



## Official Poverty Statistics Mask the Economic Vulnerability of Seniors

### A Comparison of Maine to the Nation

Andrew Schaefer and Marybeth J. Mattingly

#### Summary

In this brief, we compare Maine, one of the oldest states in the nation, to the United States as a whole. Historically, both children and the elderly were regarded as vulnerable groups in need of support from government programs. Traditional poverty estimates suggest that at least since the late 1960s, senior poverty has been on the decline, whereas poverty among children has increased. Declines among seniors are largely attributable to the advent of programs such as Social Security. Similar to the nation, about half of Maine seniors (51.0 percent) would be poor without Social Security benefits. However, traditional poverty measurement masks the role rising medical costs play in pushing seniors into poverty. The newer Supplemental Poverty Measure (SPM), which accounts for these costs, reveals that more than one in ten Maine seniors over age 55 were living below the poverty line in 2009–2013. This is 2.3 percentage points higher than official estimates suggest. Without medical expenses, the SPM indicates that poverty among Maine seniors would be roughly cut in half, from 10.2 percent to 5.2 percent. A similar reduction is evident across the United States (from 14.2 percent to 9.0 percent), though this represents a smaller relative reduction in poverty (by just over one-third).

#### Introduction

Both seniors and children have been viewed as economically vulnerable populations, as evidenced by their relatively high poverty rates at the end of the 1950s (about 35 and 27 percent, respectively) compared to their working-age counterparts (about 17 percent).<sup>1</sup> Over the past 50 years, however, senior and child poverty rates diverged across the United States. Seniors benefit more directly from cash assistance programs like Social

#### KEY FINDINGS

**1 in 10**

The official poverty measure fails to account for the role of rising medical costs in pushing seniors into poverty. The newer Supplemental Poverty Measure (SPM), which accounts for these costs, reveals that more than one in ten Maine seniors were living below the poverty line in 2009–2013. This is 2.3 percentage points higher than official estimates.

**51%**

Poverty among Maine seniors has declined greatly since the late 1960s, as is found nationwide, but about half of Maine seniors (51.0 percent) would be poor without Social Security benefits.



Without medical expenses, the SPM indicates that poverty among Maine seniors would be roughly cut in half, from 10.2 percent to 5.2 percent; a similar reduction is evident across the United States (from 14.2 percent to 9.0 percent).

Security, which are reflected in poverty rates using the official poverty measure (OPM). However, many programs aiding children (or families with children) come in the form of in-kind benefits or refundable tax credits, which are not reflected in poverty rates using OPM.<sup>2</sup> The role of Social Security in ameliorating senior poverty is widely documented,<sup>3</sup> but this large decrease in senior poverty rates across time masks the influence of spending on medical expenses. Such expenses are not reflected in OPM rates, which are calculated based on pre-tax cash income without consideration of individual medical out-of-pocket expenses. In this brief, we first document these

### Box 1. About the Official Poverty Measure and the Supplemental Poverty Measure

Poverty data used in this brief come from two separate measures. The *official poverty measure (OPM)* provides a consistent method for assessing the adequacy of families' incomes for meeting needs over time. The OPM is calculated by taking total family pre-tax income and comparing it to an income threshold based on family composition. Families with total incomes below the threshold are considered poor. The OPM threshold for a family of two (that is, two adults with no children) headed by a senior over age 65 was \$11,354 in 2014.<sup>4</sup> However, the OPM has important limitations. It is dated, relying on a food spending-based formula established over fifty years ago to calculate annual poverty rates. It also reflects outdated assumptions about family structure. Additionally, the OPM does not take into account the influence of factors including: work-related expenses such as transportation and child care, in-kind assistance (for example, the Supplemental Nutrition Assistance Program [SNAP], also known as food stamps), medical costs (such as insurance premiums), post-tax transfers (for example, the Earned Income Tax Credit), and geographic differences in the cost of housing. All of these impact families' resources and expenses. Notably, the OPM also has a lower threshold for households headed by someone over age 65.

The *Supplemental Poverty Measure (SPM)*, in contrast, incorporates each of these factors and provides a more nuanced description of economic distress than the OPM. Like the OPM, the SPM is adjusted for family composition but the SPM offers a broader definition of resource sharing by including cohabiting couples, for example.<sup>5,6</sup> Finally, while the OPM has a lower threshold for senior headed households, the SPM threshold varies by household composition but not by age of the householder.

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Maine is a particularly interesting state to study because it is one of the oldest states in the nation. Maine ranks third in the share of the population that is age 65 and over (just behind Florida and West Virginia), and Maine was home to the largest percent increase in this older population between 2000 and 2010.

