Housing America's Seniors




JOINT CENTER FOR HOUSING STUDIES
OF HARVARD UNIVERSITY

Housing FOR Seniors

EXECUTIVE SUMMARY

Today's 34 million seniors are enjoying longer lives — with better health and greater wealth — than any preceding generation of Americans.

Breakthroughs in medicine and improved lifelong health are changing the way people in their 60s and 70s look at their housing choices, while greater financial resources and access to information are enabling many of them to choose the living arrangement that suits them best.

Over the next decade, further increases in longevity will gradually add another five million to the ranks of the elderly. But as the first members of the baby-boom generation reach 65, growth in the number of seniors will surge. By 2030, the senior population is expected to nearly double to about 70 million — bringing their share of the entire US population to a formidable 20 percent.

Seniors have the highest homeownership rates of any age group, making up nearly one-quarter of all owners. And although they relocate much less often than younger households, people 65 or older currently account for about one-tenth of buyers of new homes; those between the ages of 55 and 64 account for another tenth. As the baby boomers move into these age ranges, seniors will become a major presence in housing markets across the country.

Given that nine out of ten seniors prefer to remain in their homes, the housing choices the baby boomers make over the next ten years will determine where and how they will live well into this century *(Chart 1)*. As a result, developers and homebuilders are already testing out new housing alternatives. For example, they are experimenting with designs for healthy seniors facing the prospects of semiretirement and longer full retirement. They are also trying innovative housing models for seniors with disabilities who have difficulty living fully independently.

Meeting Special Needs

Only 10 percent of seniors live in age-restricted communities. Fully nine in ten people age 70 and over live in conventional housing. But the regular housing stock is not designed to meet the changing needs, tastes, and preferences of seniors as they age. As a result, the market for home modifications and healthcare and other supportive services to help older Americans live safely and comfortably in their homes is large and growing.

Much of the current demand for modifications is unmet. At present, only about half of the disabled over age 65 have the home modifications they believe they need. This leaves hundreds of thousands of seniors without the handrails, grab bars, ramps, elevators or stair lifts, and other structural modifications that would help them function more easily at home.

Even though nine out of ten seniors 70 and over live in conventional housing, the regular stock is not designed to meet their changing needs, tastes, and preferences.

About 15 percent of the elderly make special arrangements to receive care in regular housing *(Chart 2)*. Of this group, about two-thirds live in "shared housing," a living arrangement where either they have moved in with a non-elderly person or had a non-elderly person move in with them for the express purpose of getting assistance. The other third live in "supported housing," where they receive outside help from a nonfamily member.

Support services in the home are also in strong and growing demand, especially as new medications and devices allow even those with serious health conditions to avoid institutionalization. Among households with at least one person between the ages of 70 and 79, just 5 percent receive help from an outside organization or nonrelative. For those 90 and up, though, the share receiving outside help increases to 20 percent.

Not surprisingly, the chances that seniors opt for shared or supported housing increase with the number of difficulties they have with daily living activities. But the proximity of children is an equally important factor. The fewer children they have living nearby, the more likely seniors are to choose assisted, supported, or shared arrangements — regardless of their physical limitations. For example, the proximity of two children reduces the probability of selecting assisted communities to 33 percent of the probability when no children are nearby, to 65 percent for supported housing, and to 75 percent for shared housing.

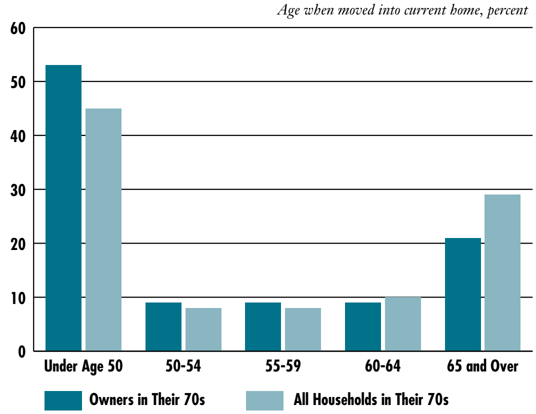
Presence or absence of a spouse is also critical. All else being equal, seniors living with a spouse are most likely to elect conventional housing and active retirement communities. Spouses are often able to provide care for their partners, thereby reducing the need to seek alternative arrangements. Being single (whether never married, widowed, divorced or separated), in contrast, sharply increases the likelihood of choosing to share housing.

Age-Restricted Alternatives

Age-restricted housing offers special alternatives for seniors. Roughly 7 percent of those age 70 and over living outside institutions — about 2 million seniors — now reside in age-restricted communities that do not provide care to residents. Many of these communities are tailored to healthier seniors with active lifestyles and are found predominantly in the South and West. In the Mountain and South Atlantic states, more than one in ten seniors live in this type of community; in the Pacific states, the share is about nine percent.

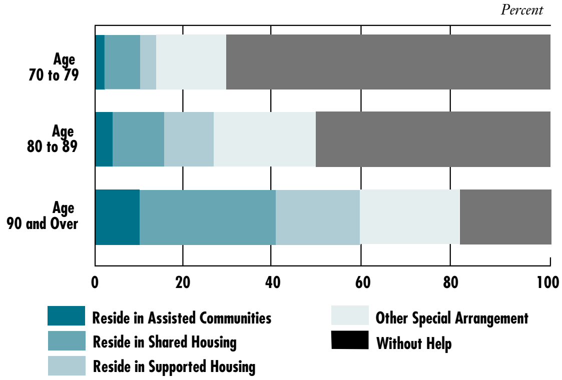
For seniors that have difficulty living fully independently, age-restricted assisted communities offer a variety of settings in which services are provided either as part of the rent or for a fee. About one-third of assisted communities provide for on-site nursing care and one-quarter provide off-site nursing assistance. These communities also offer personal care and other services. Congregate

1 Most Seniors Lock In Their Housing Choice Before They Reach Age 60



Source: Joint Center tabulations of the 1997 American Housing Survey.

2 Special Care Arrangements Are Relatively Uncommon Among Younger Seniors



Note: Age refers to the oldest member of the household.
Source: Joint Center tabulations of the National Institute on Aging's Assets and Health Dynamics Among the Oldest-Old (AHEAD) Survey, 1993.

housing, in contrast, provides meals but may or may not supply limited support services.

Despite the attention they have received, assisted communities are currently home to only three percent of the nation's seniors 70 or older living outside of nursing homes. The share does, however, rise with age and reaches seven percent of those aged 85 to 89. It is noteworthy that income, wealth, education, and even need for assistance do not seem to strongly influence the likelihood of choosing assisted communities (even after excluding subsidized units from the analysis). This underscores the fact that many seniors move to these facilities with the expectation of future disabilities, to take advantage of other services offered, and to be in an environment supportive to those living alone.

Assisted communities are, however, a costly alternative. The out-of-pocket monthly costs of assisted communities without income restrictions average $1,500. And even these relatively steep rents do not necessarily cover all the costs of care received by residents. One-fifth of residents in assisted communities contract for outside help at an average cost of nearly $1,300 per month.

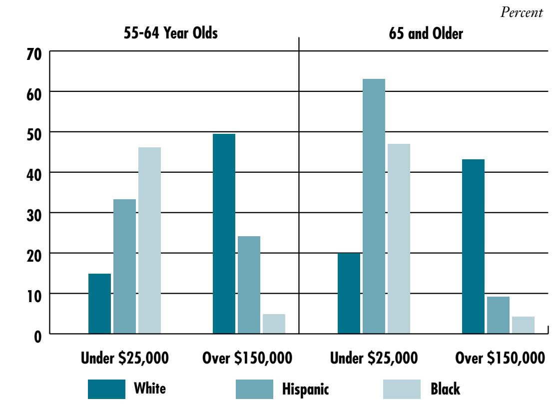
At present, Medicare does not cover assisted communities at all, while Medicaid covers only limited costs for residents — and even then only under state waivers. Thirty-five states currently (or plan to) reimburse some of these costs. As a result, many poor seniors that need assistance with daily activities must choose nursing homes, which, though more expensive, are funded under Medicaid. More important, the much larger group of poor and near-poor seniors needing in-home care lack help in paying for these services.

Trends Shaping Demand

Many of the factors that will shape the lives and housing choices of tomorrow's elderly — including better health, greater longevity for men, increased wealth, and ongoing technological innovation — are already at work. For example, with the expectation of living longer, healthier lives, more seniors may elect to delay retirement. Increases in the qualifying age for receipt of Social Security payments may also induce many to continue working. In this case, demand could rise for second homes close to the workplaces of those now approaching retirement. In addition, given that retirement could extend for many years, more people may consider moving to support a more active retirement lifestyle.

At the same time, technological and medical advances are enabling seniors to live independently for longer. This in turn may add to the demand for in-home care services and structural modifications. Expanded telecommunications give seniors more choices about where to live and how long to work, with a growing share of semi-retirees likely to telecommute to their jobs.

