). *Reforming the Health Care System: State Profiles 2001*. Washington DC: AARP, Public Policy Institute.

Supplemental health insurance to Medicare comes from one of three primary sources: (a) a former employer, (b) the individual purchasing it, or (c) through Medicaid. There is considerable variation in the relative importance of these different sources in states, suggesting very different employment markets, Medicaid decisions, and private insurance markets.

More people have purchased long-term care insurance

Long-Term Care Insurance Policies Sold, Cumulatively



Source: Coronel, S. A. (2003). *Long-Term Care Insurance in 2000-2001*. Washington, DC: Health Insurance Association of America.

Long-term care insurance has been sold by national insurance companies only since the mid-1980s. Relatively few people currently use long-term care insurance to finance their care. The number of policies sold, however, continues to increase. In 2001, some 72 percent of policies ever sold were still in force.² This observation suggests that roughly 5.8 million people have a long-term care insurance policy.

² Coronel, S.A. (2003). *Long-Term Care Insurance in 2000-2001*. Washington, DC: Health Insurance Association of America

Sales of long-term care insurance policies have not been even among states

Number of Long-Term Care Insurance Policies Sold, 2001

<i>State</i>	<i>Long-Term Care Insurance Policies Sold, 2001 (in thousands)</i>
Florida	677.4
California	654.3
Texas	501.4
Pennsylvania	437.8
Illinois	429.6
Ohio	328.8
Iowa	307.3
New York	303.2
Missouri	280.0
Washington	238.7
Indiana	233.0
Michigan	219.7
Minnesota	214.0
Nebraska	210.7
North Carolina	194.1
Arizona	188.4
Virginia	185.9
Wisconsin	182.6
Kansas	165.2
Tennessee	161.9
New Jersey	152.0
Colorado	138.8
Massachusetts	138.8
Georgia	137.1
Kentucky	137.1
Oregon	127.2
Connecticut	123.1
Maryland	119.0
Oklahoma	111.5
South Carolina	95.8
North Dakota	95.0
Alabama	91.7
South Dakota	74.3
Louisiana	67.7
Maine	61.1
Mississippi	54.5
Montana	53.7
Arkansas	51.2
New Hampshire	39.7
Idaho	38.8
Hawaii	38.0
West Virginia	34.7
New Mexico	32.2
Utah	29.7
Nevada	22.3
Rhode Island	19.0
Vermont	19.0
Delaware	16.5
Wyoming	15.7
District of Columbia	9.9
Alaska	5.0

Source: Coronel, S. (2003). *Long-Term Care Insurance in 2000 - 2001*. Washington, DC: Center for Disability & Long-Term Care Insurance, Health Insurance Association of America.

Sales of long-term care insurance have been growing and have been growing faster in states with larger shares of older people, but such policies still cover a relatively small proportion of the population.