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shifts in senior and child poverty rates over the past fifty years under OPM. We then consider the current poverty rate among seniors age 55 and over, the focal population in this brief. Analyzing rates under the traditional OPM,<sup>7</sup> we consider the new lens of the SPM, which takes account of in-kind benefits, tax credits, and necessary expenses.<sup>8</sup> We examine the role of Social Security in keeping seniors

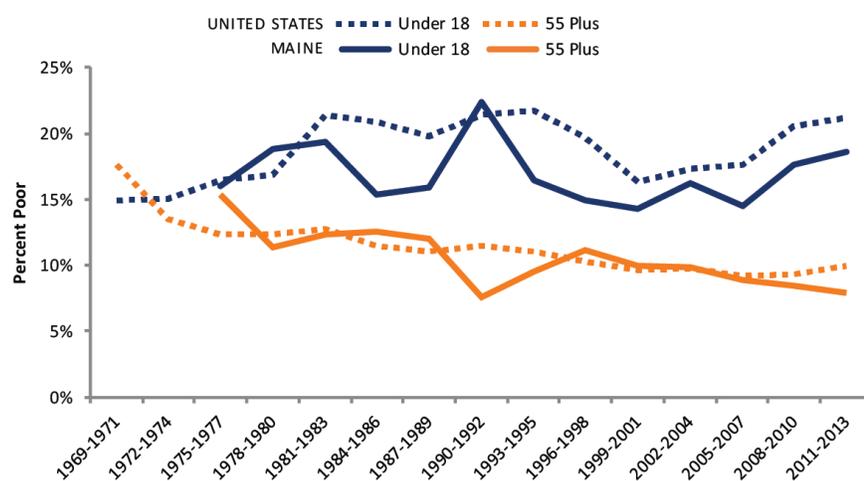
out of poverty and explore the extent to which medical expenses may be driving seniors into poverty.<sup>9</sup> We include the unique case of Maine and compare our findings to the United States as a whole. Maine is a particularly interesting state to study because it is one of the oldest states in the nation. Maine ranks third in the share of the population that is age 65 and over (just behind Florida and West Virginia), and Maine was home to the largest percent increase in this older population between 2000 and 2010.<sup>10</sup>

### Trends in Poverty Over Time

In Figure 1, we display the divergence in poverty rates under OPM for children under age 18 and seniors age 55 and over for both Maine and the United States using pooled three-year Current Population Survey (CPS) data.<sup>11</sup>

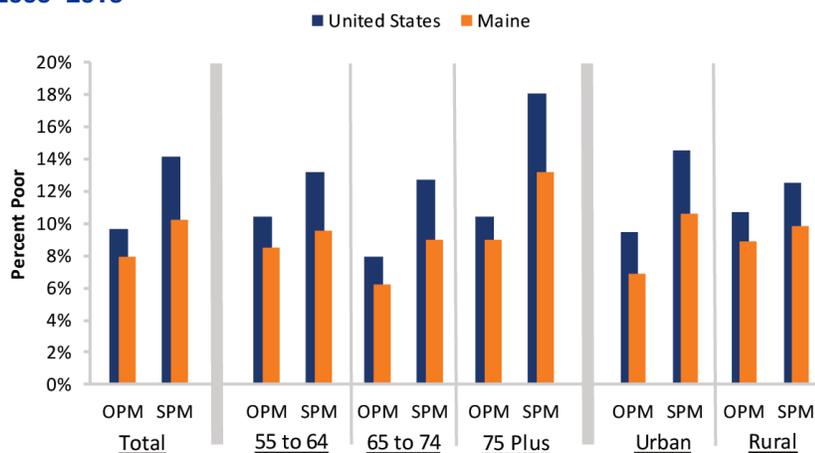
The figure shows that about equal shares of Maine seniors and children were poor (15.3 and 16.0 percent, respectively) during the 1975–1977 time period, the first for which Maine data are available. By the 2011–2013 time period, 18.6 percent of Maine children were poor compared to just 7.9 percent of Maine seniors, a decrease of 49 percent for Maine seniors and an increase of 17 percent for Maine children. Today, many researchers, activists, and policy makers are troubled by high child poverty rates and far less attention is given to seniors' precarious economic circumstances. Although the OPM shows a dramatic decline in senior poverty over the past 45 years, it does not account for expenses seniors (and all other groups) face, particularly medical costs including health insurance premiums.

