1980 Report to Respondents

Questions Old and New

Your answers to some of our 1979 questions are scattered through this report and we thought that you might also be interested in some of the information that will appear in Volume VIII of the series of books about the study called Five Thousand American Families, Patterns of Economic Progress.

Although over the years we have asked you many questions about your financial situation we know very little about other, equally important, kinds of resources that may be available to you. So this year in addition to our regular questions about your jobs, earnings, food costs, and so on, we have a new series of questions asking where people turn for help in a serious emergency. Are there friends or relatives nearby who could help you if you needed it? Are there family members or friends further away who could come to help in an emergency? Have you or your immediate family been asked to give emergency help to other people recently? We will ask similar questions about how people cope with financial emergencies. There will also be a few new questions about the supplementary security income and food stamp programs to try to find out why so many people who seem to qualify for these benefits don't get them. In addition we will be asking whether you heat your home with gas, electricity, oil, wood, a combination of these, or what.

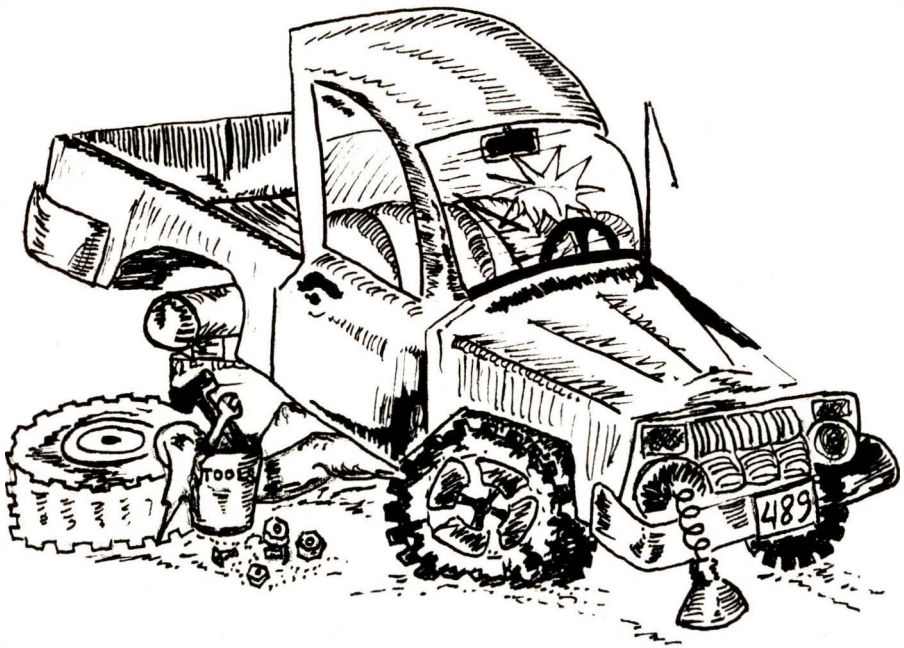
Many 1979 questions will be eliminated to make room for the new ones so the interview should still take less than thirty minutes. We

expect to raise the usual $7.50 payment to $9.00 this year plus the extra $5.00 for sending in the address postcard.

Cars

When we talked to you last spring and early summer, the long gas lines and odd-even buying rules had just begun so there hadn't been time to find out what effect these difficulties were to have on your driving. But even then you were mentioning the price of gasoline as one of the worst hardships caused by rising prices.

Some of you make complex repairs on your cars and trucks.



If the increasing cost of gasoline led you to buy less of it and not drive so much, this does not show up very clearly in your estimates of how many miles you drove your cars and trucks last year. The average distance driven by those of you who own one or more cars and/or trucks

was 16,788 miles--about 130 miles more than the year before. However this is less than the usual year-to-year increase.

More than half of those of you who own cars were able to cut your driving costs by doing some of your own car repairs--far more of you do this now than seven years ago when we last asked these questions. All maintenance on cars requires a degree of skill, and interestingly some of you are expert enough to be able to make very complex repairs. On average, those of you who worked on your cars spent about 33 hours at it during the year and saved about $280, but a few enthusiastic mechanics put in over 1,800 hours and reported savings of up to $9,000. This sounds like an amazing amount of money, but those amounts may include repairs to several cars or trucks.

