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POPULATION TRENDS AND PROFILES

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Graying in the Golden State

Demographic and Economic Trends of Older Californians

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Summary

California's population is aging rapidly. By 2030, one of every three Californians will be over the age of 50, and the proportion of the population that will be over 65 will have almost doubled from 11 percent in 1998 to 17 percent. This tremendous increase in the older population of the state will be driven primarily by the large cohort of baby boomers who will be entering retirement ages over the next few decades. Lower mortality rates will also contribute to the aging of the state's population.

Today's older Californians are relatively well off. Poverty rates are substantially lower for older residents than for other age groups in the state, with only about one in ten living in poverty. The primary reason poverty rates for older Californians are so low is Social Security, which provides sufficient income to lift many older Californians above the poverty threshold. The majority of older Californians derive more than 70 percent of their income from Social Security.

However, tomorrow's older Californians are less sanguine about the promise of Social Security. Only 35 percent of the baby boomers in California believe that the Social Security system will provide the benefits they should receive when they retire. Changes in the marital status and labor force participation of boomers compared to earlier generations also raise questions about the ability of the current system to provide future benefits. Surprisingly, despite their skepticism about Social Security, boomers do not appear to be saving at higher rates than past generations. Only about half of all jobs in California offer pension plans or retirement benefits, a figure that has changed little over the past 20 years and that is substantially lower than in the rest of the nation.

California is about to experience an explosive growth in its retirement population.

Although the aging of the nation's population has led to widespread concern over the viability of Medicare and the Social Security system, less attention has been focused on the state's ability to continue to provide services to a population that is increasing at both ends of the age spectrum. Already, for example, 24 percent of the state's Medi-Cal[1] payments and about one-third of the state's Supplemental Security Income (SSI) payments are directed toward older Californians, a figure that is likely to rise as the state's population ages. The primary demographic challenge for California in the early 21st century will be to find ways to satisfy the demands of an increasingly older population while maintaining the financial stability of the government and a desirable quality of life for all Californians.

[1] California's Medicaid program.

Introduction

California is about to experience an explosive growth in its retirement population. This growth will begin as the baby boomers reach retirement age in 2011. The proportion of the state's population that is age 65 and over is projected to increase from 11 percent in 1998 to 17 percent by 2030. Nationally, the aging of the baby boomers has led to concern about the solvency of the Social Security system. The Social Security Administration projects that the trust fund will be exhausted in 2039 (U.S. Social Security Administration, 2000). The aging population will also present a challenge for state and local governments in California, which provide many services to older residents. For example, 24 percent of the spending in 1998 for Medi-Cal went to the aged (State of California, California Department of Health Services, 1999), and the state also partially finances the SSI program.[2] In California, the graying of the state will be accompanied by an increase in the number of children as well, so that the state's ability to provide services to both older and younger Californians will be made more difficult.

In this edition of *California Counts*, we consider the demographic and economic dimensions of the graying of the state. We first examine the scope of the change, noting the number of older Californians and discussing the demographic factors that shape those numbers. We then look at the economic well-being of today's older Californians and consider the prospects for the large cohort of baby boomers.

Demographic Trends

The size of California's older population is determined by three demographic factors: (1) the number of people entering the older age groups, (2) changes in mortality rates (and thus life expectancies), and (3) the migration of older people into and out of California. Projections of the number of older Californians are more certain than projections for other age groups, primarily for two reasons: First, mortality rates have been consistently declining and do not fluctuate like fertility rates. Second, migration tends to be