3 Wealth Disparities Will Restrict Options for Many Seniors, Especially Minorities



Source: Joint Center tabulations of the 1995 Survey of Consumer Finance.

Wider use of the Internet will help seniors educate themselves about housing options and make them more discriminating consumers. In fact, planning out housing choices as early as the 50s and early 60s may become more common. Ability to act on those preferences will grow as the baby boomers reach their retirement years with unprecedented wealth. Increasing wealth also favors the demand for second homes.

Greater longevity for men and the baby boomers' smaller families also have implications for housing demand. On the one hand, as men live longer, more seniors will have a spouse present — a key factor in the ability to remain living in conventional housing. On the other hand, tomorrow's seniors will have fewer children to provide care. This suggests that a larger share of seniors who develop care needs after they are widowed, separated, or divorced will choose to live in supported housing and assisted communities.

Public Policy Challenges

Rapid growth of the senior population beginning in 2010 may place strains on Social Security, Medicare, and Medicaid. Reforms designed to relieve some of these pressures have already been introduced, including a phased-in increase in the age when retirees can begin to draw Social Security payments. Contrary to dire projections, however, the ratio between the dependent population (both old and young) and the working-age population will not exceed its historical peak. This implies that tomorrow's labor force will be able to support the burgeoning number of seniors, given that appropriate program reforms are made.

What is especially troubling, though, is that today's dramatic disparities in wealth will follow the baby-boom generation into retirement. While about one-fifth of all those 70 or older in 1993 had net wealth of over $200,000, an equally large share had net worth of less than $25,000.

Wealth and income disparities will therefore continue to limit the housing choices of millions of Americans, especially those of color *(Chart 3)*. While 3 percent of white households age 65 and older had $150,000 in wealth in 1995, only 9 percent of hispanic and 4 percent of black households had similar holdings. Furthermore, many seniors face difficulties paying for their current housing. In 1995, 2.2 million of those age 65 and over — more than half of them homeowners — paid more than half their incomes for housing. Severely burdened homeowners will have difficulty maintaining their homes in safe and proper condition, let alone be able to afford modifications and in-home services.

Although the graying of America will not be without challenges, meeting the changing housing preferences and needs of healthier, wealthier, and more educated seniors presents substantial opportunities. Efforts to serve this growing market better are already well under way, and will expand as the ranks of seniors swell and as technology and information access continue to advance.


MACE

Today's Seniors

SECTION ONE

America's senior population is growing rapidly. The number of people age 65 and over now stands at 34 million, up from 20 million in 1970.

After relatively slow growth of 5.4 million over the next decade, the population in the 65-plus age group will surge to 69.4 million in 2030 *(Chart 4)*. By then, the senior share of the overall population will expand from 12.7 percent to 20.0 percent.

The increasing presence of the elderly after 2010 is, of course, due largely to the aging of the baby-boom generation born between 1942 and 1964, with help from breakthroughs in nutrition and healthcare that have extended life expectancies. Indeed, the 85-and-over population will be growing faster than the 65-84 year-old segment, especially after 2030. As a result, nearly one-quarter of the elderly are expected to be at least 85 years old in 2050, compared with only one-seventh today.

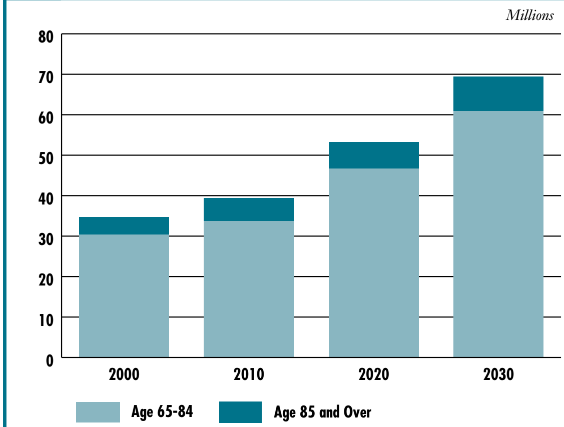
The prospect of a burgeoning elderly population has raised serious concerns about the future of the economy and of the housing market. Some observers have expressed fear that the nation will not have enough workers to provide for the economic needs of dependents, both young and old. Others worry that the large inflow of capital to the stock and bond markets now occurring through 401(k) and similar plans will abruptly end as the boomers begin to retire. Still other commentators predict that the housing market is headed for a fall when the baby boomers are no longer demanding new or larger houses. They also question who will buy the homes the baby boomers will eventually want to sell.

Age does bring limitations that affect where people live, how they live, and who they live with. But today's elderly enjoy several advantages over earlier generations — advantages that provide a wider range of housing choices. America's elderly are living longer and healthier lives. Technological and medical advances are allowing more seniors to live on their own or with only minimal assistance. In addition, a wider variety of professionals and paraprofessionals now provide services that until recently were only available from doctors, and new drugs are replacing invasive and costly procedures. Most of today's elderly are also better educated and have more wealth, both through Social Security and their own savings. All of these changes mean that many elderly have more resources to live longer independently.

In fact, the large and growing elderly population provides a potent market for combining desired services with housing. While some seniors will require or prefer specialized environments such as assisted living facilities, many more will want services furnished in their own homes. The large variety in the characteristics of the elderly, however, suggests that the response to their changing needs must be equally varied — including in-home delivery of support services, home modifications, and new housing options. These new market opportunities are already opening up as the baby boomers attempt to find suitable care for their aging parents.

This is not to say that the aging of America is without challenges. Prolonged life expectancy presents new levels of demand for in-home delivery of services, a market that is not well developed at present. Ongoing innovations in healthcare technology will present ever-more difficult questions about who benefits from expensive new approaches. Disparities in wealth among seniors will continue to limit the housing and care options that many will be able to pursue. In particular, renter households headed by a person 65 or older in 1995 — one-fifth of the senior population — had median net wealth of only $6,460, compared with $141,300 for those owning homes. Moreover, adequate funding for and appropriate structuring of entitlement programs serving the needy elderly remain politically sensitive issues.

4 The Elderly Population in the US Will Double by 2030



Source: US Census Bureau, Series P25-1130, 1996.

Profile of Ar

The most detailed picture of today's seniors is provided by the National Institute on Aging's Assets and Health Dynamics Among the Oldest-Old (AHEAD) Survey, a longitudinal study of individuals who were at least 70 years old in 1993.

This group is largely made up of women and increasingly so with age, with the female share rising from 58.3 percent of 70-74 year-olds to 79.2 percent of those aged 90 or older.

What differentiates seniors from other age groups is primarily their difficulty with activities of daily living and their relatively lower incomes. Elderly persons need support services that provide appropriate assistance with these activities, as well as ways to counter depression and declines in cognitive skills.

merica's Seniors

Marital status. Half of today's seniors are married and have a spouse present, while 40 percent are widowed and 5 percent are divorced or separated. But the shares living with a spouse differ dramatically for men and women, and these differences widen over time. Three-quarters of men over age 70 are married and live with their spouses, but only a third of same-age women have a spouse present. By age 90, the married share for men is 40 percent while that for women shrinks to just 5 percent *(Chart 5).*

Education and occupation. The educational achievement and occupational status of the nation's seniors reflect society-wide trends. Younger seniors (age 70-74) are better educated and are more likely to be craftsmen and slightly more likely to have professional or managerial positions; they are also less likely to work in services. Over the next 30 years, the shares of all senior age groups with higher education and professional or managerial occupations are likely to grow.

Income and wealth. Approximately nine percent of seniors are currently working. Even so, over half of the incomes of those age 65 and over are derived from Social Security, with another 20 percent from pensions and only 5 percent from earnings. Earnings from other household members and other investment income each contribute another 8-9 percent of elderly incomes. Very little income comes from Supplementary Social Insurance (SSI) or food stamps.

About 20 percent of seniors have net worth between $100,000 and $200,000, while another 18 percent have net worth between $200,000 and $500,000. At the same time, though, about 20 percent have net worth of less than $25,000 and 10 percent have net worth between $25,000 and $50,000. These numbers do, however, understate net worth because they exclude the wealth contribution of future Social Security payments and defined benefit employer pension plans. The wealth contribution of Social Security, for example, is about 25 percent of average total net worth.

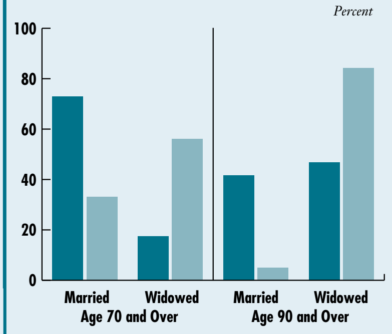
Health and activity levels. Among those over age 65, the incidence of various ailments such as high blood pressure, diabetes, cancer, lung disease, and arthritis does not vary with age or with gender. Out of more than a dozen ailments, only poor vision and poor hearing show a meaningful increase over time. In addition, the incidence of incontinence and falls among seniors age 90 and over is approximately double that for seniors age 70-74.

