

Neoliberalism and the Future of Retirement Security in the United States

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Abstract

This paper describes the rise of neoliberal, pro-market economics and public policy over the last 30 years and its implications for the future of publicly funded retirement support programs in the USA. The neoliberal policy agenda features initiatives designed to privatize public pensions (Social Security) and health care programs (Medicare and Medicaid) and redirect revenues into tax cuts for the wealthiest. Part of the rationale for the neoliberal policy framework for retirement is that current and future retirees are, or will be, capable of bearing the cost of privatization, of “owning” their own retirement. An analysis, however, of the economic status of current retirees and of baby boomers nearing retirement indicates that vast majorities of both groups do not have the capacity or the potential capacity to pay their own way in retirement. The paper concludes with the description of several policy initiatives that constitute a set of progressive alternatives to the neoliberal model of retirement support.

Keywords – neoliberalism, retirement, privatization, health care, pensions

Introduction

President Bush’s recent campaign to privatize Social Security by using a portion of the payroll tax to fund individual accounts is part of a larger campaign to diminish the role of the public sector in the United States (USA) political economy and the lives of individuals. This neoliberal campaign began over 25 years ago with successful efforts to deregulate the trucking, airline, energy industries in the late 1970s, and large interest rate

increases by the Federal Reserve Bank, accelerated under the Reagan Administration with huge reductions in federal taxes, somewhat less dramatic cuts in social spending, further deregulation of the economy, primarily in the banking and finance sectors, and a relentless effort by President Reagan to discredit the public sector. These neoliberal initiatives are designed to reduce the role of the state to securing private property and supporting unfettered markets and Harvey (2006) notes:

. . . if markets do not exist (in areas such as education, health care, Social Security or environmental pollution) then they must be created, by state action if necessary; but beyond these tasks the state should not venture. State interventions in markets (once created) must be kept to a bar minimum because the state cannot possibly possess enough information to second-guess market signals (prices), and because powerful interests will inevitably distort and bias state interventions (particularly in democracies) for their own benefit. (Harvey 2006: 145)

The neoliberal campaign to dismantle the public sector was not an explicit priority of the George Herbert Walker Bush and Bill Clinton Administrations. President Bush supported a major tax increase and Clinton proposed a program that would have moved the USA toward a universal health care system. The Clinton Administration, however, supported further deregulation of the economy, a time limit on benefits in the Aid to Families with Dependent Children (AFDC) program and an overall reduction in federal spending as a percentage of the GDP. Clinton also announced that the era of “big government was over” in his 1998 State of the Union speech (Pollin, 2003).

The George W. Bush Administration (Bush II) has essentially picked up where the Reagan Administration left off. The Bush II Administration has actually gone well

beyond Reagan in reducing taxes and driving up deficits in the federal budget. Bush II, unlike Reagan and his father, has refused to support any efforts to reduce deficits by restoring revenues. Until his 2006 proposed budget, however, Bush did little to restrain spending which has increased as a percentage of the GDP. His proposed cuts in the 2006 budget occur almost exclusively in discretionary spending, including a wide range of social, environmental, health and education programs. These proposed reductions would equal 20 percent or more of current spending levels in most of these programs between 2006 and 2010. Policy makers who were largely responsible for the creation of long-term deficits are now using them as a major justification for these reductions, which will help advocates for the neoliberal agenda achieve their goal of scaling back the public sector.

The four major domestic policy goals of the Bush II Administration are rapid privatization of the Social Security program; slower, more gradual privatization of the Medicare program; making the first-term tax cuts permanent; and, reforming the tax code in a manner that preserves the tax cuts and further reduces taxes on the wealthy by shifting more of the tax burden from capital assets to income. The administration's highest domestic priority appears to be the achievement of what the President has called the "ownership society," by shifting more of the responsibility for retirement income and health care from the public sector to individuals whose retirement prospects would be increasingly determined by market outcomes.