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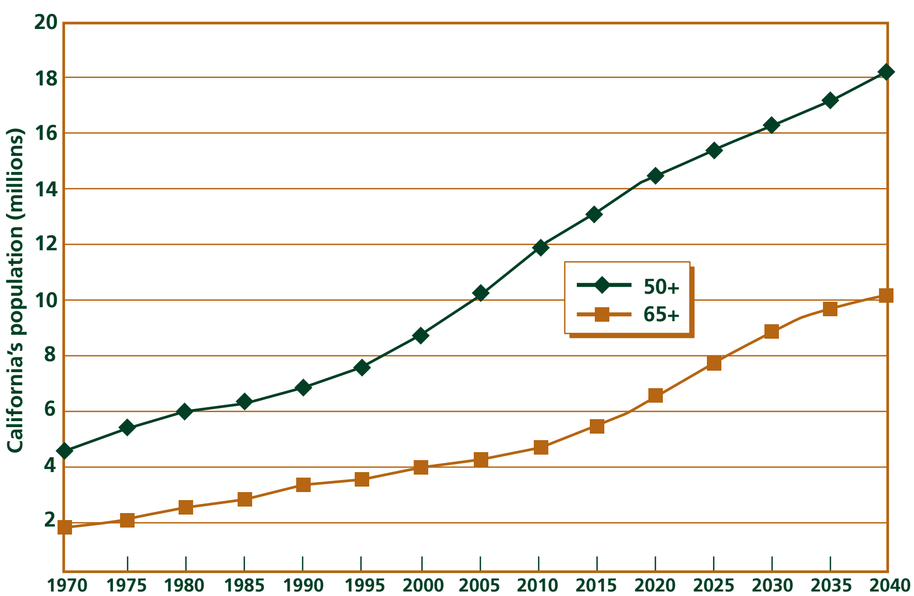
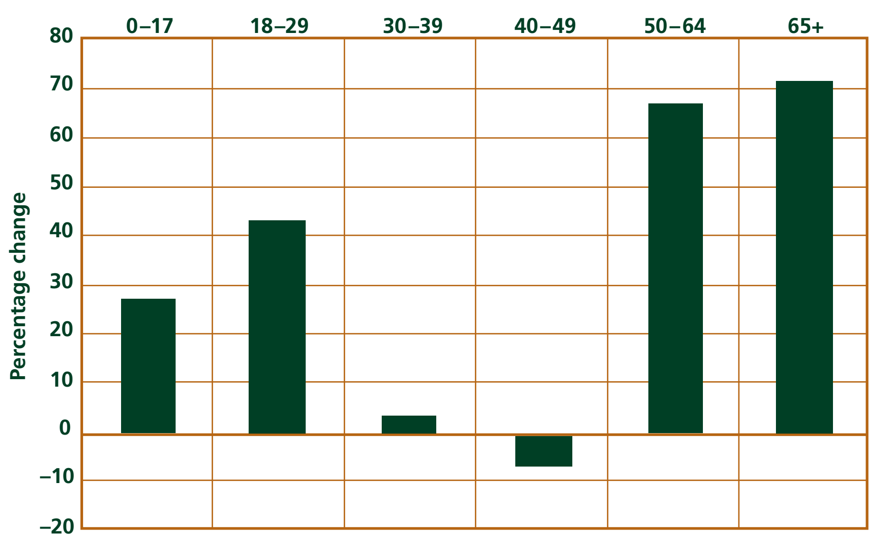
[2] Medi-Cal payments to the aged totaled $2.4 billion in 1998, with the state contributing 34 percent. SSI payments, including payments to the aged, blind, and disabled, for calendar year 1999 totaled $6.3 billion in California, with the state supplement totaling 36 percent. The national average for state supplementation of SSI is only 13 percent. In California, approximately one-third of the state supplements are directed to the aged (DHS, 2000).

Figure 1. California's Older Population, 1970–2040



Source: California Department of Finance (1998, 1999).

Figure 2. Percentage Change in Population by Age Group, 2000–2020



Source: Authors' calculations using Department of Finance projections.

much less common among older adults than among people of other age groups.

Below, we first look at the trends in the number of older Californians and then discuss the three demographic determinants of those trends.

Population Size

The proportion of the state's population that is age 65 and older increased from 9 percent in 1970 to 11 percent in 1998. Much larger changes lie ahead: By 2030, 17 percent of the state's population will be at least 65 years old, and over the next 30 years, the total number of Californians over age 65 will more than double, from 3.6 million to 8.9 million (see Figure 1). Indeed, in the first two decades of the 21st century, the fastest growing age groups in California will be those of older people (see Figure 2).

Not only is the older population of the state growing faster than any other age group, the fastest growing segment of the state's older population are the very old: those age 85 and over. Between 1970 and 2000, the population age 85 and older increased more than threefold (see Table 1), and projections indicate that this group will increase almost fourfold between 2000 and 2040.