The best indicators of the health of seniors and their need for assistance are measures of difficulties with Activities of Daily Living (ADLs) and Instrumental Activities of Daily Living (IADLs). ADLs include walking, dressing, bathing, eating, getting in and out of bed, and using the toilet. IADLs include preparing meals, grocery shopping, using the telephone, taking medicine, and managing money.

In general, seniors experience increasing difficulty with these activities as they age *(Chart 6).* While about 19 percent of 70-74 year-olds have problems performing at least one activity of daily living, 74 percent of those 90 years old and over do so. Similarly for instrumental activities, the share having difficulty with at least one activity increases from 20 percent to 74 percent over the same age range. Age also increases the difficulty of walking several blocks, climbing stairs, moving heavy objects, lifting ten pounds, or picking up a dime. The last task, however, was only difficult for 18 percent of the oldest group. In addition, cognitive skills decline and depression increases.

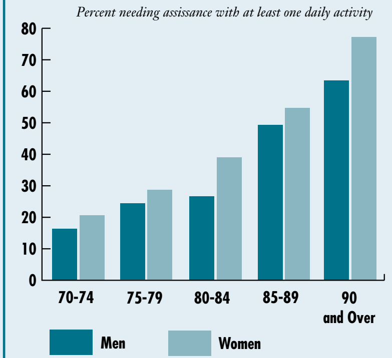
Health insurance. Although older Americans have considerable medical insurance coverage thanks primarily to Medicare, relatively few carry long-term care or nursing home coverage. About three-quarters of today's seniors supplement Medicare with other health insurance. One-fifth of these purchases are for basic health insurance, slightly over one-third are for Medigap coverage, and about two-fifths are for some other supplemental plan. Only about three percent of the added coverage is for long-term care, although another 17 percent of seniors do have some of this type of coverage in their basic, Medigap, or other supplemental insurance. About three-quarters of long-term care coverage includes some home healthcare.

5 Women Survive Their Husbands, and Increasingly So With Age



Source: Joint Center tabulations of the 1993 AHEAD Survey.

6 Seniors' Need for Assistance Rises Dramatically With Age



Source: Joint Center tabulations of the 1993 AHEAD Survey.

Housing Choices

SECTION TWO

According to a recent survey conducted by the American Association of Retired Persons (AARP), over 90 percent of households at least 65 years old prefer to remain in their own homes.

While assisted communities have received widespread attention as the living arrangement seniors are likely to gravitate toward as they age, most surveys suggest quite the opposite. Seniors consistently state that they prefer to "age in place," and the percentage responding so increases with age *(Chart 7)*.

Given this strong preference, it is no surprise that the elderly change residences less and less frequently as they age. For example, while one in three people age 20-29 resides in a different house from the one he or she lived in a year ago, only one in twenty-five people aged 70-79 has relocated in the past year *(Chart 8)*.

Nevertheless, fully 39 percent of Americans do change residences after they reach the age of 60. At least four-fifths of the moves seniors make are local. In a typical year, only about one percent of the elderly move across a state boundary, and even many of these moves are within the same metropolitan area.

Small numbers of elderly from widely dispersed locations do, however, migrate to certain well-known retirement destinations. Florida, of course, is the primary example, although other states — including Texas, California, Arizona, North Carolina, and Tennessee — are also strong draws. Note, however, that many of these areas are equally attractive to younger migrants.

Seniors who make long-distance moves tend to be younger, healthier, and somewhat better educated. They also have somewhat higher incomes. As their health declines and they become more dependent, however, some return to their home states or move to locations closer to their families.

Although they change residences less often than younger adults, seniors nevertheless are significant contributors to the for-sale housing market. With ownership rates of nearly 80 percent, seniors age 65 and over today account for about one-quarter of all homeowners and one in ten buyers of new homes.

Factors Influencing Choice

Education, income, net worth, and gender have little to do with the selection of the four types of alternative living arrangements. Housing choices do, however, vary with certain household characteristics. The primary influences are age, need for assistance, and availability of children *(Chart 10).* Location, race/ethnicity, and marital status also have some influence.

Assisted communities. Residents of assisted communities tend to be older (i.e., with a household member over age 85) and/or have no children living nearby. Somewhat surprisingly, difficulties with activities of daily living or the instrumental activities of daily living have little relationship to the selection of assisted communities. Households lacking a driver or having difficulty climbing stairs, however, are more likely to choose this living arrangement.

The lack of a significant relationship between need for assistance and selection of assisted communities — which are expressly designed for a less independent population — is striking. It appears that there is some demand from seniors who do not yet have difficulties with daily activities. This demand may be driven by the expectation of future disability, the absence of a spouse, the inability to drive, the desire to arrange for the future while still able to do so for oneself, or the desire to spend less time on household tasks. It may also reflect the trend towards allowing residents to select from a menu of services and to pay only for the ones they use.

Assisted communities are more commonly found in metropolitan areas and in the West North Central, South Atlantic, and Mountain states. Residences in assisted communities are modest in size, with 80 percent of the units having three or fewer rooms. Assisted communities offer primarily rental units (about 80 percent), with only 8 percent owner-occupied and the balance in the “other” (neither rent nor own) category.

Unassisted communities. Age-restricted communities that do not provide services

Housing Options

Today just three percent of seniors live in assisted communities for the elderly, ten percent in shared housing, seven percent in unassisted communities, and five percent in supported housing.

Based on definitions formulated from the AHEAD survey, the living arrangements of the elderly (defined as age 70 or older due to data availability) can be categorized into five mutually exclusive types:

Assisted communities. As defined here, assisted communities are age-restricted (60 or older) residences providing some services or assistance. This broad category includes not only assisted living facilities (which provide personal-care services for the frail elderly), but also other industry-defined housing types such as congregate housing (which often offer only meals, but may or may not provide limited support services) and continuing care communities (which offer a wide range of service combinations and unit types to seniors). Of assisted communities so defined, approximately one-third provide onsite nursing assistance, one-quarter provide offsite nursing assistance, and the remainder provide other services without any arrangements for nursing care. Nine out of ten of these communities include meals in their services, and approximately 30 percent provide only meals.

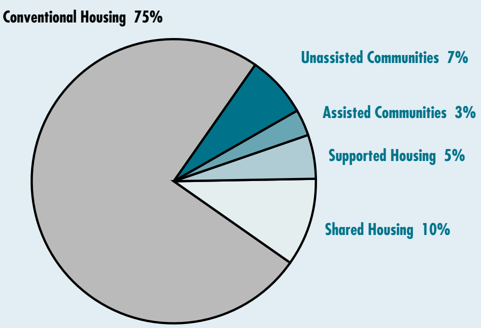
Unassisted communities. These age-restricted (60 and over) communities are residential environments designed for healthy seniors requiring no services or assistance. This category includes active retirement communities for older Americans interested in more secure residences and expanded social or recreational opportunities; it also includes housing built for seniors under federal programs.

Shared housing. Shared housing refers to arrangements in which either the elderly person moved in with a non-elderly person or a non-elderly person moved in with an elderly person for the stated purpose of receiving or providing assistance.

Supported housing. In this alternative living arrangement, senior residents receive assistance from outside the home, provided by either a nonfamily member or an organization.

Conventional housing. Consistent with the strong expressed desire to age in place, three-quarters of the elderly live in conventional housing. Indeed, conventional housing is also the choice of the majority of those elderly who have recently moved.

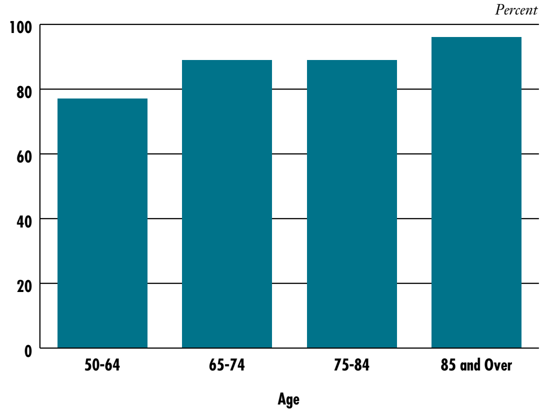
9 Three-Quarters of the Nation's Seniors Live in Conventional Housing



Living Arrangements of Persons 70 and Over

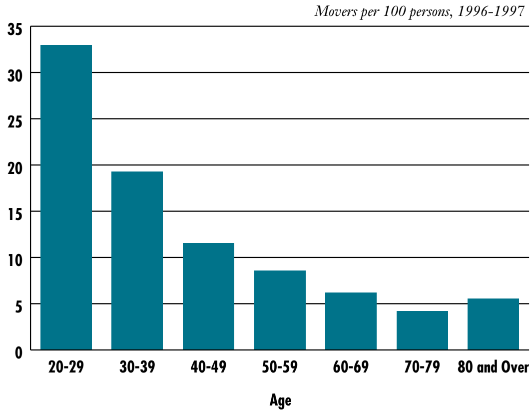
Note: Excludes persons living in long-term facilities such as nursing homes or other similar institutions.
Source: Joint Center tabulations of the 1993 AHEAD Survey.