The three major entitlement programs constitute the foundation of retirement security for the majority of retirees and will cost almost \$1.2 trillion in 2006, which is over 40 percent of the total federal budget. Achieving the neoliberal "ownership society"

is greatly dependent on preventing the cost of these programs from increasing at the rates projected for the next 30 to 40 years as the baby boomers reach retirement age. If the costs of the Medicare, Medicaid, and Social Security programs are not sharply curtailed, the Bush tax cuts cannot be sustained. Paying for these programs will require major increases in revenues. This fiscal reality is driving the neoliberal agenda and the vision for an “ownership society” in which individuals are increasingly at risk for generating their own retirement resources (Brown, Kuttner and Shapiro, 2005).

Advocates for the “ownership society” are well aware of how the opportunity to curb entitlements and shift retirement costs to individuals is limited by a probable decline in the already shaky support for their neoliberal retirement agenda. If the administration and its corporate sponsors in the securities and health care sectors are not able to fund individual accounts from the payroll tax, and accelerate the privatization of Medicare and Medicaid over the next few years, any political momentum behind the neoliberal agenda is likely to fade and be replaced by an agenda of increased reliance on the public sector for retirement security. This recognition of a potential reversal of fortune accounts for the sense of urgency and political risk taking that characterizes the efforts of the administration and the whole neoliberal infrastructure of political organizations, think tanks, and media outlets to privatize retirement. We are quickly approaching the point when the intermittent movements over the last three decades toward a neoliberal policy regime will either become fully dominant or begin to unravel at an accelerating rate. The denouement of neoliberal domestic policy is likely to be determined by the fate of the retirement entitlement programs over the next five to ten years.

The rise of neoliberalism

Support for neoliberal economics and public policy emerged from the widespread perception that by the mid-1970s the mixed economy of the postwar period was no longer able to sustain stable growth. The slow growth and high inflation of the 1970s began to erode the intellectual creditability of the neo-Keynesian demand side-oriented policies of the postwar period, which experienced the most rapid and stable growth of the 20th century. The stagflation of the 1970s, however, was less a result of conceptual flaws in the neo-Keynesian mixed model economy than changes in the international economic environment and exogenous shocks like the OPEC oil price increases in the early 1970s.

. . . the OPEC price shocks introduced an external, structural source of inflation, which became embedded in the price system. This occurred just as the Bretton Woods system of stable currencies anchored by the USA dollar was collapsing. Central banks practicing orthodox monetary policy then responded to stagflation by raising interest rates, and putting all the major Western economies on a path of slower growth and higher unemployment. So reduced growth and rising prices collided for reasons that had little to do with Keynesian intervention or with the mixed economy. Eventually inflation was squeezed out, but at terrible cost. In the meantime, the more conservative interpretation, followed by a backlash of conservative policies, won the day. (Kuttner 1997)

The recession of the mid-1970s led not only to the high interest rates implemented by the federal reserve in 1979, but to a number of initiatives designed to dismantle the “embedded,” welfare state capitalism of the post-war period, and the interventionist state brokered compact between capital and labor, which had played an essential role in the development of the publicly supported system of retirement security. The rising costs of

this system and other welfare state provision, the declining rate of corporate profits and share of income accruing to the wealthiest, and slow economic growth since the early 1970s generated growing support among U.S. corporate and political elites for a return to the neoclassical economic policies of the pre-depression period. These policies, in updated form, became the foundation of neoliberalism, the organizing framework for shifting economies and political power from labor to capital. According to Harvey (2006), the vehicle for this shift in power is “accumulation by dispossession,” which is designed to increase profits and restore upper class power even in the absence of sustained economic growth.

Harvey’s (2006) conceptualization of neoliberalism as “accumulation by dispossession” includes four main elements, each of which has major implications for the future of retirement security. The first element is privatization of public resources and services which is designed to create new opportunities for capital accumulation in areas once protected from the “calculus of profitability.” Harvey notes that:

The reversion of common property rights won through years of hard class struggle (the right to a state pension, to welfare, to national health care) into the private domain has been one of the most egregious of all policies of dispossession pursued in the name of neoliberal orthodoxy. All of these processes amount to the transfer of assets from the public and popular realms to the private and class-privileged domains. (Harvey 2006: 153)

The privatization initiative encompasses far more than public pensions and health care, including the whole range of natural resources and education. The privatization of retirement benefits, however, may be the most immediate threat to the security of most

people and the domain in which the final success or failure of neoliberalism will be determined.