An enlightening way to summarize temporal trends in the age structure of a population is

Table 1. California's Older Population by Age Group, 1970–2040

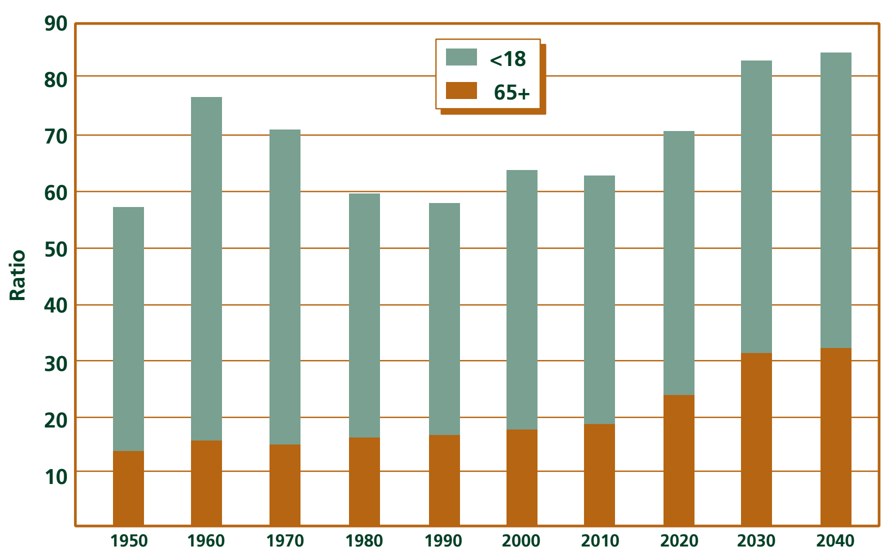
Year	Age Group			
	50–64	65–74	75–84	85+
1970	2,739,000	1,085,000	543,000	130,000
1980	3,400,000	1,474,000	727,000	218,000
1990	3,517,000	1,857,000	978,000	293,000
2000	4,807,000	1,958,000	1,305,000	450,000
2010	7,060,000	2,494,000	1,423,000	638,000
2020	8,029,000	3,817,000	1,819,000	728,000
2030	7,378,000	4,901,000	2,918,000	1,033,000
2040	8,069,000	4,567,000	3,816,000	1,746,000
	Percentage Change by Decade and Age Group			
	50–64	65–74	75–84	85+
1970–1980	24	36	34	68
1980–1990	3	26	35	34
1990–2000	25	5	27	40
2000–2010	10	1	5	9
2010–2020	47	27	9	42
2020–2030	14	53	28	14
2030–2040	–8	28	60	42

Source: U.S. Census Bureau and California Department of Finance (1998,1999).

In the first two decades of the 21st century, the fastest growing age groups in California will be those of older people.

California will be in the unenviable position of providing services to a population that is becoming concentrated at both ends of the age spectrum.

Figure 3. Dependency Ratios, 1950–2040



Source: Authors' calculations using decennial census data and California Department of Finance projections.

to examine the dependency ratio. The dependency ratio is the number of people of nonworking age (younger than 18 and older than 65) for every 100 people of working age. It provides a rough indicator of a population's ability to support nonworking members. As shown in Figure 3, California's dependency ratio is projected to increase substantially after 2010, fueled primarily by increases in the population of older Californians but also by increases in the number of children. Unlike the rest of the country, California will be in the unenviable position of providing services to a population that is becoming concentrated at both ends of the age spectrum.[3]

The Aging of the Baby Boomers

Baby boomers are defined as the cohort born between 1946 and 1964. This post-World War II period was marked by high levels of childbearing, with women having three or four children on average. This high level of fertility created a large cohort of people:

[3] In the rest of the United States, the dependency ratio is projected to rise from 61.6 in 2000 to 76.9 in 2030. This increase will be due solely to the increase in number of older Americans, with the percentage of the population age 65 and over increasing from 12.9 percent in 2000 to 20.5 percent in 2030. In contrast, in California the dependency ratio will increase from 63.7 to 83.1, with almost one-third of the increase coming from increases in the number of children in the state.

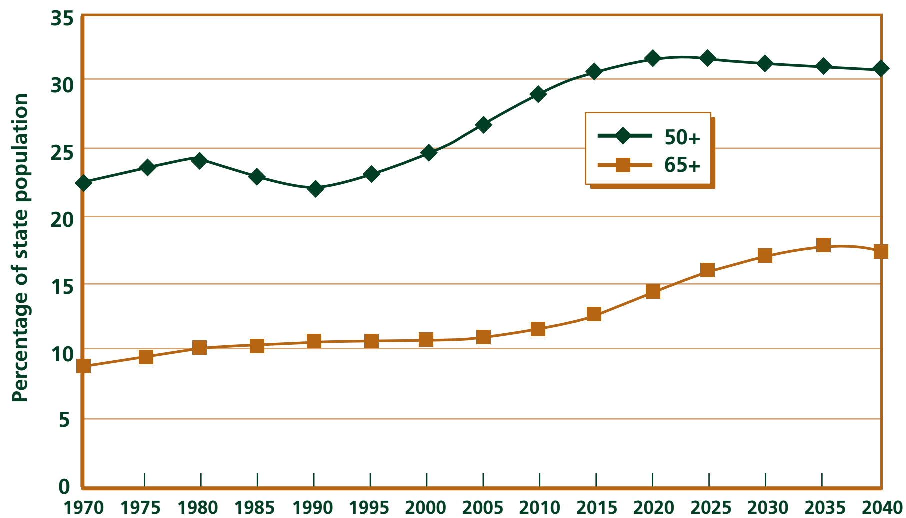
More than one in every four Californians is a boomer.

