Essay

Rising Income Inequality–What Does It Mean for Older Americans?

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It is no longer news that income inequality has grown in the United States, especially at the very top. Less noted is that inequality is more pronounced among older workers. This spells trouble for Americans in their peak earning years before retirement. While they should be saving for their golden years, many are instead struggling in low-paying jobs or dropping out of the workforce altogether. The problem is exacerbated by a retirement system that increasingly magnifies inequality.

It is not just that the rich are getting richer: income gaps are widening for a broad cross-section of the population. Among households in their thirties, the top 10 percent of households have incomes at least eight times higher than households in the bottom 10 percent. For households in their fifties, the ratio is 11 times or more. Though it is not surprising that income gaps widen with age, what is troubling is that they have trended upward across age groups: 30 years ago, income inequality for households in their fifties was lower than it is for households in their thirties today.

The decades-long rise in income inequality mostly reflects growth at the top of the distribution and near-stagnation for everyone else. However, households in their fifties have seen actual declines in income in the new millennium, adjusting for inflation. These declines were more pronounced for low- and middle-income households.

Though a number of factors contributed to these trends, among the most troubling are wage stagnation and a decline in the labor force participation of middle-aged men. Since 1979, real hourly wages have barely risen for the vast majority of workers and have actually fallen for workers at the bottom of the wage distribution, even as labor productivity grew by 65 percent. Wage declines were steepest for lower-paid men. For women,

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rising educational attainment and increased work experience translated into wage gains for all except those at the very bottom, but their wage growth still trailed far behind productivity growth.

The labor force participation of men in their fifties declined over the past half century, from 93 percent in 1964 to 80 percent in 2014. Declines were much steeper for less-educated men. "Missing" workers who left the workforce in their fifties were more likely to be in poor or fair health than those who continued working. This highlights the importance of labor demand on individual behavior, as less educated and less healthy older workers are often sidelined when job growth fails to keep pace with labor force growth. Meanwhile, older women's labor force participation grew, and is now above 70 percent for women in their fifties, although the rise in dual-earner households was not enough to keep incomes from declining for these households in recent years.

While some middle-aged Americans are dropping out of the workforce, other workers are working later into their golden years. Since 2000, men with college degrees have seen an increase in labor force participation at ages 55 and older. The trend toward later retirement has increased the overall share of men and women ages 60 and older who remain in the workforce.

The decline in labor force participation and income for low- and middle-income households in their fifties augurs badly for retirement preparedness, since these should be workers' peak earning and saving years. Wealth inequality is even more pronounced than income inequality: the top 10 percent of households in their fifties holds 71 percent of the wealth of households in this age group. The distribution of account balances in 401(k)s and other retirement accounts, most of which are taxpayer-subsidized, is only slightly less skewed than total wealth: the top 10 percent of households in their fifties holds 62 percent of total retirement account balances for this age group.

The unequal distribution of wealth means that even though aggregate wealth and savings in retirement accounts have increased faster than income, growing numbers of Americans are at risk of seeing a significant decline in their standard of living at retirement. More than two-fifths of households in their fifties have no retirement account savings at all. Even among those that do, half have under $100,000, and many have much less. All told, half of households have $12,000 or less in retirement account savings as they approach retirement age.

Retirement insecurity and inequality have increased as 401(k)-style defined-contribution plans have supplanted traditional defined-benefit pensions in the private sector. As a result, only one in four households in their fifties are covered by secure pensions. Pension coverage does not explain the gaps in retirement savings, since households with traditional pension coverage also have more savings in retirement accounts.

How do we reverse these trends? The root cause of rising inequality is the divergence between the wages of the vast majority of workers and productivity growth. First, we need to raise wages for low- and middle-income workers by increasing the minimum wage and making it easier for workers to join unions. We also need expansionary economic policies to ensure job growth keeps up with growth in the labor force, so Americans of all ages who want to work are able to do so. Last but not least, we need to reduce our reliance on retirement programs that magnify inequality and expand those, like Social Security, that tend to reduce it.

The views expressed by the author are meant to encourage debate and discussion; they do not necessarily represent official policies of AARP.

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