



The AARP Public Policy Institute (PPI) conducted a year-long, multidisciplinary exploration of the well-being of America's middle class with a focus on prospects for financially secure retirement. The Middle Class Security Project offers insight, analysis and an agenda for policymakers to consider.

Building Lifetime Middle-Class Security

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This synthesis of research findings from the Middle Class Security Project shows that if current economic trends continue, living standards in retirement will decline; that rising health care costs pose a significant threat to middle-class security; and that Social Security will be the main source of income for all but the wealthiest retirees in the future. The paper identifies the following major themes from the project:

- The security of middle-class families is under attack from all sides—besieged by stagnating income; escalating debt; and rising costs for housing, education and health care.
- Middle-class security in retirement takes a lifetime to build.
- A threat to one generation undermines security for all.

The report concludes with policy recommendations to deal with the threats to middle-class security. It calls for increasing access to affordable health care coverage and slowing the growth of health care costs. It also recommends ensuring Social Security continue to provide the foundation for a secure middle-class retirement and is improved for those most vulnerable.

What Are the Retirement Prospects of Middle-Class Americans?

Barbara Butrica, *Urban Institute*

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Workers today are less likely than their parents or grandparents to enjoy the living standards of their working years when they retire. Much of the projected decline is expected because health care costs are rising faster than wages. Using Urban Institute's dynamic micro-simulation model, this report projects the retirement security prospects for middle-class families age 25–54 in 2012 compared to current retirees.

Average retiree income is projected to fall from 80 percent of average career earnings for current retirees to 73 percent for future retirees. Factoring in higher health care costs, the report shows

retiree income falling to 55 percent of average career earnings. As it is today, Social Security will be the main source of retirement income for most future middle-class retirees. Other key findings:

- Out-of-pocket medical expenses are high today, but they will more than double as a share of income for future retirees.
- Increasing health care costs are expected to wipe out projected declines in the poverty rate among retirees.
- Social Security will account for 51 percent of per capita household income for future middle-income retirees—69 percent for low-income workers and 35 percent for high-income workers.

Assets and Debt across Generations: The Middle-Class Balance Sheet 1989–2010

Lori A. Trawinski, *AARP Public Policy Institute*

This study examines the middle-class balance sheet by age and how its components have changed over time using data from the Federal Reserve’s Survey of Consumer Finances. The study finds that average debt of the middle class has increased significantly since 1989, with Americans over age 50 experiencing the sharpest rates of increase and younger families carrying the largest amounts of debt. This trend presents a threat to the long-term financial security of middle-class families of all ages.

- Middle-class families age 50+ experienced gains in net worth from 1989 to 2010, but also accelerated their borrowing, which reduced those gains.
- Average net worth of families age 50–64 increased only 5 percent from 1989 to 2010: Strong increases in average amounts of assets were largely offset by increases in debt.
- Middle-class families age 25–49 and 50–64 experienced strong increases in education debt over the past two decades.
- Average net worth of families age 25–49 decreased 32 percent from 1989 to 2010, with increases in debt more than offsetting minimal increases in assets.

Tracking the Decline: Middle-Class Security in the 2000s

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The security of the middle class has faltered in the wake of the recession, a trend expected to have long-lasting effects as Americans move toward retirement. Among working-age middle-income families, the proportion defined as “secure” fell by 38 percent from 2004 to 2010 and the proportion defined as “vulnerable” grew by 42 percent. These findings are based on a new Middle-Class Tracking Index that measures five factors important to middle-class security: income, health insurance coverage, housing affordability, money for extras and savings, and assets to cover an emergency. Created for this report, the Index shows the following:

- Middle-class workers age 45–64, or “preretirees,” saw a 32 percent drop in their overall security between 2004 and 2010. Among those younger than 45, overall security fell by 47 percent.
- Households with a high school education were the least likely to be secure. Security declined most among middle-income households with more than high school but less than a college

education; among such households security fell 51 percent, and the number defined as vulnerable jumped 68 percent.

- Fifty-nine percent of African-American households were income vulnerable in 2010, as were 57 percent of Latino families—twice the percentage among whites.

The Elusive Middle in America—What Has Happened to Middle-Class Income?

