

The Future of Retirement Security

Larry Polivka, Ph.D.
School of Aging Studies
Florida Policy Exchange Center on Aging
University of South Florida
Aging Policy Research Group
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Keynesian welfare state vs. neoliberal capitalism, from a mixed model economy to market supremacy

- New Deal (1934) to Nixon (1974)
- Carter (1977) to Reagan (tax cuts and some restoration, domestic spending cuts, including SS) and deregulation (savings and loan)
- Hiatus (Bush I tax increases to Clinton—tax increases and surpluses, end of AFDC)
- Bush II (return to Reagan) tax cuts, SS and Medicare privatization, long-term deficits
- The globalization rationale—financialization and labor competition
- Growing wealth concentration and inequality

Retirement Security

- The emergence of neoliberal policies designed to privatize retirement income and health care
- 1938 to 1980 (increasing security)
- Social Security and defined benefits pensions (1940-1970)
- Medicare and Medicaid (LTC for dual eligibles (1965))

Retirement Security (cont'd)

1980-2005 (threats to security):

- proposed cuts in Social Security
- stagnant pension coverage and market-based defined contribution pensions and decline of defined benefit plans
- increasing out-of-pocket costs for Medicare beneficiaries (10% to 21%)
- stagnant wages
- increasing cost of living
- declining savings (8% to 1% of income)
- the private accounts campaign (Bush 2005)

Retirement Security (cont'd)

The Future:

- Continuation of trends in private pensions, wages and savings
- Medicaid cuts (LTC coverage)
- LTC private insurance campaign
- Medicare privatization (MMA and increasing out-of-pocket costs—30% in 2025)
- Social Security benefit reductions
- Rising health care costs is major threat to the retirement security and economic well-being of families
- UAW—declining retiree health benefits
- Trends toward a more “on your own” retirement system. How well-prepared are current and future retirees to manage more risk?

Economic status of current retirees

- Median income—\$24,000 (whites); \$16,000 (African American and Hispanic)
- SS accounts for 41% of net income (6% higher than in 1965)
- 60% plus depend on SS for 50% of total income, higher for women, minorities and older retirees (70% plus)
- 40% of these 75 plus rely on SS for 90% of their income
- Medicare beneficiaries now pay 21% out-of-pocket for health care (10% in 1988), 30% plus in 2025.

Economic status of future retirees

- A greater percentage of future retirees is likely to have high incomes and substantial wealth than among current retirees due to higher incomes and asset accumulation during their working years and continuing employment after age 65.
- However, an analysis of projected retirement wealth among those aged 47-64 indicates that most retirees over the next 30 years will not be substantially better off than their parents. (Wolff, 2005)

Economic status of future retirees (cont'd)

- The median augmented wealth, which includes net worth, defined benefits, defined contributions (401k, mainly pensions) and Social Security wealth, for those ages 56-64 grew by only 5% from \$436,500 to \$458,100 between 1983-2001.
- Mean augmented wealth, however, for those ages 56-64 grew by 41.7% from \$695,200 to \$984,800, which reflects the trend toward growing wealth inequality.

Economic status of future retirees (cont'd)

- Median retirement wealth (private pensions and Social Security wealth) grew by only 1.3% during the period for those ages 56-64 from \$264,000 to \$267,500, and by 32.5% for those ages 47-55 from \$177,300 to \$215,300.
- Increases in social Security wealth (\$31,000 for those ages 47-55 and \$9,000 for those ages 56-64) were far more important contributors to retirement wealth than private pensions for both age groups.
- Median private pension wealth fell by 13.3% during this period for those ages 56-64.

Economic status of future retirees (cont'd)

- The race/ethnicity gap in retirement wealth also grew between 1983 and 2001.
- The median retirement wealth of non-Hispanic whites ages 47-55 grew by 33.9% from \$188,100 to \$251,800, and by 8.5% for those ages 56-64 from \$279,000 to \$302,700.
- Among African Americans or Hispanic, median wealth for those ages 47-55 fell by 7.4% from \$109,000 to \$101,700, and by 19.7% for those ages 56-64 from \$168,700 to \$135,400.