Events

Almost everybody experiences a variety of major events during his or her lifetime--some desirable, some not. In one way or another, these events must affect the sense of well-being and the quality of life of the people they happen to. Social scientists are very interested in knowing how often major events (good, bad, or in between) occur in the life of the average person and what their effects are. So, because we have talked to you for so long, the Social Science Research Council asked us to try to figure this out.

The questions we have asked you have had to do mostly with your economic state and have been limited to things that affect it like jobs, income, work hours, education, and so forth. There are certainly many major events in your lives that we don't know anything about because

they have nothing to do with money. However, based on our somewhat one-sided information, we have listed the various kinds of important events with economic consequences that might be likely to happen to you. We divided the list into three sections: events that seemed definitely desirable, events that seemed undesirable, and those that might be either one or the other depending on circumstances.

The good events were: getting a better job, a major increase in family income, moving voluntarily, and getting married or remarried. The undesirable events were: major unemployment, work loss due to illness, becoming disabled, being forced to move when you did not want to, a major drop in family income, the death of a spouse, divorce or separation, and (this mostly affects children) the loss of a parent due to divorce, separation, or death. We listed divorce as a bad event because it often causes serious financial difficulties for women and children even though it might be good for the peace of mind of those concerned. The uncertain events that might be either desirable or undesirable were: people moving in or out of the family, major gains or losses in on-the-job pay, large increases or decreases in work hours, retirement, the birth of a child, some job changes and moves, a stepparent moving into the family, moving out of your parents' home, and stopping school. A major gain in on-the-job pay was not listed among the clearly good events because it might have been due to taking on an extra job or a great deal of overtime to make ends meet. Though good for your finances, this might be bad for your health.

There are more undesirable than desirable events listed, but many of the events we didn't classify as clearly desirable or undesirable are probably pleasant (for instance, the birth of a child, retiring, acquiring a non-wicked stepmother or stepfather, and graduating from

school).

Even though you sometimes tell us that your lives never change and just to write down whatever you told us last year, things do happen to you; during an eleven-year period families in the study averaged about eleven major events. On average, about two of these were clearly desirable, two undesirable, and the rest had uncertain effects. Although this sounds like one major event a year, they were not divided up as evenly as that. Young people experienced many more events than older people, though nearly every family had at least one.

The lives of the young are very eventful. People in their twenties move constantly (mostly voluntarily), change jobs, get large increases in income, get married, have children, get divorced and remarry (often more than once). Between ages thirty and forty, things seem to settle down somewhat. People continue to mill around changing jobs, houses, and marriage partners, but not as often. Compared to younger ages, the forties and fifties are relatively peaceful. People at these ages are the least likely to lose their jobs, to be forced to move, or to get divorced. Surprisingly, the divorce rate picks up again for people in their sixties. However, work loss caused by illness is greatest for workers in their fifties. (This is probably also true of people in their sixties, but it doesn't show up as dramatically in the statistics because many workers have retired by then especially as illness often leads to early retirement.) Families in these years tend to get smaller as children leave home. Although parents are expected to feel at loose ends when their children move out other studies have found that this is not the case. Couples whose children have left report that they are more satisfied and free from strain than at any time during their years of child raising. The empty nest is apparently very comfortable.

Unemployment and unwanted moves and job changes seem to happen at any age, and so do major changes in income either up or down. The young accumulate more desirable events than their elders, but by the age of thirty the number of events that we classify as good and those that are in the uncertain category drop off sharply. Undesirable events, however, are distributed quite evenly among all age groups, except that people in their sixties and seventies are more likely to become disabled and, particularly women, are more apt to become widowed.

The questions we have asked you are not well designed to find out what effect all these events have on the families they happen to. Although we know a good deal about your economic state, we don't know much about your state of mind. The best clues we have come from your answers to the questions we used to ask every year and still ask occasionally about whether you plan ahead, are usually able to carry out your plans, are pretty sure that your life will work out the way you want it to, think a lot about things that will happen in the future, and so on. Answers to these questions are supposed to show whether you are confident that you are in control of your life most of the time, or if you are more apt to feel that you are buffeted around by outside events that you can't control.