Privatization is closely related to Harvey's (2006) second element of accumulation of dispossession which is the increasing financialization of economies across the world. Financial deregulation has facilitated the redistribution of value from workers and productive capital to finance capital through speculation, predation and fraud. The privatization of public pensions and health care would move hundreds of billions of dollars into the financial markets and increase the capacity of finance capital to control the international economy, extract speculative profits, destabilize selected economies, and further erode the economic security of workers through the management and manipulation of debt and disinvestment crises, which is Harvey's third element of accumulation by dispossession.

Harvey's fourth element is state redistributions, which goes beyond privatization of public resources and includes large reductions in taxes on high incomes and capital wealth, which has characterized tax policy in the U.S. for most of the last 25 years. This reduction in revenue not only benefits the wealthy, it also provides a part of the rationale for the privatization of public programs, most prominently the retirement security entitlement programs. This "starving the beast" strategy is designed to generate budget deficits massive enough to make public funding of retirement security impossible.

Neoliberal theory and ideological claims are now being used by Bush II and the whole apparatus of right wing foundations and think tanks to erode support for publicly funded retirement programs (Social Security and Medicare) and force workers to pay for their own retirement through individual earnings, savings, and investments. As will be

demonstrated in a following section, there is little evidence that the vast majority of current workers have the capacity to pay for or “own” their own retirement and considerable evidence that privatizing Social Security and Medicare would lower the standard of living among future retirees. These empirical realities, however, will not dampen the neoliberal attack on the current system of publicly supported retirement, which they claim has created generations of dependence on the public sector and perverted the natural order of society by making retirement security a collective endeavor. They are dedicated to making the financing of retirement a matter of individual responsibility and decision-making in a largely unrestrained market which restores the natural order of efficiently allocated resources and individual rewards.

From Jimmy Carter to the second Bush Administration, the neoliberals have been able to achieve part of their agenda by persuading the media and a frequent majority of policy makers, including Democrats, that their core principles and assumptions are essentially valid in a globalized international economy. These principles and assumptions constitute much of the rationale for efforts to reduce taxes; reduce or prevent funding for social, health and education programs; deregulate commerce and the labor market; and develop trade agreements favorable to corporate interests. The implementation of these policies has failed to produce the high levels of sustained growth which is usually offered as the rationale for neoliberalism. They have, however, played a major role in the growth of inequality and the concentration of unprecedented wealth in the upper levels of the U.S. class system. Even as the top 0.1 percent of income earners increased their share of national income from 2 percent in 1978 to 6 percent by 1999 and the ratio of the median compensation of workers to the salaries of CEOs increased from

30 to 1 in 1970 to over 400 in 2000, aggregate growth rates fell from 3.5 percent in the 1960s to 1.4 percent in the 1980s and 1.1 percent in the 1990s. (Harvey 2006: 148, 151).

These trends are consistent with Harvey's concept of neoliberalism as accumulation by dispossession through the processes of privatization, financialization, the manipulation and exploitation of economic crises, and state-sponsored wealth redistributions. These processes are used by economic and political elites to shift wealth from workers to the upper class and to take back the gains made by the working classes in the developed nations during the post-war period of welfare state capitalism. Among the greatest gains of this period were the creation of public pensions like Social Security, privately funded defined benefit pensions, and publicly funded health care benefits. All of these gains were products of a class compromise that gave a growing share of economic growth to workers and made retirement security a historically unprecedented reality for a majority of those living in the developed world. This system of publicly funded retirement security is still fundamentally intact. The dismantling of this system, however, is now a top priority of the corporate sponsors of the neoliberal agenda who are prepared to use the tools of accumulation by dispossession, primarily privatization, financialization, and tax cuts to greatly reduce public funding of pensions and health care and force workers to pay for their own retirement from wages that have remained stagnant for 30 years and from savings that have become increasingly meager. Workers today have little more capacity to pay for their own retirement than any other generation since World War II.