Economic status of future retirees (cont'd)

- In the absence of Social Security, these declines would have been greater, especially for those ages 47-55 whose private pension wealth fell by 33.6%.
- The same trends occur for augmented wealth with a 20.7% increase for whites ages 47-55 and 6.3% for those ages 56-64, and declines for minorities.
- The same trends tend to hold for differences between homeowners vs. renters and, to a lesser extent, for married couples vs. single women.

Economic status of future retirees (cont'd)

- A recent study by the Employee Benefits and Retirement Institute (EBRI, 2003) found that retirees will have \$45-50 billion less in income in 2030 than they will need to cover basic needs (food, housing, transportation, out-of-pocket acute care costs, etc.) and any costs arising from an episode of care in a nursing home or from a home health provider.
- The cumulative shortfall by 2030 will be over \$400 billion. Increased savings could be used to cover or reduce this projected shortfall.
- For most, however, the increase would have to be very substantial (5 to 25% of earnings more than they are saving now).

Economic status of future retirees (cont'd)

- Any possibility that families will be able to save and invest enough to cover projected shortfalls in retirement income over the next several decades is largely undermined by the current financial condition of most families which are caught in the vise of rising costs and declining or stagnant incomes and are unable to generate adequate retirement wealth.
- The decline in discretionary family income cannot be explained by excessive or frivolous consumption. The average family spends 21% less on clothing than in the 70s (\$750 less than in 1973); 22% less on food and 44% less on major appliances (Warren and Tyagi, 2003).

Economic status of future retirees (cont'd)

- Overspending can't explain a 255% increase in foreclosures, 430% increase in bankruptcies and 530% increase in credit card debt since the 70s.
- These trends are largely the result of big increases in family expenses.
- These increases in fixed costs (home mortgage, child care, education and health insurance) have reduced discretionary income for dual income families below the amount available to single earner families in 1975.

Economic status of future retirees (cont'd)

- Trends toward increasing reliance on mortgage and credit card debt are substantially driven by declining or stagnant family incomes and the “industry.”
- Real wages declined from a high of \$15.14 an hour for non-supervisory workers in the 1964-1967 period to \$13.91 in 1981-1992 and \$13.60 in 1993-2000.
- Wages have lagged far behind productivity growth since 1973. Wages tracked productivity only from 1997 to 2001, but returned to the pre-1977 pattern in 2002, as wages fell from 2002 through 2004 and profits rose (U.S. Census, 2005)

Economic status of future retirees (cont'd)

- The economic status of most future retirees is likely to be about the same as current retirees.
- Most future retirees will have no more in private retirement wealth than the current 65+ population and are likely to be as dependent as publicly provided retirement benefits (Social Security and Medicare) for their economic well-being, which makes the preservation of these benefits a critical political challenge.

Economic status of future retirees (cont'd)

- The economics of this challenge are less a function of rising payroll taxes and population aging per neoliberal doctrine than the rising cost of private health care and increasing income and wealth inequality.
- The combined effects of rising health care costs and increased wage inequality will lead to an actual decline in after-tax, after-health-care income for most of the population through the next century.
- The projected loss in the year 2030 for a family in the middle of the income distribution, compared to the baseline, is 37%, or more than six times as large as the impact of changing demographics.

Neoliberal agenda

- The neoliberal agenda of tax cuts and privatization of entitlements, which would expose retirement income to the vagaries of the equities market and greater risk and increase out-of-pocket costs for health care through defined contribution plans (medical or health savings accounts) or vouchers, has extensive support among corporate and political elites, but is not popular with the public.
- Even without popular support, the neoliberal agenda can be achieved, especially in health care, in the absence of an active, well-organized resistance with its own agenda, which might include the following.