We found that experiencing desirable events did not do much to bolster anyone's confidence, but undesirable ones clearly caused people to doubt their ability to carry out their plans for the future. This was especially evident in cases where the main earner in the family became disabled or had large financial losses, but it was also true of those who were forced to move by some outside event or had extra people move in with them. The movers-in did not include children being born into the family, so they might have been elderly parents, grandchildren,

stepchildren, or other relatives. These new members of the household were probably in need of support and quite understandably might cause some problems for the family.

Those of you with a very good education somehow experienced fewer undesirable events than those with less schooling, and this benefit from education seems to last a lifetime. People who plan ahead also tended to escape some trouble and, for those who could afford it, having some savings obviously helped to ward off a variety of undesirable events. However, although some people were able to think, plan, or buy themselves out of a few of the unwanted events that happened to most people in the study, they didn't experience any more desirable events than anyone else.

Other studies have reported that young people today are not particularly happy, but according to our measures, the young got by far the largest share of major desirable events. This was especially, and unexpectedly, true of young people who grew up in cities rather than in the country. Another surprise was that those of you at any age who live in the South had more major desirable things happen to you and fewer undesirable ones than people who live in other parts of the country. Economists think that this is probably because, economically, the South is the fastest growing section of the United States.

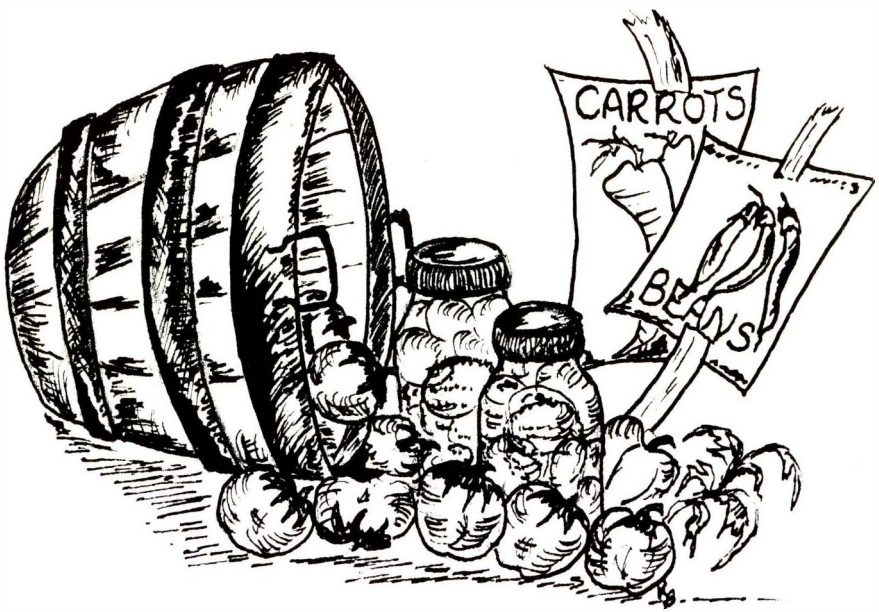
However, our list of major economic events is only able to tell part of the story. Many studies have found that, provided a person has enough to get by on, his or her feeling of well-being seems to depend less on financial prosperity than on family, friends, interests and all the other things that make up a pleasant life.

Inflation

Well over three-quarters of you report being hit hard by rising prices. The cost of food was mentioned most often as your major problem, followed by transportation (gasoline) and utilities. Although a lot is heard about skyrocketing prices of houses and medical care, these were not high on your list of hardships. People have to eat every day, but they don't buy houses or get sick very often.

Only about 20 percent of you said you had been able to do anything about rising prices. Your methods of coping with it were to buy less of everything that was getting more expensive--including food--to shop very carefully, and to increase home production.

Over a third of you grow, can or freeze some of your own food.



Although not very many people mentioned home production as a way to cope with inflation, over a third of the families in the study did grow,

can, and/or freeze some of their own food. Home production saved you an average of $173 on your food bills, and for some ambitious souls the savings were much greater.

How Inflation Has Changed Your Thinking about Retirement

Because of inflation, about 20 percent of you report that you have changed your ideas about retirement. Some of you changed only your feelings about it, not your plans, but a number of you have decided to put off retiring until later or just not to retire at all. Others are trying to save more money to retire on. A few of those of you who were retired have gone back to work, and others are thinking about it. However, very few people who have already retired are sorry they did it.