The economic status of current and future retirees

The neoliberal goal of making workers individually responsible for their retirement is fundamentally at odds with the economic realities of retirement. The neoliberal notion that most retirees will be independently well-off in the future is not supported by the facts of economic life among current retirees and the projected economic status of future retirees.

In the USA, the median household income of those ages 65 and older is \$24,000 for whites and a little over \$16,000 for African Americans and Hispanics and Social Security constitutes 41 percent of the mean income of all retirees on average, which is 6 percent greater than 40 years ago. Over two-thirds of all retirees depend on Social Security for 50 percent of their income; this percentage is 75 percent for female retirees and 77 percent for minority retirees (Wu 2001). In terms of financial wealth, the median net worth (minus value of home) of the bottom three income quintiles of those age 70 plus (75 percent of total population 70 plus) is \$68,500, \$15,000 and \$1,000 respectively. The median net worth of minority elderly age 70 plus is less than one-third that of whites (Reynolds-Scanlon, Reynolds, Peek et al. 1999).

The significance of Social Security to the economic well-being of current retirees is evident in the fact the median share of income from Social Security for those ages 65 and older is 67 percent, and for those ages 75 and older, it rises to 77 percent. For single women ages 65 plus, the share is 84 percent, for African Americans 82 percent, and for Hispanics 84 percent (in Texas the share for Hispanics is 97 percent, and in Florida 90 percent). Among those ages 75 plus, 39 percent rely on Social Security for 90 percent of

their incomes and 73 percent for 50 percent or more of their income (Ettlinger and Chapman 2005).

What about the income and financial status of the next generation of retirees, those now between ages 47-64? Will they have enough income and wealth to make them qualitatively better prepared to pay for their own retirement? A greater percentage of future retirees are 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. An analysis by Weller & Wolff (2005), however, of projected retirement wealth among those ages 47-64 indicates that most retirees over the next 30 years will not be substantially better off than their parents. In their analysis of wealth trends from 1983 to 2001, Weller & Wolff found that Social Security was the most important source of additional retirement wealth for most Americans who have experienced rather small increases in their total wealth during this period (Weller and Wolff 2005).

The median augmented wealth, which includes net worth, defined benefits and defined contributions [401(k)s], pensions, and Social Security wealth, for those ages 56-64 grew by only 5 percent from \$436,500 to \$458,100 between 1983-2001. Mean augmented wealth, however, for those ages 56-64 grew by 41.7 percent from \$695,200 to \$984,800, which reflects the trend toward growing wealth inequality. Median retirement wealth (private pension and Social Security wealth) grew by only 1.3 percent during this period for those ages 56-64, from \$264,000 to \$267,500, and by 32.5 percent 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 sources of

enhanced retirement wealth than private pensions for both age groups. In fact, median private pension wealth fell by 13.3 percent during this period for those ages 56-64 (Weller and Wolff 2005).

Weller & Wolff (2005) also found that those in both age groups, with low net wealth (0 to 99,999), lost ground between 1983 and 2001, while those with substantial net wealth (\$500,000 plus) experienced very large gains. Those with \$1 million net wealth at ages 47-55 had an 84 percent gain in retirement wealth (\$415,000 to \$765,000) and those ages 56-69 had a 106 percent increase (\$491,200 to \$1,012,000). These trends clearly demonstrate growing wealth inequality.

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 percent from \$188,100 to \$251,800, and by 8.5 percent for those ages 56-64 from \$279,000 to \$302,700. Among African Americans and Hispanics, however, median wealth for those ages 47-55 fell by 7.4 percent from \$109,000 to \$101,700, and by 19.7 percent for those ages 56-64 from \$168,700 to \$135,400. 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 percent. The same trends occur for augmented wealth with a 20.7 percent increase for whites ages 47-55 and 6.3 percent for those ages 56-64 and declines for minorities. These trends also characterize differences between homeowners and renters and, to a lesser extent, between married couples and single persons.