Preserving and improving Social Security

- Social Security must be maintained as the cornerstone of the U.S. retirement security system.
- Social Security provides far more retirement income for the average retiree (67%) than any other source and was the principle source of enhanced retirement security for the baby boomers over the last 20 years (Wolff, 2005).
- Privatization of Social Security in combination with increasing dependence on defined contributions, private pensions, and the increasing instability of many defined benefit plans would make retirement security far riskier than anytime since the 1930s.

Preserving and improving Social Security (cont'd)

- Social Security solvency should be ensured through a combination of small, gradual benefit reductions for higher earners, small, gradual payroll tax increases not to exceed 1.5% over the next 20 years and an increase in the amount of earnings to which the payroll tax is applied from \$90,000 to \$160,000 over the next five to ten years.
- These fiscal enhancements should be sufficient to implement a minimum benefit sufficient to keep any beneficiary above the federal poverty level.
- Other improvements, including those designed to increase benefits to single women, minorities and those over age 80 should be implemented as Social Security solvency is achieved.

Health Care

- The escalating cost of health care is a greater threat to the retirement security of current and future retirees than either the meagerness of private pensions or potential insolvency of Social Security.
- Medicare beneficiaries are already paying over twice as much out-of-pocket (21%) for health care as they were 15 years ago (10%). Medicare Part B premiums are increasing faster than annual cost of living (COLA) increases in the Social Security program, copayments increase with the cost of health care, which have risen at about twice the overall inflation rate, and hospital and other deductibles remain high.

Health care (cont'd)

- ***Annual cap on beneficiary out-of-pockets.*** The cap should be set at the same level as the out-of-pocket costs for the under age 65 population, which is now about half the percentage for Medicare beneficiaries.
- ***MMA.*** The MMA should be amended to eliminate the “doughnut hole,” which currently ends coverage for those paying between \$2,150 and \$5,100 in prescription drug costs annually, and to give the Centers for Medicare and Medicaid the ability to negotiate drug prices with pharmaceutical companies participating in the program.
- ***Long-term care benefit.*** Add a long-term care benefit (Part E) to the Medicare program. Medicaid is available to only a small fraction of the retiree population and private long-term care insurance is likely to remain unaffordable for the vast majority of workers and retirees. In the absence of a Medicare benefit, long-term care will become a huge threat to the retirement security of the baby boomers and the overall financial security of their children.
- ***Medi-gap insurance.*** Replace Medi-gap with a Medicare Part F and integrate with Part D.

Private pensions and savings

- No return to DB
- The private pension system should be redesigned to provide incentives targeted to those with low-to-middle-incomes and wealth.
- A refundable tax credit similar in design to the Earned Income Tax Credit program would probably be the most effective incentive for increasing the retirement savings of low-income workers.
- A tax credit of 30% on each \$1,000 saved with a \$5,000 ceiling would create a far more equitable savings system than the current array of incentives which disproportionately benefit higher income earners.

Private pensions and savings (cont'd)

- Other initiatives should include:
 - a reduction in the dozens of confusing, barely distinguishable saving incentives and pension vehicles in the U.S. tax code
 - better regulation of savings and pension programs to ensure low management costs and adequate diversification as now occurs in the federal workers thrift savings plan
 - automatic enrollment of workers in pension savings plans, and the development of a universal, portable pension system based on individual accounts as supplements to Social Security
 - a universal, portable pension program, subsidized, on a sliding scale through refundable tax credits, would extend basic pension coverage to the half of American workers who do not now have a private pension.

Conclusion

- Finally and more broadly, we need comprehensive, anti-neoliberal policies designed to improve and make more secure the standard of living of all families and increase the productivity of employees. These policies could include:
 - a minimum wage linked to the CPI
 - early childhood development (cognitive development)
 - family support (day care and paid family leave) programs—gender equity
 - “baby bonds” for every newborn (to use for education/vocational training after age 18)
 - lifelong education and training grants
 - tax incentives and direct investments in expanded R&D
 - national health insurance program—Medicare for all
 - restoration of federal fiscal integrity (restore most tax cuts and keep estate tax).