The aging of the baby boomers will lead to a dramatic increase in the state's older population. Today, the youngest baby boomers are 36 years old and the oldest are 55. They total 9.6 million people (compared to 3.7 million people age 65 and over). By 2020, the youngest baby boomers will be 56 years old, and one of every three Californians will be over the age of 50 (see Figure 4). By 2030, all baby boomers will be at least 65 years old, and the proportion of the state's population that is age 65 and over will have increased to 17 percent (from 11 percent today). The fluctuations in the growth rates of various age groups shown in Table 1 are a consequence of the baby boomers moving into and out of certain age groups over time.

Mortality

In addition to increasing cohort sizes, resulting primarily from the aging of the baby boomers, the entire state's population will continue to age because of increased life expectancies. The California Department of Finance projects that life expectancies will increase from 77 years in 1998 to 82 years in 2040 (see Table 2). Life expectancies for Californians are expected to continue to reflect current gender differences, with women experiencing greater life

Figure 4. California's Older Population as a Percentage of Total State Population, 1970–2040



Source: U.S. Census Bureau and California Department of Finance (1998,1999).

Table 2. Life Expectancies by Gender in California

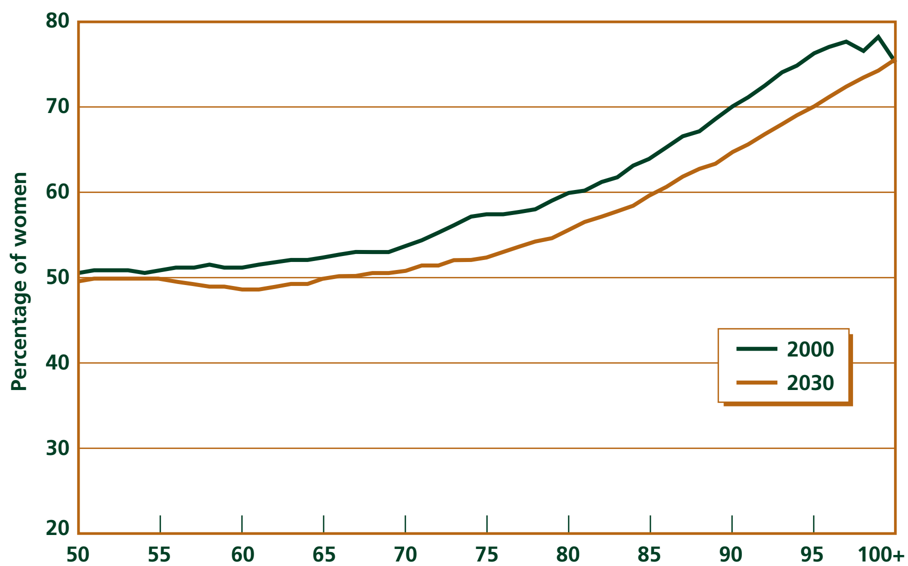
	1998	2040	Change 1998–2040
Both Sexes	77.0	82.2	5.2
Men	74.0	79.9	5.9
Women	80.1	84.6	4.5

Source: California Department of Finance, unpublished tables, 1998 projections.

Note: Life expectancies in years at birth.

Older Californians, as a group, have experienced lower poverty rates than other age groups.

Figure 5. California's Women as a Percentage of Older Californians, 2000 to 2030



Source: Author's tabulations using Department of Finance projections.