**FIGURE 1. OFFICIAL POVERTY ESTIMATES OF CHILD AND SENIOR POVERTY 1969–2013: MAINE AND THE UNITED STATES**



Source: CPS ASEC 1970–2014

**FIGURE 2. OFFICIAL AND SUPPLEMENTAL POVERTY AMONG SENIORS 2009–2013**



Source: CPS ASEC 2010–2014

## A New Measure

To address concerns about the outdated OPM, researchers have been analyzing a new poverty measure, the SPM. This measure takes into account a more comprehensive set of family resources such as tax credits, in-kind benefits like SNAP, as well as family expenses like medical out-of-pocket costs in its classification of poor families.<sup>12</sup> In Figure 2, we compare poverty rates under OPM and SPM

for seniors in Maine and across the United States. For these analyses, we use data from 2009–2013 to permit a closer look at demographic groups within Maine. As Figure 2 shows, Maine seniors have a slightly higher poverty rate under SPM than OPM, at 10.2 and 7.9 percent, respectively (compared to 14.2 and 9.7 percent for the United States).<sup>13</sup> This pattern of higher poverty using SPM generally holds across the senior age category, though seniors in the oldest age group

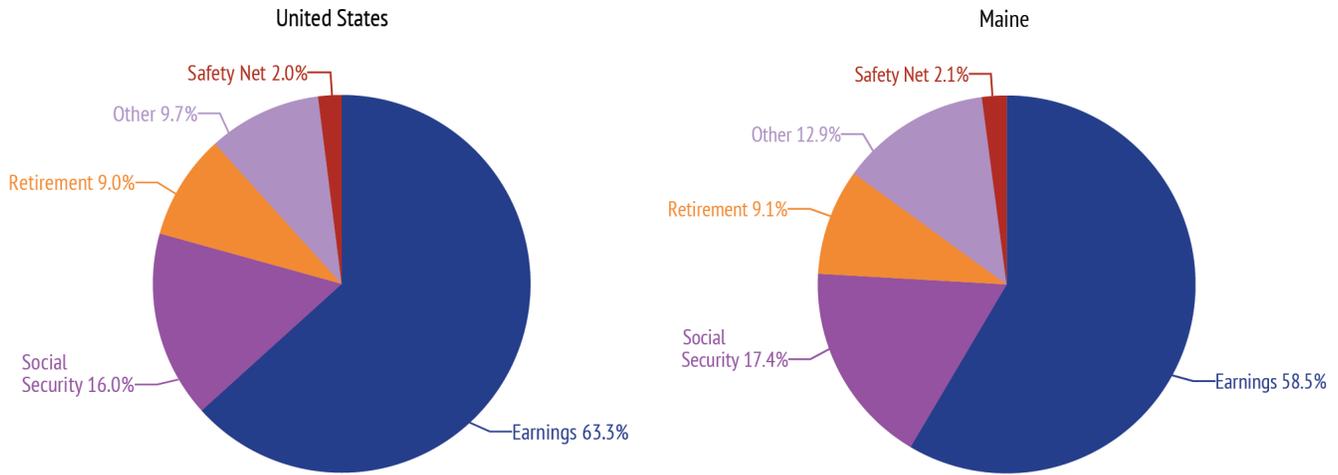
tend to be worse off. For example, approximately 13.2 percent of Maine seniors age 75 and older are poor using SPM (8.9 percent under OPM), compared to just 9.5 percent of their counterparts age 55 to 64 (8.5 percent under OPM). Further, we see that while Maine seniors in metropolitan (urban) areas are less likely than their nonmetropolitan (rural) counterparts to be poor under OPM, about the same share of rural and urban Maine seniors are poor under SPM. The opposite pattern holds true for seniors across the United States as a whole: a *larger* proportion of urban seniors are poor under SPM and a *smaller* proportion of urban seniors are poor under OPM.

In sum, Figure 2 shows that different measures of poverty can dramatically affect who gets classified as poor. We next take a closer look at the SPM, particularly the impact of Social Security and medical out-of-pocket expenses on senior poverty rates in Maine and across the United States.

## Social Security and Senior Poverty

Social Security comprises a large share of senior income. Across Maine, Social Security accounts for 17.4 percent of seniors' household income (comparable to the U.S. figure of 16.0 percent), and this share increases with age.<sup>14</sup> Earnings make up the majority of household income, comprising 58.5 percent of all income for Maine, and 63.3 percent of all income for the United States, though this also declines with age.<sup>15</sup> Income from retirement accounts, other safety net programs besides Social Security,<sup>16</sup> and other income<sup>17</sup> make up a smaller—but substantial—amount of the remainder of seniors' household income. See Figure 3.