7 Seniors Overwhelmingly Prefer to Remain in Their Homes



Source: American Association of Retired Persons, *Understanding Senior Housing*, 1996.

8 Seniors Change Residence Less Frequently Than Younger Households



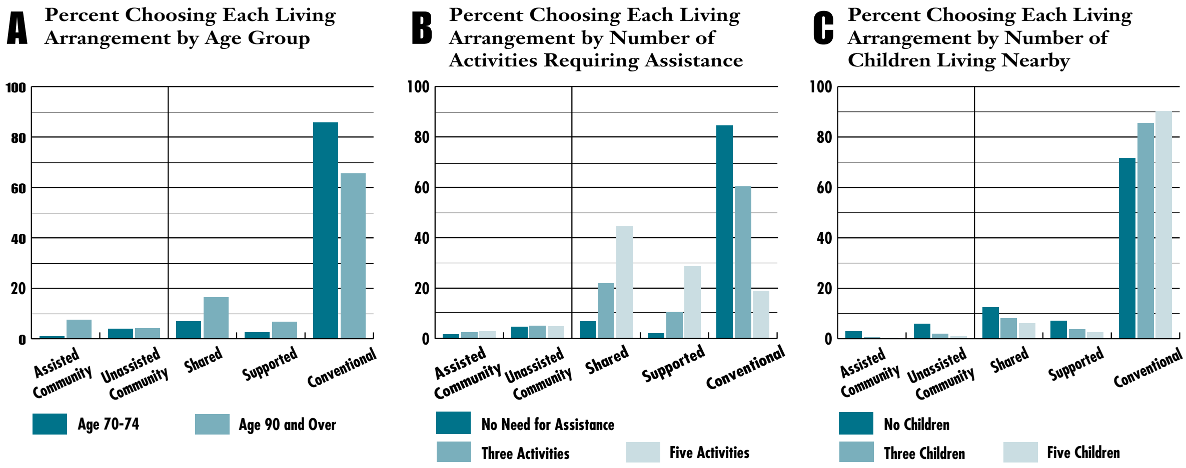
Source: Joint Center tabulations of the 1997 Current Population Survey.

are generally favored by healthy people, and particularly by non-Hispanic white households. This type of housing alternative is commonly located in metropolitan areas, and in the South Atlantic, Mountain, and Pacific states. Unassisted 60-plus communities are about one-third owner-occupied and two-thirds rental. Residences in unassisted communities are small, with 43 percent of units having three or fewer rooms.

Shared housing. Households that have difficulties with the activities of daily living or with the instrumental activities of daily living, and those without children nearby, favor shared quarters. The willingness of adult children to share housing with a parent substantially increases the likelihood of selecting this housing alternative. Not all shared housing situations involve children, however: fully 35 percent do not.

Divorced or separated, widowed, and never married households tend to share housing more often than married couples. Elderly households without a driver are also apt to choose this arrangement, along with non-Hispanic blacks and other non-Hispanic minorities (primarily Asians). The living space in shared quarters is relatively large, with about 45-50 percent of units having six or more rooms. Shared housing is about

10 Age, Need for Assistance, and Availability of Children Most Influence Seniors' Choices of Housing



Source: Joint Center tabulations of the 1993 AHEAD Survey.

43 percent owner-occupied and 15 percent rental; the remaining 42 percent is in the "other" category — arrangements that often involve seniors living with their children.

Supported housing. Seniors that choose supported housing tend to have difficulties with activities of daily living or with instrumental activities of daily living, but still have good cognitive ability. Divorced or separated and widowed seniors favor supported housing, along with households without a driver. The likelihood of selecting this alternative increases as the number of children decreases. Two-thirds of these units are owner-occupied and one-quarter are rented. Units in supported housing are larger than those in age-restricted communities, but somewhat smaller than shared or conventional units.

Conventional housing. Seniors that are younger, are married with spouse present, and have children living in the home or nearby prefer conventional housing. These units tend to be owner-occupied (82 percent) and are relatively spacious, with half having six or more rooms. A larger share of seniors in nonmetropolitan areas lives in conventional units than of seniors in metropolitan areas.

With ownership rates of nearly 80 percent, seniors age 65 and over today account for about one-quarter of all homeowners and one in ten buyers of new homes.

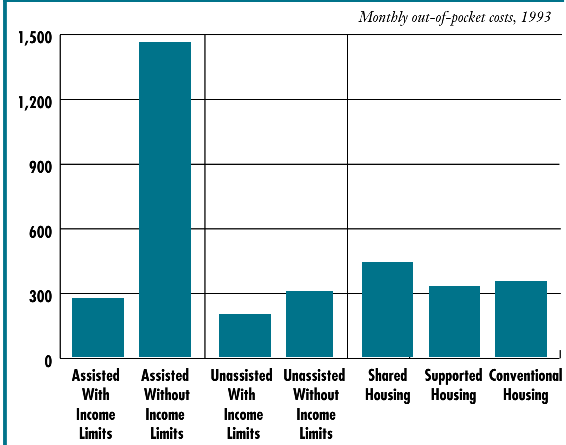
Out-of-Pocket Costs

The most expensive living arrangement is an assisted community without income limitations, where monthly out-of-pocket costs in 1993 averaged $1,461 *(Chart 11).* The next most expensive alternative is shared housing with an average monthly cost of $442, followed by conventional housing at $351 and supported housing at $328. Units in unassisted communities without income limitations cost an average of $308 per month, while assisted and unassisted communities with income limitations cost $273 and $201, respectively.

These figures do not reflect the cost of purchased support services. About six percent of households receive assistance from paid helpers. These seniors are concentrated in supported housing: about half those living in this type of housing have helpers, who are paid an average of $425 monthly. About 22 percent of those living in assisted communities also have helpers, who receive an average of $1,290 monthly. With the exception of shared housing, the out-of-pocket costs for owner-occupied housing is less than that for rental arrangements.

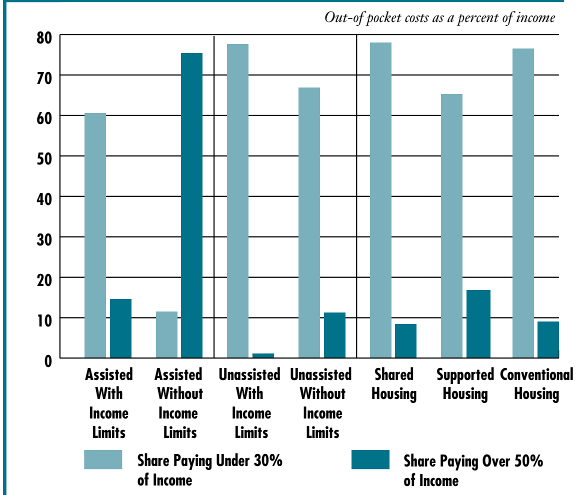
Approximately one-quarter of seniors spend more than 30 percent of their incomes for housing and support services. Those residing in assisted communities without income limitations have the highest cost burdens, with 75 percent spending over half their incomes for these needs *(Chart 12).* Owners have lower cost-to-income ratios than renters: 18 percent of owners spend more than 30 percent of their incomes on out-of-pocket housing costs, compared with 52 percent of renters.

11 Assisted Communities Cost Four Times as Much as Conventional Housing



Note: Out-of-pocket costs include real estate taxes, house insurance, mortgage payments, condominium or cooperative fees, association fees, and rent (including utilities).
Source: Joint Center tabulations of the 1993 AHEAD Survey.

12 Residents of Assisted Communities Also Face the Highest Cost Burdens



Note: For definition of costs, see Chart 11.
Source: Joint Center tabulations of the 1993 AHEAD Survey.

Home Modifications

Special features to accommodate the physical limitations of aging residents — such as call devices, grab bars, railings, and ramps — are most frequently found in assisted communities. While about 20 percent of conventional housing has bathroom grab bars, only about five to eight percent offer these other modifications.

As a result, many elderly do not have the home modifications they require to live safely and comfortably on their own. According to the 1995 American Housing Survey (AHS), only about half of elderly disabled households have the home modifications they need *(Chart 13).*

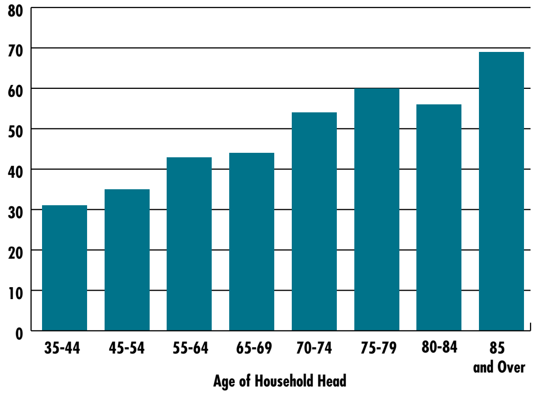
While the elderly who make home modifications do so on a relatively substantial scale, they spend about half as much as younger households. The 1997 AHS reports that households headed by persons aged 70 and over made an average of approximately $3,220 worth of improvements to their homes, compared with about $6,172 by those headed by persons aged 35-44.