Gary Koenig, *AARP Public Policy Institute*

This paper points out that most Americans identify themselves as middle class and that “middle class” is not synonymous with “middle income.” However, researchers typically use income as an indicator of membership in the middle class. The paper shows what it means to be “middle class” under three income-based definitions and analyzes economic trends affecting Americans in the middle income brackets. Significantly, this paper shows that—

- The percentage of adults considered middle income has dropped about 10 percentage points since 1970—from about 61 percent to 51 percent.
- More recently, from 2000 to 2011, median income fell almost 8 percent and was lower in 2011 than it was in 1997.

In the Red: Older Americans and Credit Card Debt

Amy Traub, *Dēmos*

This research examines how the recession, its aftermath, and implementation of new consumer credit card protections have affected credit card debt, with a focus on differences by age bracket. Among middle-income households carrying credit card debt for three months or more—

- Older Americans now have higher overall credit card debt than younger people—a reversal of the trend *Dēmos* found in a 2008 survey: Americans age 50+ carried an average combined balance of \$8,278 on all of their cards in 2012, compared with \$6,258 for the under-50 population.
- Half of older Americans carry medical expenses on their credit cards: Prescription drugs and dental expenses were the highest contributors.
- Nearly one in five (18 percent) of people age 50 to 64 reported that they drew on retirement funds to pay off credit card debt.
- Sixteen percent of people age 50+ used their home equity to pay down credit card debt in the past year by refinancing, obtaining a second mortgage, or taking out a home equity loan.

The Effects of Rising Health Care Costs on Middle-Class Economic Security

Harriet Komisar, *Georgetown University*

Rising health care costs and declining health insurance coverage are jeopardizing the health and financial security of middle-class families. This report examines recent trends in health care and insurance costs and how they contribute to the financial stress and insecurity experienced by middle-class American households during their working and retirement years. Some key findings:

- Health care spending grew at more than twice the rate of inflation between 2000 and 2010. Middle-income households spent 51 percent more on health care in 2010 than a decade earlier.
- Health spending per person reached \$8,402 in 2010, a 72 percent jump from a decade earlier—and nearly triple the 1990 average.

- In 2011, one in three people were in families facing a financial burden from medical bills, and one in five were in families having trouble paying those bills.
- Companies shifted more health insurance costs to their workers over the last decade, more than doubling premiums for family coverage, from \$1,787 in 2001 to \$4,129 in 2011. Increased costs have contributed to reductions in health insurance coverage.

The Loss of Housing Affordability: A Growing Threat to Financial Stability for Middle-Class Older Adults

Rodney Harrell, *AARP Public Policy Institute*

Shannon G. Guzman, *AARP Public Policy Institute*

Housing costs are contributing to a decline in financial stability for an increasing number of 50+ households. Older middle-class households are increasingly facing higher housing cost burdens— with many spending 30 percent or more of their income on housing costs. These challenges are hitting homeowners with mortgages particularly hard. Key findings from this research:

- The percentage of middle-income households age 50+ paying more than 30 percent of their incomes on housing rose sharply, from 20 percent in 2000 to 29 percent in 2009.
- More than half of the 50+ foreclosures (53 percent) were in middle-income households in 2011.
- African-American and Latino households lost more than half of their wealth between 2005 and 2009.
- Among older homeowners, the majority now owns with a mortgage, a change in recent years. The percentage of older households who own their homes free and clear declined from 40 to 36 percent, while the number with mortgages rose from 38 to 42 percent.

How Older Americans Are Dealing with New Economic Realities

Tresa Udem, *Lake Research Partners*

Struggling older middle-class Americans tell their stories in this summary of focus groups held in Milwaukee, Philadelphia, and Tampa. Participants stressed the importance of Medicare and Social Security in maintaining security and highlighted experiences coping with the following:

- Loss of financial security, including loss of savings and home values;
- Increasing costs of meeting basic needs such as health care, housing, and food; and
- Increasing difficulties with debt, particularly mortgages and credit card debt.

Stories of Middle-Class Struggle (Video Portraits)

Producer: Richard Deutsch, *AARP Public Policy Institute*

Videos reveal the financial pressures facing five middle-class Americans age 60+:

- An advocate for the homeless in Philadelphia loses her own home.
- A couple who moved to Florida finds retirement is elusive.
- In Tampa, a man experiences a “lost decade” looking for work in his preretirement years.
- Disability disrupts the career and the retirement security of a man in Milwaukee.
- A Milwaukee family struggles with lost income and health benefits.

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