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THE 80%

Increases in Older Americans' Income and Household Assets Still Cannot Support Most During Financial Hardship

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The National Council on Aging (NCOA) is dedicated to improving the health and economic security of older adults and to examining current information to understand their financial realities in order to develop solutions.

Building upon previous years' analyses, NCOA and research partners at the LeadingAge LTSS Center @UMass Boston analyzed data from the Health and Retirement Study (HRS), a well-respected and nationally representative panel study of adults 50+, to assess the financial security of Americans age 60 and over. First launched in 2020, the research team has presented two studies detailing trends in the distribution of total net wealth alongside measures of financial well-being from 2014 to 2018. The purpose of the current analysis is to include the most recent data available from 2020 and examine what trends suggest in terms of financial security in the presence of "financial shocks."

In the U.S., financial shocks (large, sudden losses of net worth) are common. The risk of experiencing a "shock" only intensifies in older age, as health status often declines, people become widowed, or they lose the ability to work or live independently. Over a 20-year period, **more than 25% of adults age 50 and over will experience a shock resulting in a 75% or more drop in net wealth**. Among adults age 70 and older, **more than two-thirds will experience at least one shock** with financial consequences over a nine-year period. When it comes to saving for emergencies, **around half of older adults lacked the savings needed to respond to an emergency or financial shock in 2022**.

One of the most significant and persistent costs burdening older adults is long-term services and supports (LTSS), ranging from non-medical assistance with activities of daily living to medical care in a skilled nursing facility. While many Americans underestimate the need for LTSS, **over half of adults 65 and older will need LTSS** for less than two years, and about one in seven will require care for more than five years. Financing even one year of care can prove impossible for most Americans: in 2018, **the average yearly cost of a private room in a nursing home was $105,485, and that of a home health care aide was $37,440**. LTSS costs have continued to rise over time, with nursing home and adult day services increasing 3.2% per year from 2013-2018, and home care services increasing 1% per year over the same period. The costs **continued to rise in 2020**. The stability of LTSS for older adults is vulnerable to financial shocks, which may mean less availability of services and potentially letting long-term care needs go unmet.

The COVID-19 pandemic added additional pressures to employment, income, and savings. Financial shocks included changes to work and retirement plans, as well as unanticipated health impacts. During the pandemic, **11% of people age 65 and older lost their jobs**. Older adults also faced more severe health impacts, with a **higher risk of contracting COVID-19, a higher risk of complications and death, an increased risk of hospitalization, and high rates of reported loneliness, a major risk factor for poor health outcomes**. With an increase in fatalities due to COVID-19 or related complications, **widowhood was a likely source of financial shock for many**. These COVID-related shocks put added pressures on already significant and persistent long-term care costs.

This updated report captures how older adults' financial status changed from 2014-2020, offering a clearer understanding of their ability to weather financial shocks and maintain economic security. It also captures the beginning of COVID-19, offering a snapshot of changes during the pandemic.

Methodology

We segmented the HRS sample of adults age 60 and older into quintiles based on the net value of their total wealth. This means we divided the population into five equal parts of 20%. The last quintile was further broken out into two groups, each representing 10% of the population. Each quintile represents approximately 11 million older U.S. households, and the two deciles comprising the last quintile each represent 5.5 million U.S. households. The HRS study sample was robust, with 11,874 households included in this analysis.

We examined a number of financial measures of well-being across the quintiles. We also compared data from 2014 to 2020, which allowed us to examine trends in the financial health of older households. The measures are defined as follows:

- **The net value of total wealth is the total sum of housing and financial assets less debts.**
- **The net value of primary residence is the value of homeowner's primary residence less mortgages and home loans. This measure reflects home equity an older person may tap into should they need income and desire to stay in their current home.**
- **The total value of financial assets is the total sum of retirement plans, stocks mutual funds, investment trusts, checking, savings, money market accounts, government savings bonds, T-bills, bonds, bond funds, and other savings. It does not take into account debts or the net value of a homeowner's primary residence.**

Figure 1 shows households with adults age 60 and older divided into quintiles based on their net value of total wealth. For each quintile, there are three columns showing data for the years 2016 through 2020. The numbers in the rows represent the median value of the financial measures for each quintile.