Seniors focus primarily on projects such as replacement of siding, roofing, and mechanical systems (58 percent of their renovation expenditures), while younger households tend to make alterations such as adding rooms, enlarging kitchens, and remodeling bathrooms. As seniors age, they become less concerned with cosmetic changes to their homes, but continue to make every effort to replace worn-out systems and keep their homes in good repair *(Chart 14)*.

Nevertheless, making even modest repairs is beyond the financial grasp of some. Over the ten-year period from 1984 to 1993, for example, nearly one million lower-income elderly homeowners spent an average of $100 or less per year on home maintenance and replacements combined. Seniors are also less apt to undertake do-it-yourself activities than younger households, and more inclined to use contractors.

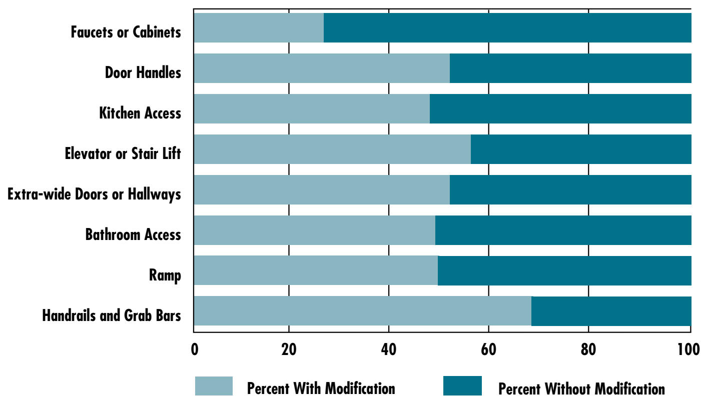
14 Seniors Spend More of Their Home Improvement Budgets on Replacements

Percent of expenditures on replacements, 1996-97



Note: Replacements refer to projects such as replacing a roof, siding, and heating or plumbing equipment.
Source: Joint Center tabulations of the 1997 American Housing Survey.

13 Only Half of Disabled Seniors Have the Home Modifications They Need



Note: Includes seniors age 65 and over. Excludes all seniors that did not express need for home modifications.
Source: Joint Center tabulations of the 1995 American Housing Survey.

Housing Satisfaction

The nation's seniors are generally satisfied with the condition of their housing and with the safety of their neighborhoods. According to the AHEAD survey, only about two to three percent consider their housing or the safety of their neighborhoods to be poor. The 1995 American Housing Survey confirms that fully 94 percent of seniors live in housing without any structural inadequacies. Just two percent live in housing with severe physical deficiencies, while another four percent reside in units with moderate structural problems.

Looking Ahead

SECTION THREE

Many of the demographic and labor market trends that will shape the lifestyles and housing choices of tomorrow's seniors are already at work.

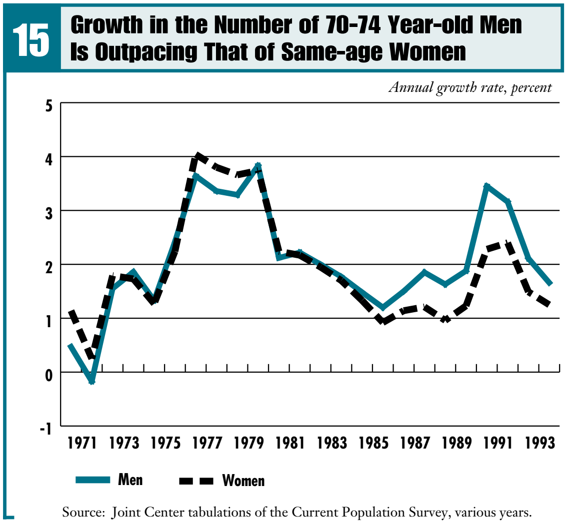
Since those who will make up the senior population in 2030 are now alive, it is possible to speculate how some of these factors — including increased longevity, better lifelong health, and greater wealth — will affect the demand for housing and support services. If history is any guide, however, the baby boomers will put their unique stamp on markets in the 21st century, just as they have for the past 30 years.

Improved Health

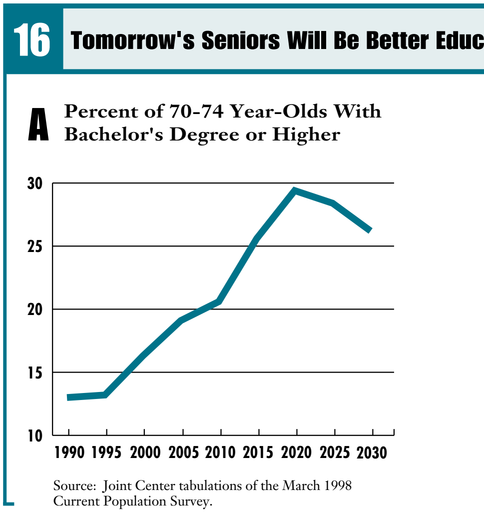
Two major revolutions have affected the health of the elderly. The first is well-known: life expectancies are much longer today than they were a century ago. Instead of living to age 50, Americans can now expect to reach age 75. Indeed, roughly three-quarters of the people who have ever attained that age are now living. Extended longevity is attributable to better hygiene, nutrition, and disease prevention throughout life.

The other revolution — improvement in lifelong health — is only now unfolding. Today's elderly are not experiencing the same incidence of diseases traditionally associated with aging. The disability rate for persons aged 65 or older dropped by 14 percent between 1984 and 1994, thanks largely to regular exercise, better diet, better medical care, and greater emphasis on preventive medicine. Medical innovation has also made tremendous progress in reducing the incidence and managing the impact of many age-related diseases such as heart failure. Every sign points to further progress in preventing and treating heart disease, Alzheimer's, cancer, and other serious illnesses.

Healthy aging will have a dramatic impact on the lives that seniors can and will enjoy, as well as on the cost of medical care. Healthy seniors live longer; the older people are when they die, the less costly the medical care they require. With sickness and disability reduced to a minimum, Medicare is likely to shift from just offer-



Source: Joint Center tabulations of the Current Population Survey, various years.



Source: Joint Center tabulations of the March 1998 Current Population Survey.

ing care to providing preventive medicine for the elderly.

Living Longer With Spouses

While the common view is that women will continue to make up a disproportionate share of the senior population, recent trends suggest that men are closing the longevity gap. During the 1970s, the growth rate of men over age 75 lagged that of same-age women (2.1 percent annually compared with 3.9 percent). In the early 1980s, though, the populations of elderly men and women grew at close to the same rate. Then, between 1984 and 1994, the growth rate of elderly men actually overtook that of elderly women (3.1 percent annually compared with 2.7 percent). This transition is most striking for the group about to reach age 75 *(Chart 15)*.

The effect of these differential growth rates is apparent in the changing ratio of men to women over age 75. Although the annual changes are small, they are likely to have a significant impact over time. Based on census projections, the ratio of elderly males to females is expected to climb from 0.56 in 1994 to 0.76 in 2030.

The presence of a spouse is critical to the ability of seniors to remain at home. One study estimates that living with a spouse cuts the probability of entering a nursing home or some similar setting by half. The increasing longevity of men thus heralds more elderly living in their own homes for longer periods of time, and less demand for assisted living communities and nursing homes than would otherwise be expected.

Higher Education Levels

Like health and longevity, the educational achievement of Americans has improved dramatically. The share with a high school education more than tripled from just 25 percent in 1940 to 82.8 percent in 1998, with about one-quarter also graduating from a four-year college program.

Since the people who will turn 70-74 years old between now and 2030 are unlikely to pursue further schooling to any meaningful degree, it is possible to project their education levels over the next 30 years. In the early 1990s, approximately 13 percent of this age group held a bachelor's degree. By 2020, the share should approach 30 percent before falling off with the aging of less well-educated immigrants *(Chart 16A).*

This projection in fact understates future education levels among the elderly because less well-educated persons tend to die at an earlier age (probably reflecting lifetime exposure to more health risks and poorer care). For example, 10.6 percent of people age 70-74 in 1990 held a bachelor's degree; by 1998, 13.0 percent of this same group (then age 78-82) reported having a degree.

Higher levels of education among seniors are likely to mean more demand for high-quality healthcare and other support services. In addition, tomorrow's more highly educated elderly may well have an even stronger desire to live independently than today's.

Longer Work Life

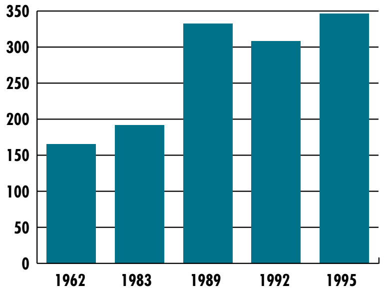
Greater educational attainment translates into higher labor force participation rates. In 1997, people with less than a high school education had a 61.7 percent participation rate, while those who graduated from high school had an 82.5 percent participation rate. The rate increases to 83.7 percent for those with some college, and to 88.5 percent for college graduates.