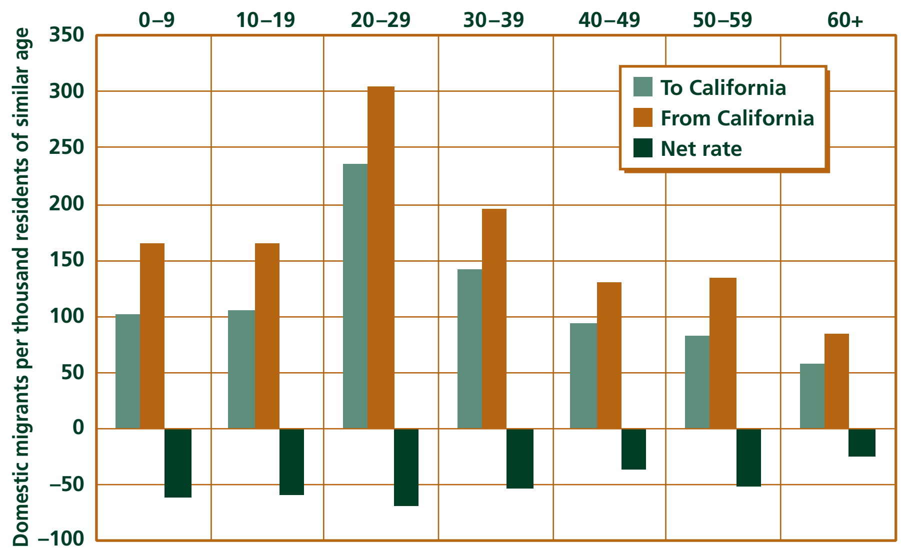
expectancies than men. However, the gender gap in life expectancies is projected to decline, with male life expectancies increasing 1.4 years more than female life expectancies. These greater gains for men are partly driven by the fact that there is more room for improvement in their mortality rates and also by the assumption that there is a limit to how much mortality rates can decline at the very oldest ages.

Because women tend to live longer than men, the majority of older Californians are women. In 1998, 58 percent of Californians age 65 and over were women. This proportion is projected to fall to 54 percent by 2030, as male life expectancies increase. Still, among the very old (those age 85 and older), there will continue to be twice as many women as men. Figure 5 shows that the proportion of the population that is female increases with age. Among the very oldest age group, those age 100 and over, women constitute 75 percent of the population.

Migration

California, once a destination for retired people, has been a net exporter of older residents for at least two decades (see Frey and Liaw, 1999). However, migration is not an especially important factor in determining the population of older Californians. Most older Americans and Californians do not move. In particular, long-distance moves (interstate and international migration) are uncommon for older people. As shown in Figure 6, interstate migration rates are lower for people age 60 and over than for any other age group. During the 1990s, a period of tremendous domestic migration flows out of California, migration rates for young adults were almost four times higher than those for older Californians. During the entire decade of the 1990s, the net out-flow of older Californians totaled less than 3 percent of all older California residents in 1990.

Figure 6. Crude Domestic Migration Rates by Age Group, 1990–1999



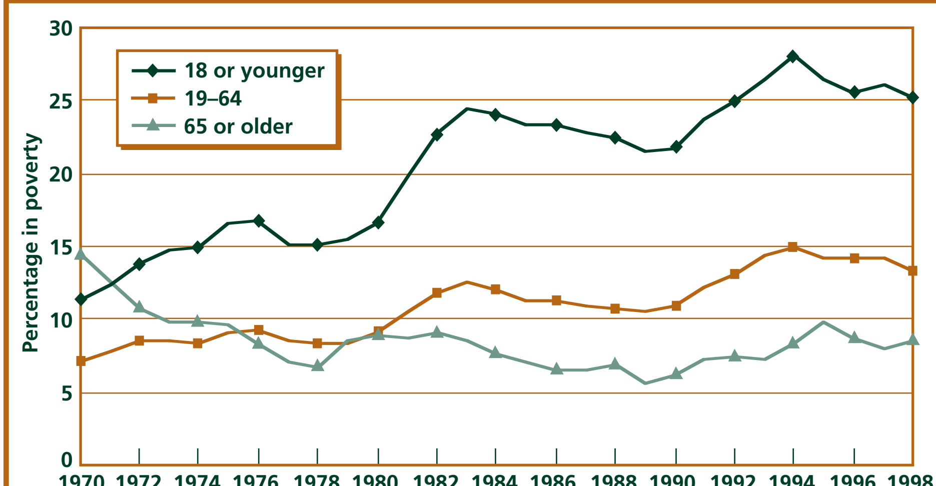
Source: Author's tabulations using Current Population Survey (CPS) data.

Note: Crude rates per 1,000 are the number of domestic migrants of a certain age group per 1,000 residents of California in 1995 of that same age group.

Economic Status of Older Californians

The economic status of older Americans has improved substantially since the passage of the 1935 Social Security Act. In recent years, older Californians, as a group, have experienced lower poverty rates than other age groups: Californians age 18 and younger and Californians age 19 to 64 have experienced higher poverty rates for the last two decades. Figure 7 shows that although child poverty has risen from 17 percent in 1980 to 25 percent in 1998, poverty rates for adults age 19 to 64 have ranged between 10 and 15 percent, and poverty rates for older Californians have remained below 10 percent.