Figure 1. Older Adults Households Divided into Financial Quintiles based on Net Value of Total Wealth

	0–20%			21–40%			41–60%			61–80%			81–90%			91–100%		
	2016	2018	2020	2016	2018	2020	2016	2018	2020	2016	2018	2020	2016	2018	2020	2016	2018	2020
Total Household Income (median)	$16,500	$16,989	$17,880	$26,052	$27,240	$29,023	$38,069	$40,000	$43,324	$49,200	$52,229	$54,828	$65,786	$71,135	$72,876	$110,684	$109,092	$115,108
Net Value of Primary Residence (median)	$0	$0	$0	$30,000	$45,000	$32,000	$100,000	$115,000	$117,000	$190,000	$220,000	$270,000	$260,000	$300,000	$330,000	$370,000	$400,000	$475,000
Household Value of Financial Assets (non-housing, median)	$0	$0	$0	$2,000	$2,000	$1,500	$15,100	$16,300	$15,000	$127,000	$130,000	$124,000	$407,900	$480,000	$500,000	$1,175,718	$1,331,254	$1,445,000
Household Net Value of Total Wealth (median)	$0	$0	$0	$36,000	$39,500	$35,000	$133,000	$150,000	$149,000	$323,000	$369,405	$396,600	$700,500	$779,287	$835,000	$1,606,000	$1,800,000	$1,920,746
Age (median)	69	68	67	72	71	70	73	73	72	73	73	73	73	73	74	73	73	74

Findings

The results of this updated analysis suggest most older Americans continue to lack sufficient resources to brave a financial shock such as a significant long-term care need, health issue, or loss of income due to widowhood. While the value of financial assets marginally increased or stayed the same for 80% of older adults from 2016 to 2018, this upward trend did not hold in 2020. The bottom 20%— approximately 11 million households— continued to have no assets in 2020. Updated 2020 figures show decreases in financial assets across the next three quintile groups (21-40%, 41-60%, and 61-80%). The bottom 20% did see a rise in income from $16,989 to $17,880 between 2018-2020 but would still be unable to rely on personal finances to pay for LTSS, especially considering rising costs of care.

While income has grown modestly in the three following quintiles in 2020 ($1,783 for 21-40%, $3,324 for 41-60%, and $2,599 for 61-80%), these increases combined with lowering assets and rising costs of care do not improve the financial outlook for older adults in these quintiles. In 2018, these quintiles were unable to afford more than two years of nursing home care in a semi-private room or four years in an assisted living community if their median income and household value of financial assets were added together. The 2020 updated data did not show any improvements in financial capability. These individuals would still **be unable to afford more than two years of nursing home care** in a semi-private room or four years in an assisted living community, even if their median income and household value of financial assets are added together, with additional pressures from financial shocks due to the pandemic. **Despite adults' preference to age in place, 60% of adults would be unable to afford two years of in-home LTSS**. Therefore, although the need for services both in the short- and long-term remains a reality for many older Americans, most do not have the financial resources to afford either.

Beyond financial shocks and LTSS needs, additional HRS analyses revealed that a substantial percentage of older adults do not have adequate income to live independently in the community without some assistance. Specifically, the 2020 updated HRS data showed that 49.6% of those 60 and older had household incomes below the **Elder Index**[1] value for their geography, meaning their average income was below the standard needed to afford basic living needs. This represents a 4.6% increase in the percent of respondents reporting lower household incomes than the Elder Index from 2018 figures. Among those in the bottom 20% of the quintiles shown in Figure 1 (2020), 88.8% had household incomes below the Elder Index[1]. Of the 80% noted above who could not absorb a financial shock, 58.7% had incomes below the Elder Index in 2020 (a 3.7% increase from 2018), which means they do not have the financial means to adequately meet basic living costs.

