An Examination of Medical Expenses and Retirement Income for the 65+ Population using the Supplemental Poverty Measure

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Abstract

Keywords: Poverty, Supplemental Poverty Measure, SIPP

This year the Census Bureau released its third report on the Supplemental Poverty Measure (SPM).[1] The report used the Current Population Survey Annual Social and Economic Supplement (CPS) for these estimates. This measure followed suggestions from an interagency working group headed by OMB that urged the Census Bureau to publish it along with the current official measure of poverty. The SPM generally follows recommendations from the National Academy of Sciences Panel on Poverty and Family Assistance (NAS) that released a report in 1995 recommending revising the current official poverty measure. [2]

The percent of the population that was poor using the official measure for 2011 was 15.0 percent.[3] The research SPM yields a rate of 16.1 percent for 2011. For most groups, SPM rates are higher than official poverty rates. Lower poverty rates are found for children, individuals included in new SPM resource units, Blacks, those living outside metropolitan areas, those in the Midwest, those covered by only public health insurance, and individuals with a disability. A very important finding is that poverty rates for those 65 years of age and over are higher under the SPM measure compared with the official measure, 8.7 percent using the official measure compared to 15.1 using the SPM. This partially reflects that the official thresholds are set lower for families with householders in this age group, while the SPM thresholds do not vary by age. It also reflects large medical out-of-pocket expenses (MOOP) reported by those over the age of 65, a necessary expense that is subtracted from income in the SPM calculation. The elderly also show a higher percent below half of the poverty line with the SPM. As shown in the report, MOOP has an important effect on the estimated poverty rates for this group. Without subtracting MOOP from income, the SPM rate for 2011 would have been 12.7 percent rather

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[1] Short, Kathleen. *The Research Supplemental Poverty Measure: 2012,* U.S. Census Bureau, *Current Population Reports*, P60-246, October 2013, http://www.census.gov/hhes/povmeas/methodology/supplemental/research/Short_ResearchSPM2011.pdf

[2] Citro, Constance F., and Robert T. Michael (eds.). *Measuring Poverty: A New Approach*, Washington, DC: National Academy Press, 1995.

[3] DeNavas-Walt, Carmen, Bernadette D. Proctor, and Jessica C. Smith. *Income, Poverty, and Health Insurance Coverage in the United States: 2012.* U.S. Census Bureau, Current Population Reports, P60-245, U.S. Government Printing Office, Washington DC, September 2013.

than 16.1 percent. For the 65 years of age and older group, SPM rates increased by about 7.0 percentage points with the subtraction of MOOP from income. Clearly, the subtraction of MOOP had an important effect on SPM rates for this group.

On the other hand, many have suggested that the CPS does not collect information on retirement income well.[4] In addition to underreporting of regularly received pension and retirement income, the CPS income definition does not include lump sum withdrawals from retirement accounts. This failure to adequately account for retirement income may result in higher poverty rates using the SPM. This study addresses these questions by using the Survey of Income and Program Participation (SIPP) to calculate the SPM and taking advantage of the greater detail about retirement income available in that survey.

There are many reasons to evaluate the SPM using the SIPP. In their 1995 report, the NAS Panel recommended using the Survey of Income and Program Participation (SIPP) to measure poverty. All of the information the NAS Panel included in the SPM is directly collected in the SIPP, including questions on work-related expenses, childcare, health care expenses, taxes, health status, and other material measures of well-being. Additionally, the SIPP provides extensive information on retirement income that is not available in the CPS. Specifically, SIPP's Retirement and Pension Plan Coverage topical module collects selected information on pension plans 1) where the benefit is based on earnings and years on the job and/or 2) where employee/employer make contributions to an individual retirement plan or 3) where employers contribute a value equal to a percentage of employee earnings each year and there is a rate of return on that contribution (known as a cash balance plan). The topical module includes information on whether the employee contributes to the plan, on whether that contribution is tax-deferred, on the total amount or an estimate of the total amount in the plan at interview time, on whether the employer contributes to the plan, on whether there are or have been loans and the amount of loans taken out of the plan, on the timing of and amount of the most recent lump sum or rollover distribution from current and previous employment retirement plans, and, finally, on the amount of monthly receipt from plan(s) for retired employees. Including data from this SIPP topical module in calculating total income will potentially improve estimates for the SPM, particularly for individuals in the age category of 65 and over.

[4] Bee, C. Adam, *An Evaluation of Retirement Income in the CPS ASEC Using Form 1099-R Microdata*, US Census Bureau Working paper, http://www.census.gov/hhes/www/income/publications/Bee-PAA-paper.pdf