Houses

In 1978 more than 2,200 of you made some "do-it-yourself" repairs and improvements on your houses. This is not as many people as when we last asked you, but it's still pretty impressive. The majority of the work ranged in difficulty from simple repairs to jobs requiring a fair amount of skill and some of you are sufficiently expert to make extensive improvements, repairs, and additions.

You spent an average of about 90 hours during the year fixing up your houses and saved yourselves a tidy sum of over $900. As usual, there were some dedicated and talented families who did far more--putting in over 1,800 hours and, in a few cases, saving themselves up to $30,000.

A New Idea in Mortgages

The most important investment that many older people have is their house, and much of their savings are tied up in it. Unlike some pensions and savings accounts that get eaten away by inflation, the value of houses keeps growing. The homes of many elderly people are now worth a good deal more than when they were bought, but there is at present no satisfactory way for a homeowner with an increasingly valuable house but a shortage of cash to get at the extra money tied up in the house without selling the house, borrowing against it, or just using up its value by not keeping it in repair. Letting the house deteriorate might be very shortsighted but could happen because the owners could not afford to keep it up.

A loan might improve the owners' finances temporarily, but it would have to be paid back. Selling the house and buying a cheaper one would provide some ready cash, but buying and selling houses and moving all involve some expenses, and most people would rather stay in their own homes if possible. Some older people have sold their houses, usually to their children, with the understanding that they can rent them back and continue to live in them for as long as they want to. The trouble with this system is that the new owners then get the benefit of any growth in the value of the house. Selling the house and moving to an apartment would bring in some income but has some risk for retired people. If inflation continues and rents keep going up, the money they received from the sale of the house might not last their lifetime. In fact, the increasing value of their house is the best protection against inflation that most homeowners have so they would do well to keep it if they could.

There are some methods now being developed that would make it

possible for elderly homeowners to get a regular income from their houses while continuing to live in them. Under these plans (called Reverse Annuity Mortgages) a bank would lend a sum of money to a homeowner, based on the value of his or her house. The loan would then be used to purchase a lifetime annuity from an insurance company. The annuity would provide the homeowner with regular monthly payments for his or her lifetime even if he or she decided to move out of the house later. While the owner of the house still lived in it, the monthly payments could be adjusted for inflation by increasing the loan since the value of the house would also have increased. Interest on the loan would be deducted from the monthly payments, but the loan itself would be paid back only when the homeowner--and spouse if there was one--died.

A well-designed Reverse Annuity Mortgage should provide elderly homeowners with a regular (though probably not very big) lifetime income which is adjusted for inflation. It should also include some provision for keeping the house in good repair.

We made an estimate of how much homeowners in this study who were over sixty-five years old might have benefited from such a plan if it had been available in 1977. Of course, the people with the most expensive houses would have done the best financially. We figured that in 1977 the average yearly payment to homeowners over sixty-five would have been $1,330--about $110 a month. The average payment would have been larger for homeowners who were over seventy-five years old, because their life expectancy would have been shorter. Some families would have received considerably less than the average $110 a month because their houses were less valuable. But for families with low incomes even $50 a month could have increased their incomes substantially.

Almost three-quarters of all elderly families own a house, and by

the time they are sixty-five, most of them have paid off their mortgage. However, many retired people live on fixed incomes and in times of inflation have a hard time financially, even though they have a paid-for roof over their heads. On paper anyway, a Reverse Annuity Mortgage would provide important supplementary cash to these retired homeowners while giving them some protection against inflation and some help in keeping their houses in repair. This may sound like having your cake and eating it too, but it isn't. Whatever form these mortgages take, in all of them the bank eventually gets the house or at least the major part of its value. (In some plans it may be possible for the homeowner's heirs to pay off the mortgage and keep the house if they want to.)

When Reverse Annuity Mortgages become available, anyone interested in them should get expert professional advice from someone not selling mortgages or insurance. Choosing the right kind of plan to fit his or her needs, and the right age to start participating in it, could make a big difference in the size of the homeowner's monthly check.

Recent History

1979 was a good year for the study. We were able to find and interview almost 98 percent of the families we talked to in 1978. That is a very high response rate, and we are grateful to you for making it possible. We have also added 373 new members to our panel. These are mostly young people who moved out of their parents' homes during the year. There are now 6,373 families of you in the study.

You continue to be the best source of information there is on how American families are getting along financially.

We wish all of you a very happy new year and look forward to talking to you soon. Thank you very much for your help.

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