Figure 7. Percentage of California Population in Poverty by Age Group, 1970–1998 (two-year averages)

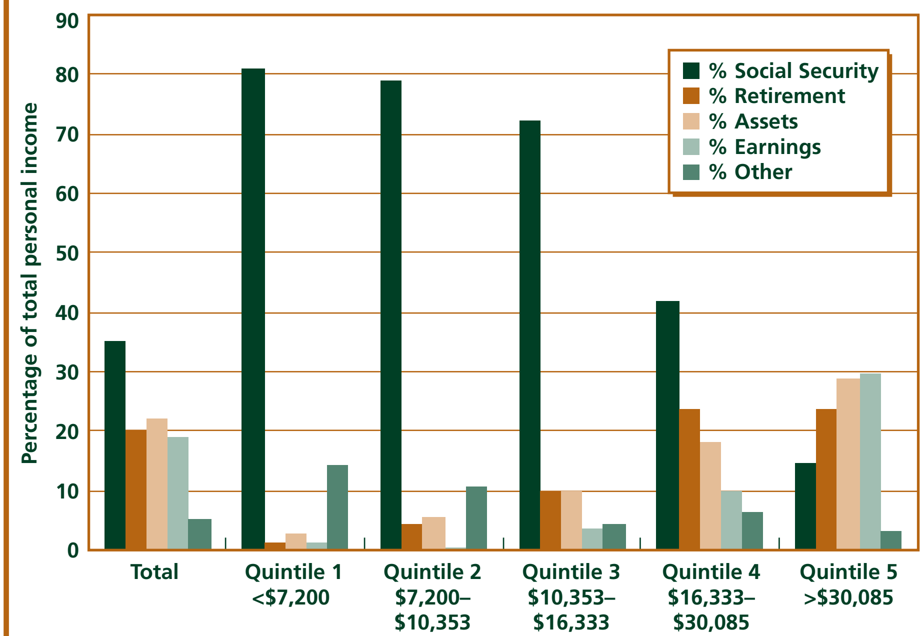


Source: Authors' calculations using the CPS.

Note: 1998 value is the average for CPS years 1998 and 1999.

Social Security benefits play a major role in lifting retirees in the lower half of the income distribution above the poverty threshold.

Figure 8. Source of Income for Californians Age 65+ by Income Quintile, 1998



Source: Authors' calculations using the CPS.

Note: Other sources of income include unemployment compensation, workers' compensation, SSI, public assistance or welfare income, veterans' payments, survivors' benefits, disability payments, educational assistance, child support payments, alimony, or other contributions and financial assistance.

Although older Californians as a group have fared well since the mid-1970s, some segments of the older population face greater financial insecurity than others. Figure 8 illustrates the crucial role that Social Security plays in lifting many older Californians out of poverty. As a group, older Californians receive 35 percent of their total income from Social Security, 20 percent from pensions, 22 percent from assets, 19 percent from earnings, and the remainder from other sources. Yet this overall pattern masks the extent to which the poorest older Californians rely on Social Security. Dividing the older population into income quintiles shows that the lowest three quintiles—three-fifths of the older population—rely on Social Security for at least 72 percent of their income.[4] Figure 8 also

[4] Immigrants rely on Social Security more than other Californians, with 42 percent of their income derived from Social Security. Furthermore, the foreign-born in California are overrepresented in the lowest two quintiles and underrepresented in the highest three quintiles.

shows the income ranges for each quintile. Among older Californians in the first quintile, those living alone all fall below the poverty threshold, which was $7,818 in 1998. Clearly, Social Security benefits play a major role in lifting retirees in the lower half of the income distribution above the poverty threshold.

Older women, as a group, experience greater poverty rates than men. For example, in 1997 the poverty rate for older women was 10 percent, whereas the rate for older men was 6 percent.[5] Marital status also plays an important role in determining poverty rates. Among unmarried older women, 14 percent were in poverty but only 10 percent of unmarried older men were in poverty. Only 5 percent of both older married men and older married women were in poverty.

Changing Times

Although policy discussions on Social Security generally focus on the solvency of the fund, some scholars are calling attention to the structure of the benefits and their failure to keep pace with social trends (Stanfield and Nicolaou, 2000). Currently, Social Security provides benefits based on a worker's earnings as well as auxiliary benefits to the spouse. The benefit structure assumes a "nuclear family" consisting of a working husband and a financially dependent wife who remains at home to care for the children. Currently, when the primary earner reaches retirement, the family receives benefits totaling the earner's benefit plus half that amount for the spouse. If the earner dies, the spouse receives a survivor's benefit totaling the earner's full benefit.