1 The Elder Economic Security Standard™ Index (Elder Index), developed by the Gerontology Institute at the University of Massachusetts Boston, measures the income needed for older adults to meet their basic needs. The Elder Index factors in household size, location, housing tenure, and health status.

Findings

Also noteworthy: the median net value of primary residences decreased in 2020 from a trend of prior growth for those in the 20-40% quintile. Whether household wealth is comprised primarily of liquid assets or home equity also matters. With the exception of the bottom 20%, many older adults hold most of their financial assets in the property value of their homes. If annuitized, home equity could theoretically act as a potential buffer in the event of a financial shock. However, a **prior HRS analysis** demonstrated that **only 18% of those 62 and older would benefit from using their home equity to pay for LTSS care**, should the need arise. The remaining 82% either did not have enough home equity to make enough of a difference in the payment of LTSS costs and would still qualify for Medicaid coverage over time, or a much smaller group could afford LTSS care, depending on how long they needed it. Still, this observation of current older adults having property assets that may help weather financial shocks is an important consideration in the conversation regarding the economic stability of future generations. With fewer young adults owning property compared to the baby boomer generation at their age, it is unclear how property ownership will transition in the coming decades and how this will impact the ability to absorb financial shocks for future older adults.

Conclusions

Our updated 2020 analysis reinforces the trends established in the first two installments of the 80% series. In addition, the analysis indicates that the margins of financial instability for older adults in the United States are widening. The reality is that the vast majority (80%) of older adults are financially struggling or at risk of falling into economic insecurity in the presence of a financial shock; this means most older adults will have financial insecurity shape their aging experience.

While the financial situation for older Americans is precarious, our original analysis suggested that things may be only getting worse. Ninety percent of older households experienced decreases in income and net value of wealth between 2014 and 2016. In the 2018 update, there was initial evidence of a trend reversal with income and wealth increasing between 2016 and 2018. However, our updated findings show that the prior 2016-2018 reversal of assets did not continue from 2018-2020. For the quintiles with the highest financial risk, income grew modestly while financial assets decreased. Older Americans still struggle financially or are at risk of falling into economic insecurity, with continued pressures on wealth domains such as their total household financial assets. For those at the two lowest levels of financial security, home ownership is virtually nonexistent or decreasing in value. Despite modest increases in income, **80% of older adults in the U.S. would be unable to absorb a financial shock such as LTSS**.

Financial insecurity has largely remained unchanged for those already most at-risk: in 2020, those in the bottom 20% had no wealth, and those in the next three quintiles (21% to 80%) saw a decrease in the value of their financial assets from 2018. Financial patterns over the next several years would need to improve dramatically in order for most older Americans to maintain economic security in the face of rising living costs and increasing risks of financial shocks. While COVID-19 health and employment shocks may have contributed to the decline seen between 2018 and 2020, even if there is a return to modest improvements in 2022, the vast majority of older adults remain at financial risk.

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About NCOA

The National Council on Aging (NCOA) is the national voice for every person's right to age well. We believe that how we age should not be determined by gender, color, sexuality, income, or ZIP code. Working with thousands of national and local partners, we provide resources, tools, best practices, and advocacy to ensure every person can age with health and financial security. Founded in 1950, we are the oldest national organization focused on older adults. For more information, please visit **ncoa.org**.

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About the LeadingAge LTSS Center @ UMass Boston

The LeadingAge LTSS Center @UMass Boston conducts research to help our nation address the challenges and seize the opportunities associated with a growing older population. Established in 2017, the LTSS Center is the first organization of its kind to combine the resources of a major research university with the expertise and experience of applied researchers working with providers of long-term services and supports (LTSS). Learn more at **www.ltsscenter.org**.