The effect is already evident among men over age 65, whose labor force participation rate edged up from 16.3 percent in 1991 to 17.1 percent in 1997. (The change in rates for women is influenced by other factors, mainly the expansion of work opportunities.) Approximately 20 percent of men aged 70-74 were working in 1993.

Better-educated seniors may prefer to spend some of their time working, either in part-time positions or in so-called "bridge jobs" that fill the time between the end of their primary career and complete retirement. The role of part-time work and of self-employment increases with age, start-

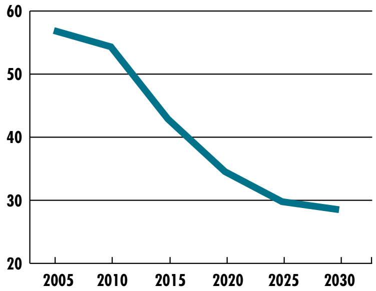
…ated and Have More Wealth, But Have Fewer Children To Rely On For Care

B **Mean Net Worth of 65-74 Year-Olds (Thousands of 1995 dollars)**



Source: Joint Center tabulations of the Survey of Consumer Finances, various years.

C **Percent of Women Aged 70-74 With Three or More Children**



Source: Joint Center tabulations of the June 1995 Current Population Survey.

ing in the early 60s. Nonfinancial factors — such as self-esteem, social contact, a feeling of being a productive part of society, and a desire to keep up with innovation — also encourage people to keep working past the traditional retirement age.

The mandatory retirement age of 65 was raised to 70 in 1978 and later eliminated altogether for firms with at least 20 employees. Work disincentives have also been disappearing from private pension plans, especially defined contribution plans such as the 401(k). Moreover, changes in the Social Security laws have made work relatively more attractive for retirees, including an increase in the amount of permitted earnings from $13,500 in 1997 to $30,000 in 2002.

Further policy changes are likely to increase the incentives for the baby boomers to remain in the labor force to support their generation's demands on the social welfare system. Improved health makes it both possible and likely that seniors will be increasingly active in the labor force over the next 30 years.

Greater Financial Resources

In 1970, about one-quarter of Americans age 65 and over lived in poverty. Today, the share is one in ten. Seniors are far better off financially than their predecessors largely because of Social Security, public employee pension plans, and private corporate pension plans.

The net worth of households age 65-74 has climbed sharply over the past three decades, up from $165,000 in 1962 to $346,000 in 1995 *(Chart 16B)*. These figures underestimate wealth because they exclude some important elements such as the future contribution of Social Security and some types of pension plans.

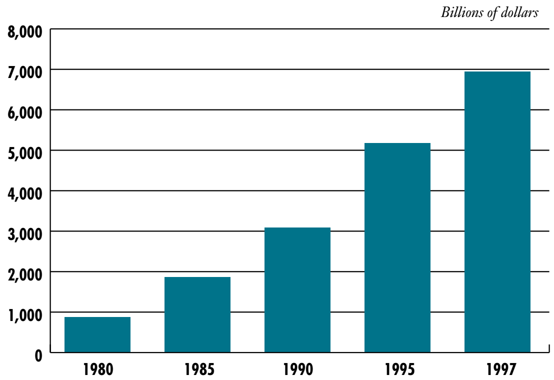
There is reason to believe that tomorrow's seniors will be even better off. Along with the benefits of Social Security, the baby boomers retiring between 2010 and 2035 will be able to draw on large private pension funds, including individual retirement accounts (IRAs) and defined contribution plans such as the 401(k). In just the past 17 years, public and private pension plan funds have soared from $873 billion to nearly $7 trillion *(Chart 17)*. Indeed, it is likely that the contribution of funds from 401(k) plans to retirement support will exceed that of Social Security by 2025.

Fewer Children for Support

The availability of children to help provide care plays an important role in the choice of living arrangements for seniors. Today's elderly have fairly large families to draw upon for support in their declining years. Approximately half of women who are now age 70-74 have at least three children, and this share should rise over the next five years to just under 60 percent.

Given that the baby boomers have much smaller families, they will face a very different set of family resources. The share of women age 70-74 with three or more children is projected to decline to just under 30 percent by 2030 *(Chart 16C)*. As a result, living arrangements such as shared housing, which typically involve a senior living with an adult child, may become less common. At the same time, the lack of children living nearby will boost demand for such alternatives as assisted communities, unassisted communities, and supported housing.

17 **Contributions to Public and Private Pension Funds Are Soaring**



Note: Excludes federal pension funds and Social Security trust funds.
Source: Federal Reserve Board, 1998 Statistical Abstract of the United States, Table 847.

Issues AND Priorities

SECTION FOUR

The sheer size of tomorrow's senior population presents opportunities and challenges for service providers, housing developers, and policymakers alike.

The most basic challenge, of course, concerns the nation's ability to cope with the costs of the aging population. The traditional measure of the capacity of the working-age population to support the elderly is the "dependency ratio," calculated as the ratio of persons age 65 and over to those age 18-64.

By this standard, the outlook is dire: from 0.17 in 1965, the dependency ratio is projected to increase steadily to a peak of 0.37 in 2035. The implication is one of increasing dependency of the elderly on an ever-smaller pool of workers. (Of course, "smaller" here relates to the share rather than the absolute number of 18-64 year-olds, which is projected to grow steadily from 160 million in 1997 to 200 million in 2035.)

The situation is not nearly as critical, however, as the dependency ratio may suggest. This measure focuses on only one portion of the age spectrum that needs assistance from the working segment. The other dependent population is under 18 years of age. When the under-18 and 65-plus populations are combined to calculate a "total dependency ratio," the picture is radically different *(Chart 18)*.

The total dependency ratio peaked at 0.84 in 1964 and then began a long decline to 0.62, where it has generally remained since the early 1980s. This ratio is projected to hold steady until 2020, before climbing to a high of 0.80 in 2035. From this perspective, then, the nation has already faced its most demanding period of dependency. There is every reason to expect that we will also survive the next one scheduled for 2030-2040.

Part of the response to the rising dependency ratio will come in the form of financial incentives for workers to remain employed longer. During the 1960s when the baby boomers were entering the labor market, the nation introduced incentives for early retirement to make more jobs available. The next decade is likely to see an acceleration of the recent trend of making continued employment more attractive to older workers. Work beyond age 65 has the effect of reducing the dependence of the elderly on the 18-64 year-old group.

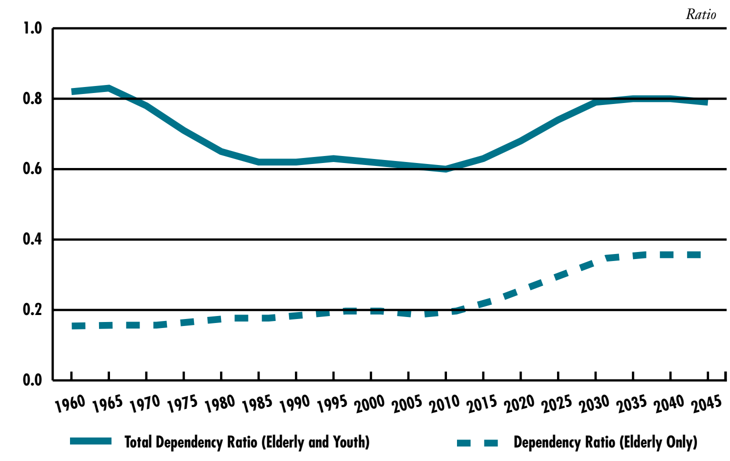
Private vs. Public Service Delivery

When the total dependency ratio peaked in 1964, much of the cost (with the exception of public education) was paid for privately and not passed through the government. As a result, decisions over how much to spend on food, housing, and health were made in a market context by the people paying for them. A major shift in responsibilities has occurred over the past 35 years as the role of government has grown. During this period, federal, state and local expenditures have risen from about 28 percent of gross domestic product to over 40 percent.

The large presence of government in the delivery of services and funds to the elderly makes it difficult to structure programs to deliver the proper amount of service at the lowest reasonable cost. Introducing a third party between the recipient and the payer increases the incentive to seek more help than if the recipient were paying the costs — a problem sometimes referred to as moral hazard. At the same time, the providers of services, such as doctors in the case of medical care, may "overprovide" if the available funds are too generous — a situation characterized as supplier-induced demand. While these issues have received most attention in the context of medical care, they are present in the design of all service delivery and payment systems that involve the government or any third party.

The legacy of discrimination will leave minority baby boomers disproportionately represented among those in need of government help through the last phase of their lives.

18 The Rising Elderly Population Will Not Push Total Dependence Beyond Its Historical Peak



Notes: Dependency ratio equals the number of persons aged 65 or older divided by the number of persons aged 18-64. Total dependency ratio equals the number of persons aged 65 or older plus the number of persons under age 18 divided by the number of persons aged 19-64.
Sources: US Census Bureau, Current Population Surveys, various years: Current Population Report, Series P25-1130.