**FIGURE 3. INCOME IN SENIOR HOUSEHOLDS, 2009–2013**

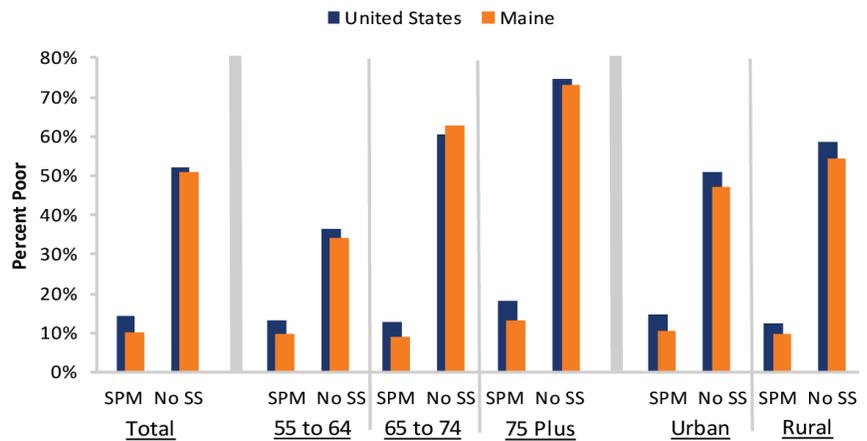


Source: CPS ASEC 2010–2014

In Maine, about 10.2 percent of seniors over age 55 are classified as poor under SPM. If we were to subtract the Social Security income from total family economic resources, more than half (51.0 percent) of seniors would be poor under SPM, an increase of over 400 percent. The rate for seniors across the United States shows a similarly dramatic pattern.

In Figure 4, we look at the direct impact of Social Security on senior poverty rates. In Maine, about 10.2 percent of seniors over age 55 are classified as poor under SPM. If we were to subtract the Social Security income from total family economic resources, more than half (51.0 percent) of seniors would be poor under SPM, an increase of over 400 percent. The rate for seniors across the United States shows a similarly dramatic pattern: 14.2 percent are poor

**FIGURE 4. THE IMPACT OF SOCIAL SECURITY ON SENIOR POVERTY, 2009–2013**

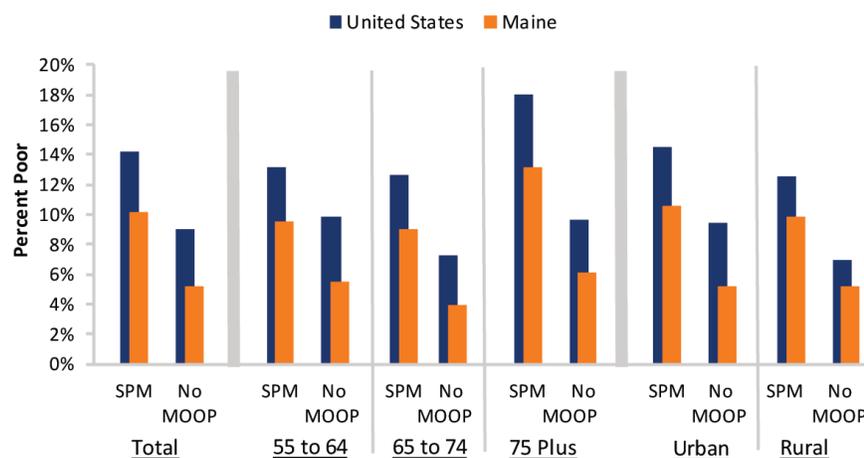


Source: CPS ASEC 2010–2014

under SPM compared to 52.2 percent when income from Social Security is excluded—an increase of about 270 percent.

We see similar patterns across age categories within Maine, but the differences are more striking among the oldest seniors. An estimated 34.2 percent of Maine seniors age 55 to 64 would be poor under SPM without Social Security,

compared to 72.9 percent of Maine seniors age 75 and over. Again, parallel patterns are evident across the United States. Finally, the percentage of seniors who would be poor if not for Social Security is slightly higher in rural than in metropolitan urban places (54.3 percent compared to 47.3 percent in Maine, and 58.4 percent compared to 50.9 percent across the United States).

**FIGURE 5. THE IMPACT OF MEDICAL EXPENSES ON SENIOR POVERTY, 2009–2013**

Source: CPS ASEC 2010–2014

## Medical Out-of-Pocket Expenses and Senior Poverty

How many fewer seniors would be poor under SPM were it not for out-of-pocket medical expenses? Figure 5 shows that at 5.2 percent, about half as many Maine seniors age 55 and over would be poor under SPM if they had no medical-out-of-pocket expenses (labeled “MOOP” in Figure 5). The magnitude of this impact varies between Maine seniors and those across the United States as a whole. Seniors in Maine tend to have lower SPM rates and a larger relative impact of MOOP across age and place of residence. In other words, although the percent-age-point reduction in poverty is similar in Maine and the United States, this represents a more dramatic reduction in Maine’s poverty because the SPM senior poverty rate is much lower in Maine than in the nation as a whole.