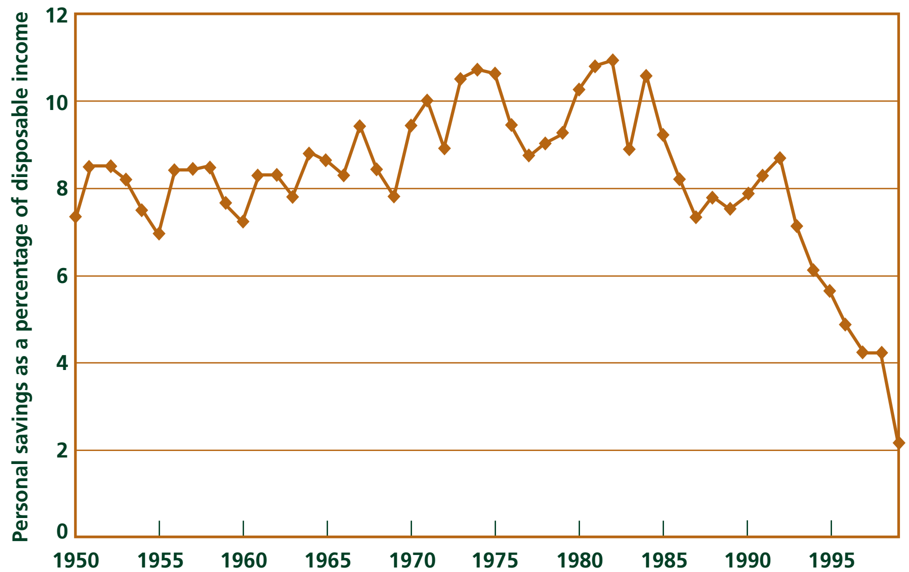
Inequities arise in the treatment of one-earner versus two-earner couples. Under the current rules, two-earner families receive less in benefits than one-earner families with the same household income (Stanfield and Nicolaou, 2000). Because of changes in women's lifetime labor force participations over the last 40 years, the number of two-earner families has risen dramatically. Examination of a young adult cohort of California women in the 1960s (i.e., ages 25 to 42) reveals that only 38 percent participated in the labor force. Among married women who were young adults in 1960, even fewer (31 percent) worked. And among those who were married and had young children, only 17 percent worked. By 1990, women's labor force participation had increased dramatically. Among all boomer women,

More of California's boomers are separated, divorced, or have never been married. As a result, many boomer women may find themselves having to rely on their own benefits to support themselves in retirement.

[5] The poverty statistics are three-year averages for 1996, 1997, and 1998.

Despite their skepticism regarding Social Security (only about one in three boomers in California expects Social Security to provide its promised benefits), boomers do not appear to be saving at higher rates than past generations.

Figure 9. Annual Personal Saving as a Percentage of Personal Income



Source: http://www.bea.doc.gov/bea/dn/saverate.htm.

67 percent were in the labor force in 1990. And it was not only unmarried women who worked—63 percent of married females worked, and even among those who were married and had at least one young child in 1990, 51 percent were in the labor force.

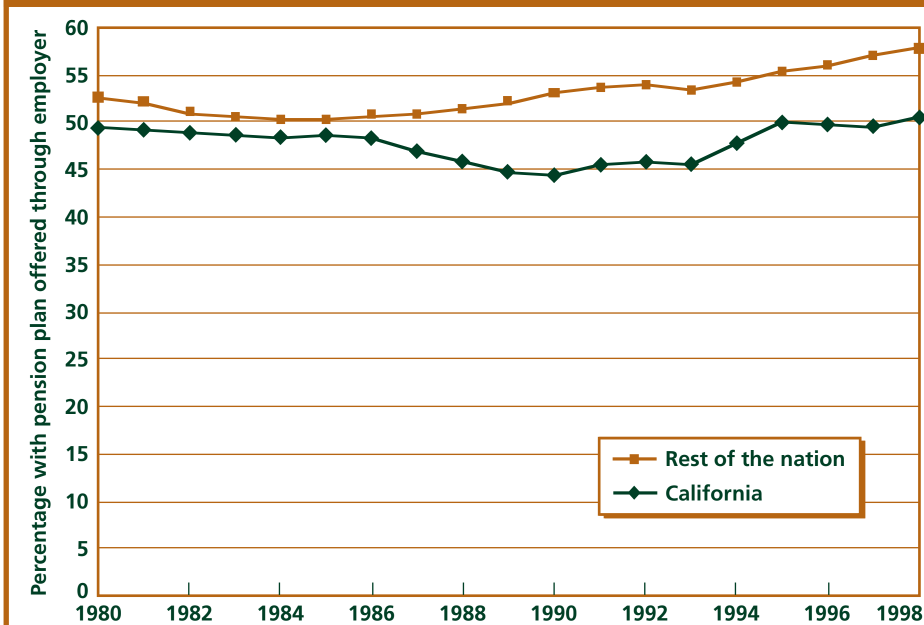
Other social changes over the past 40 years will also affect the distribution of Social Security benefits, especially for women. For example, far more of California's boomers are separated, divorced, or have never been married. As a result, many boomer women may find themselves having to rely on their own benefits to support themselves in retirement. Although single boomer women will have taken advantage of more abundant career opportunities, in general, at retirement women will have had lower incomes than men, will live longer, will have experienced more frequent career interruptions, and will have saved less for retirement.