With the shift in the total dependency ratio toward those age 65 and over, the costs of Medicare and Medicaid will rise relative to other parts of the federal budget unless reforms are made. Even so, constituencies will continue to press for expanded benefits, including prescription drug coverage under Medicare and expanded coverage of nonmedical support devices and seniors housing options under both Medicare and Medicaid.

Today, Medicare does not cover assisted communities at all. Medicaid does provide limited reimbursements for assisted living facilities, although only under state waiver. At present, 35 states either currently reimburse or plan to reimburse some assisted living costs, providing some form of Medicaid subsidy to an estimated 40,000 residents.

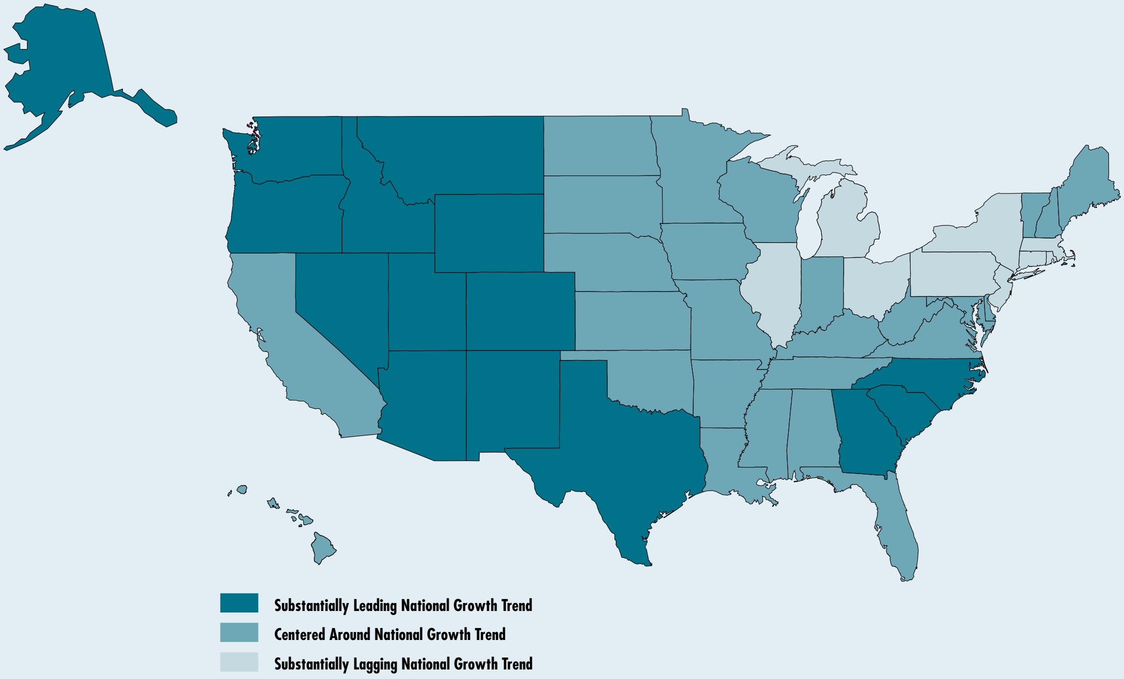
The cost implications of expanded coverage are unclear. On the one hand, assisted living facilities are generally less costly than nursing homes and have lower reimbursements. On the other hand, consumers view assisted living more positively than nursing homes, and opening them up to reimbursement could expand usage of Medicaid.

As pressures to contain costs and expand coverage come into conflict, yet another challenge is deciding how far and at what cost to apply the egalitarian principle in determining benefits. In particular, should it apply to the provision of all healthcare services, prescription drugs, nonmedical support devices, and services such as assistance with daily living? Is it to be extended to the living arrangements of the nation's seniors? Full coverage would clearly be prohibitively expensive.

Continuing Income and Wealth Disparities

In 1995, the baby boomers had mean net worth three times their median net worth, implying that sharp differences in wealth will persist well into their retirement years. Those who own homes are more likely to have greater net worth, although many owners may have to tap the wealth they have accumulated in equity. Indeed, among owners 65 and over in 1995, half held 58 percent or more of their wealth in the form of home equity. Many elderly renters, in

Where Seniors Will Live



The push to the West and the Southeast Coast will continue.

One of the greatest uncertainties in the seniors housing outlook is whether tomorrow's elderly will move more frequently and longer distances than today's. It may be that with their higher levels of education, greater wealth, better health, and broader travel experience, the baby boomers will be more mobile. At the same time, the trends toward longer work lives and delayed marriage and parenting may keep seniors in their homes longer. Even a small increase in long-term moving rates among seniors, however, could have significant impacts on local housing markets, especially in the South and West.

Assuming that recent trends continue, though, the senior population will be geographically distributed roughly in proportion to where the baby boomers and their parents now live. By 2025, no less than 10 percent of each state's population will be over age 65. In consequence, the challenges posed by a burgeoning elderly population will exist throughout the nation, at every level of government.

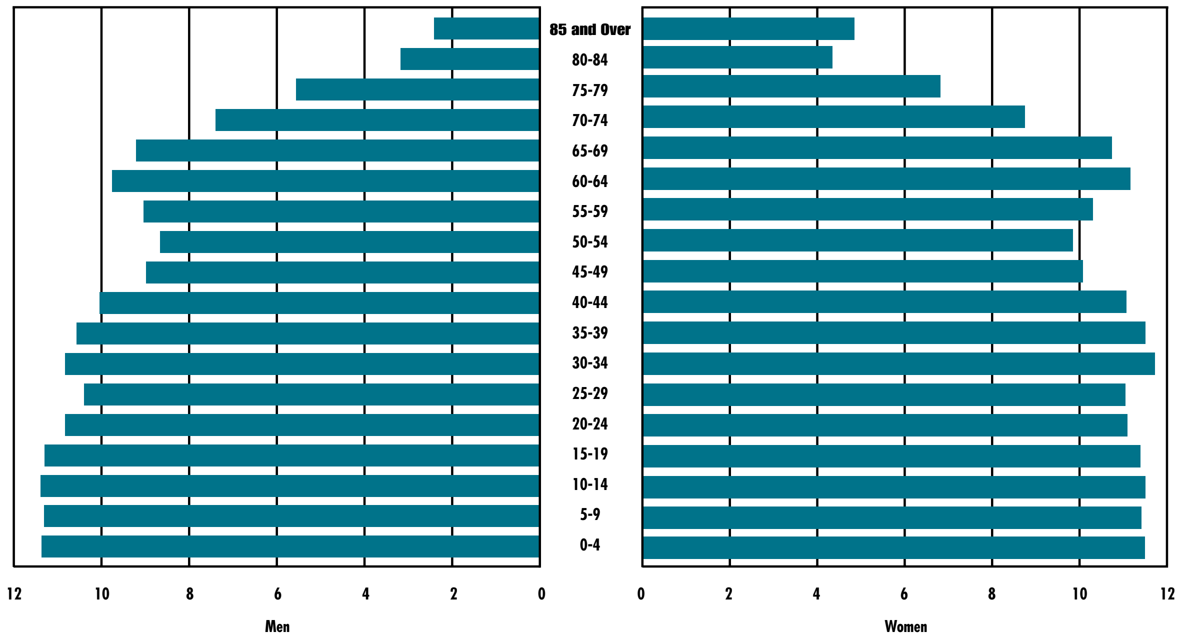
Certain destination areas are, however, expected to gain somewhat more than their current share of the nation's senior population. Projections for 2025 indicate that increases in Alaska, Arizona, Colorado, Georgia, Idaho, Montana, New Mexico, Nevada, North Carolina, Oregon, South Carolina, Texas, Utah, Washington and Wyoming will substantially outpace the national rate.

California, Florida, and Texas together are expected to account for 29 percent of the total increase in the senior population between now and 2025. Interestingly, although California and Florida should show the largest numerical gains, their shares of the nation's seniors will remain close to what they are today.