## Conclusion

In addition to demonstrating the critical importance of Social Security for seniors’ economic well-being, this research brief shows that Maine seniors, like their counterparts across the United States, face greater economic vulnerability than indicated by the nation’s official poverty statistics. Higher poverty than indicated by OPM is largely a result of increasing medical expenditures. Indeed, approximately half of poor Maine seniors under SPM would be classified as poor without MOOP expenses.<sup>18</sup> In addition to demonstrating the critical importance of Social Security for seniors, this research highlights the need for greater advocacy and policy to support seniors and a greater investment in programs to support aging adults.

## Data

The data for this project come from the 1970–2014 Annual Social and Economic Supplements (ASEC) of the Current Population Survey (CPS). The ASEC data are asked every March and questions about income refer to the previous year. Data for SPM analyses are from a pooled sample of 2010–2014 ASEC data, and results can be interpreted as the average over the 2009–2013 time period. All differences discussed in text are statistically significant ( $p < 0.05$ ).

## Endnotes

1. See U.S. Census Bureau, “Income and Poverty in the United States, 2013,” Figure 5.
2. See, for example: <http://www.ssa.gov/policy/docs/ssb/v73n4/v73n4p49.html>.
3. See “Social Security and Elderly Poverty,” <http://www.nber.org/bah/summer04/w10466.html>.
4. For more information, see: <https://www.census.gov/hhes/www/poverty/data/threshld/>.
5. For a full explanation of SPM poverty and development of thresholds, see <http://www.bls.gov/pir/spmhome.htm#threshold>. See also: <http://www.ssa.gov/policy/docs/ssb/v73n4/v73n4p49.html>.
6. SPM thresholds vary within states given differences in housing costs and are not directly comparable to OPM thresholds.
7. Note that because of small state sample sizes in the CPS, we aggregate across years of data to compute rates.
8. See Box 1 for a more in-depth explanation of the differences between OPM and SPM.

9. Note that other expenses including work expenses and other safety net programs like SNAP and the EITC also impact senior poverty. Analyses of these factors is beyond the scope of the current brief.

10. See U.S. Census Bureau, “65+ In the United States,” Table 4-2, <https://www.census.gov/content/dam/Census/library/publications/2014/demo/p23-212.pdf>.

11. See the “Data” section at the end of this brief for a description of the data used throughout.

12. See Box 1 for a more in-depth explanation of the differences between OPM and SPM.

13. This is particularly notable since Census numbers for 2011–2013 show that Maine has a lower SPM than OPM rate across all age groups, but not surprising given senior poverty is typically higher under SPM than OPM. See <http://www.census.gov/content/dam/Census/library/publications/2014/demo/p60-251.pdf>.

14. Data not shown; available upon request to authors.

15. Data not shown; available upon request to authors.

16. Safety net here includes all income from energy assistance (including LIIHEAP); Temporary Assistance for Needy Families (TANF); Women, Infants, and Children (WIC); the Supplemental Nutrition Assistance Program (SNAP); Supplemental Security (SSI); and the Earned Income Tax Credit (EITC).

17. Other income includes worker’s compensation, veteran’s payments, survivor benefits, disability, interest, dividends, rent, educational assistance, child support, alimony, and a catch-all “other” income category.

18. The analyses in this brief considered “all else being equal” scenarios in order to demonstrate the observed impact of Social Security and medical expenses. The analyses, however, do not consider changes that may be observed if Social Security were eliminated or medical out-of-pocket costs were reduced. For example, in the absence of Social Security, many seniors may begin or increase paid employment. Such income is not accounted for in these estimates and, as such, our findings may overstate poverty under such a scenario. Similarly, a reduction in MOOP expenses could correlate with health improvements that enable increased labor force participation. Such additional income may lift even more seniors out of poverty.

## About the Authors

Andrew Schaefer is a vulnerable families research associate at the Carsey School of Public Policy and a doctoral candidate in sociology at the University of New Hampshire ([andrew.schaefer@unh.edu](mailto:andrew.schaefer@unh.edu)).

Beth Mattingly is director of research on vulnerable families at the Carsey School of Public Policy and a research assistant professor of sociology at the University of New Hampshire ([beth.mattingly@unh.edu](mailto:beth.mattingly@unh.edu)).

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