Among female baby boomers in 1990 (i.e., women age 26 to 44), 19 percent had never been married, compared to only 5 percent for a similarly aged cohort in 1960 (who are some of today's older Californians). Because of the propensity of baby boomers to delay marriage, it is not surprising that many California women in this cohort had never been married by 1990; yet even by 1999, 13 percent of boomer women retained their never-married status. Only 10 percent of young women in 1960 were separated, widowed, or divorced, but nearly twice as many boomer women in 1990 (19 percent) fell into one of these categories, and that figure grew to 23 percent for the same cohort of women in 1999.

Despite their skepticism regarding Social Security (only about one in three boomers in California expects Social Security to provide its promised benefits), boomers do not appear to be saving at higher rates than past generations (see Figure 9). Although the decline in personal savings rates has garnered much attention, it should be noted that these savings rates account for neither home equity nor capital gains. Many of California's baby boomers will enjoy the benefits of home price appreciation over the past 20 years. However, less than half of all California boomers owned their own homes in 1990.[6]

In terms of pension and retirement plans, just over half of all jobs in California offer these benefits, a figure that has changed little over the past 20 years and that is substantially lower than in the rest of the nation (see Figure 10).[7] It is possible that tomorrow's older Californians will not be able to retire as early from the labor force as previous cohorts have. The normal retirement age for Social Security has already been advanced from 65 to 67, and it is conceivable that the baby boom generation will be required to work several years beyond what they now anticipate.

Figure 10. Existence of Employer-Sponsored Pension Plan for Workers in California and the Rest of the Nation, 1980–1998 (two-year averages)



Source: Authors' calculations using the CPS.

Note: 1998 value is the average for CPS years 1998 and 1999.

[6] 1990 U.S. Census data show that in California, 40 percent of baby boomers (persons age 26 to 44 years old in 1990) lived in owner-occupied housing units, compared with 45 percent of boomers nationwide.

[7] The trends illustrated in Figure 10 include foreign-born workers, who over the last six years have had 15 to 16 percent lower employer-sponsored pension rates than the workforce as a whole.

Quality of life, dependency and care issues, and state and family support for the elderly will become increasing concerns for governments and families as the number of older Californians more than doubles over the next 30 years.

Summing Up

Projecting future populations is an uncertain undertaking. However, one area of relative certainty is the aging of the state's population. Dramatic increases in the older population of the state will occur as baby boomers age into older age groups and as life expectancies continue to increase. Californians will spend more and more of their lives in postretirement activities. The largest rates of population increase will occur among the very oldest Californians, those age 85 and over. Quality of life, dependency and care issues, and state and family support for the elderly will become increasing concerns for governments and families as the number of older Californians more than doubles over the next 30 years. The implications for federal programs, such as Social Security and Medicare, are well known. However, the State of California provides many services to older residents as well. The implications of an aging California for state government are daunting, particularly since the proportion of children in California is also expected to increase. Furthermore, the percentage of foreign-born Californians is also rising. To the extent that they are clustered toward the bottom of the income distribution and disproportionately employed in jobs that do not provide retirement benefits, they, like their native-born counterparts on the lower end of the income distribution, will probably rely heavily on both Social Security and SSI in their retirement years. The primary demographic challenge for California in the early 21st century will be to find ways to satisfy the demands of an increasingly older population while assuring both a high quality of life for all Californians and the financial stability of their government. ◆

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