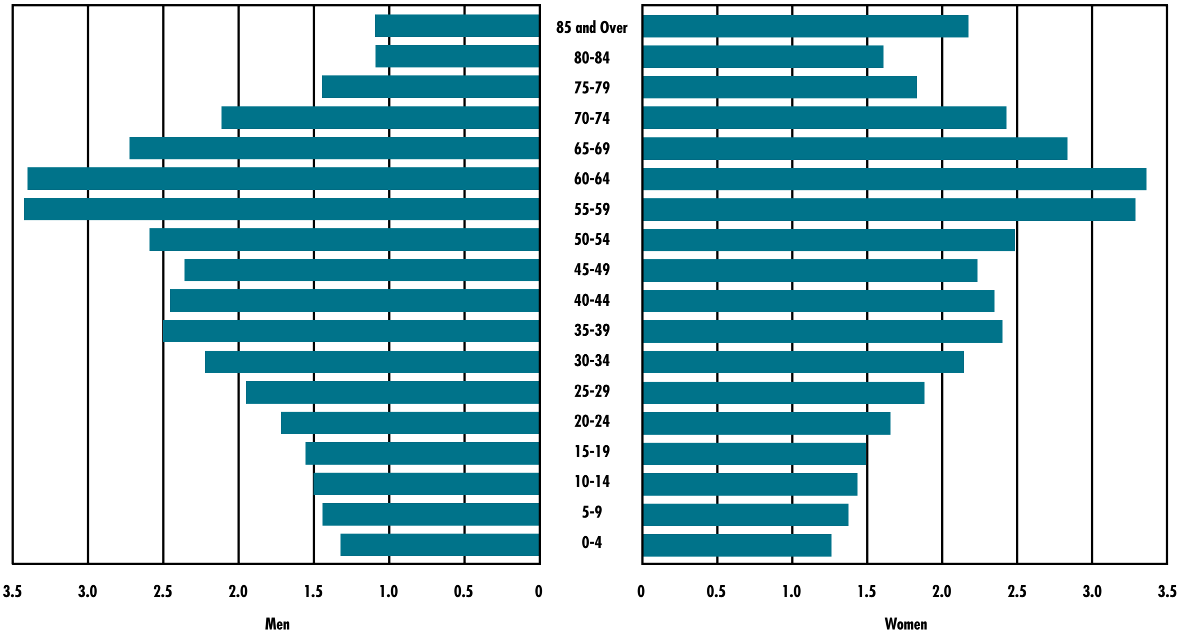
Gains in Connecticut, District of Columbia, Illinois, Massachusetts, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Rhode Island will significantly lag national growth trends. Even in many of these Northern states, though, the proportion of seniors will rise sharply with the aging of the baby boomers and the continued outmigration of younger households.

18 Population Projections Imply Sustained Demand for Housing in the United States, But Not in Some Other Industrialized Countries

A US Population 2025 (Millions)



B German Population 2025 (Millions)



Source: US Census Bureau, International Database.

contrast, will have extremely limited resources to draw upon, with half having net wealth of $6,460 or less in 1995.

Disparities in wealth across racial and ethnic groups are especially large. Minority members of the baby-boom generation grew up with discrimination severely restricting their opportunities. As a result, approximately 18 percent of black families and 22 percent of Hispanic families aged 35-54 were living in poverty in 1995; the share for same-age white families is less than 10 percent. Furthermore, only about 50 percent of black families and 57 percent of Hispanic families in this age group own their homes, compared with 81 percent of same-age non-Hispanic whites. The legacy of discrimination will leave minority baby boomers disproportionately represented among those in need of government help through the last phase of their lives.

Meanwhile, the minority share of the elderly is poised to increase. Over the next 30 years, the share of non-Hispanic whites will decline from about 84 percent of today's elderly (70 and over) to about 78 percent because of roughly equal increases among Hispanic whites and Asians. The racial composition of the senior population will shift even more markedly in 2040, when the large number of recently arrived white Hispanics reaches retirement. At that point, white Hispanics will make up 12 percent of the senior population, compared with just 4 percent today.

Changes in Housing Demand

The enormous size of tomorrow's elderly population has led some commentators to question the stability of the housing market in the next century. The concern apparently is that there may be insufficient demand to absorb the housing units left behind by the aging baby boomers.

Although household projections are only available through 2010, they suggest that this fear is unfounded. Over the next ten years, the number of households aged 65 and over is expected to increase by approximately 3.2 million, while the total number of households grows by about 12.7 million. Looking at the age distribution of the population in 2025 *(Chart 19)*, the pyramid shape indicates that more young persons will be arriving on the scene than older persons departing. The population distribution retains its pyramid shape well past the impact of the baby boom, implying adequate demand for housing well into this century.

Other industrial countries, however, will not be as fortunate. Germany, for example, does not appear to have sufficient population to support its aging society. The positive outlook for the United States is, in part, due to the continuing influx of immigrants.

New construction. Although households age 65 and older move infrequently, they remain an important source of demand for new housing. Indeed, approximately 38 percent of movers in this age group purchased a new house in the four years from 1994 to 1997, accounting for 9.4 percent of the new homes produced during that period. Given the strong growth in the senior population especially after 2010, this suggests growing demand for units in both assisted and unassisted communities, as well as conventional housing.

It is possible, however, that new construction levels will weaken after 2010 even though overall housing demand remains strong. Such a result might occur if the supply of existing housing plays a relatively larger role in satisfying future demand. Overall, however, the housing market should not only weather the challenges of the rising elderly population, but also offer new opportunities to serve its needs.

Second homes. The greater income and wealth of the baby boomers have direct implications for the second-home market. Although difficult to quantify, a larger share of the boomers is likely to buy second homes than of their parents' generation. Indeed, even if the rate at which those over 55 elect to purchase a second home remains unchanged, simple growth in the number of households in this age group should add about one-half million units to second-home demand between now and 2010.

As these two-home owners approach retirement, however, many will have to choose which home to retain. In addition to conflicting loyalties to two places, many of these households will face the trade-off between place loyalty and the lower housing costs found elsewhere in the country. Their decisions could thus alter certain traditional geographical retirement patterns.

In-home services. Although its dimensions are still unknown, a revolution in the delivery of elderly support services is set to occur. Throughout their lives, the baby boomers have been making their unique mark on the US economy and society, and elder care will be no exception. Small, privately operated, market-driven service delivery firms are already springing up around the country as the baby boomers attempt to structure relationships to assist their aging parents.

One might suggest that the baby boomers will try to return to a bygone era when assistance would often come from live-in help. But in-home service providers have become too expensive for all but the very wealthy. When faced with high labor costs in their childraising years, the baby boomers solved the problem by combining part-time help with new technology (e.g., childcare centers and weekly cleaning services, backed up with beepers and cell phones). As they themselves develop the need for in-home assistance, the boomers are likely to again seek out a combination of labor-intensive personal services and new assistive equipment and devices.

As they develop the need for in-home assistance, the baby boomers are likely to seek out a combination of labor-intensive personal services and new assistive equipment and devices.

Home modifications. Another part of the solution is likely to involve home modifications. Most existing homes were constructed on the assumption that the occupants are healthy and active. Seniors, however, often need to accommodate impaired mobility with ramps and grab bars, and to improve the accessibility of cabinetry and appliances.

The exact type of modifications will undoubtedly change over time to reflect new technology. For example, widespread adoption of gyro-balance wheelchairs, which can navigate uneven ground and climb stairs, would eliminate much of the demand for ramps. While innovations like this one will alter (and perhaps even dampen) demand for certain alterations, overall demand for home modifications is nonetheless likely to grow. One type of project that may become particularly popular among the baby boomers is the addition of first-floor master bedroom suites.

Increased demand for home modifications among elderly households raises issues about the process of selecting a contractor and overseeing the quality of the work. There is some concern that seniors may not have the information required to make the best selection. For this reason, there may be a need for better oversight of remodeling contractors and for adequate remedies for poor quality work. Some states have in fact begun to regulate this area and establish special funds (provided by the regulated contractors) from which consumers can recover damages when the contractor fails.

The large majority of tomorrow's elderly will likely have the financial resources to pay for their home modifications. For those with home equity, reverse mortgages can provide a means to borrow funds for modifications, as well as for healthcare, support services, and other expenses. So far, however, these loans have not achieved much popularity. Since the elderly are fairly risk-averse, it is no surprise that they are generally unwilling to encumber their homes with a mortgage. Although growth in the elderly population will bring some expanded use of reverse mortgages, it is likely to be modest at best.

Summary

Concerns over the graying of America seem overblown. While the population age 65 and over will indeed grow dramatically after 2010, the balance between working-age adults and the dependent population will not exceed its historical peak. What is more, with their improved health and better education, tomorrow's seniors will likely continue to work well past the traditional retirement age — further reducing the ranks of the dependent population.

To be sure, the imminent growth in the number of seniors will add to the pressures on federal income support and medical insurance programs. The sharp disparity in wealth among the baby boomers will carry well into their retirement years, leaving many lower-income seniors with few housing and special care options. Elderly renters will face particularly onerous housing cost burdens.

For housing developers, remodelers, and service providers, however, seniors represent a large and growing market. With their greater wealth and more active lifestyles, more seniors are likely to own second homes, make modifications to their residences to accommodate changing needs, and choose specialized environments such as active retirement communities, congregate housing, and assisted living facilities. And given that seniors overwhelmingly prefer to "age in place," the market for in-home services is set for a boom.

Related Publications Available at www.gsd.harvard.edu/jcenter

Josephine Louie, *The Housing Modifications for Disabled Elderly Households*, Joint Center Working Paper W99-8.

Robert Schafer, *America's Elderly Population and Their Need for Supportive Services*, Joint Center Working Paper W99-3.

Robert Schafer, *Determinants of the Living Arrangements of the Elderly*, Joint Center Working Paper W99-6.

Robert Schafer, *Housing America's Elderly Population*, Joint Center Working Paper W99-4.

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