In terms of expected retirement income based on wealth holdings and pension and Social Security benefits, Weller & Wolff (2005) found that the percentage of those ages 47-55 who could expect income equal to or greater than 75 percent of their current

incomes declined from 56.8 percent to 52.2 percent between 1989 and 2001, and from 62.8 to 57.5 percent for those ages 56-64. On the other hand, the share of households that could expect to have retirement incomes of less than twice the poverty level or less than half their current incomes declined between 1989 and 2001. Weller & Wolff conclude that:

Social Security provided a larger addition to wealth than any other form of wealth between 1989 and 2001 for the average person near retirement. As labor markets tightened and annual earnings improved over that period, the expected value of Social Security benefits rose. Although stock market and home prices rose significantly over that timeframe, these increases had only a modest effect on the wealth of those in the middle of the income spectrum; their stock market holdings were too low to be affected, and increased borrowing kept home equity in check.

They also note that:

Even among the households that have private pensions, savings are very unevenly distributed. Indeed, one of the most dramatic transformations over the last two decades has been the replacement of traditional Defined Benefit (DB) pension plans with Defined Contribution (DC) plans such as 401(k)s. This shift has actually been detrimental to a large share of the working population. Despite increased coverage by DC plans and the rise in the stock market, the total DB plus DC wealth of the typical person nearing retirement was no higher in 2001 than in 1983.

Projections conducted by the Urban Institute provide a somewhat more optimistic outlook than Weller & Wolff's analysis for the baby boomers in retirement. The Urban Institute projects that the median household wealth at age 67 will grow from \$448,000

among current retirees to \$600,000 among boomers and that median household income will increase from \$36,000 today to \$50,000 for the boomers. The median working income replacement rate, however, will drop from 87 percent among current retirees to 80 percent for the boomers and health care costs will take more from the retirement income of boomers than current retirees. Boomers are likely to spend about one-third of their income on health care which now takes about 21 percent on average from the income of retirees. This is one of the reasons that Munnell & Soto (2005) think that:

. . . today is in some sense the “golden age” of retirement income. Today’s retirees are claiming Social Security benefits before the rise in the retirement age to 66 and then 67, which is equal to an across-the-board cut in benefits. Today’s retirees also do not face the huge deductions in their Social Security check to cover Medicare premiums for Parts B and D that tomorrow’s retirees will. And today, the average retiree does not pay personal income tax on his Social Security benefits, whereas future retirees will increasingly see a portion of benefits subject to taxation. Finally, most of today’s retirees are covered primarily by a defined benefit plan and do not face the uncertainty associated with the inadequate lump-sum payments from 401(k) plans.

These changes will reduce the average percentage of retirees’ final wages replaced by Social Security payments substantially below the current percentage of 42% over the next 20 years and make retirees increasingly dependent on assets in their defined contribution plans. This is not a promising prospect for most future retirees. Just how uncertain and inadequate defined contributions to private pensions may be for the baby boomers facing retirement over the next several years is evident in the fact that of the 48 million families who hold one or more

accounts, the median value is \$27,000 and among those ages 55-64, the median value is only \$55,000, which would be enough to purchase an annuity paying \$398.00 a month. These meager accumulations occurred during the 1990s bull market of soaring stock prices.

According to William Greider (2005), the true beneficiaries of the rapid shift from defined benefit pensions to the 401(k) innovation is corporate managers and large shareholders.¹ Companies dumped old defined-benefit pension plans and adopted the defined contribution plans, which require much smaller employer contributions and reduce labor costs. Moreover, fewer employees participate in pension plans of any kind now than twenty years ago, down from 51 percent to 46 percent.

Greider refers to an examination of 700 companies over nearly 20 years by Notre Dame economist Teresa Ghilarducci, which found that their annual pension contributions dropped by one third—from \$2,140 to \$1,404 per employee—as they shifted from defined-benefit to defined-contribution plans. This trend is likely to continue to the point that defined benefits pensions will become rare among future retirees as employers continue to close down their defined benefit plans. Munnell, Golub-Sass, Soto and Vitagliano (2006) state:

Some U.S. companies are cutting pensions to reduce workers' total compensation in the face of intense global competition. The second explanation is that employers have been forced to cut back on pensions in the face of growing health benefits to maintain existing compensation levels. The third explanation, by

¹ Only 21 percent of current employees now have defined benefit pension plans compared to over 40 percent 30 years ago and many of these plans are inadequately funded. Companies are increasingly inclined to dump their plans on the Pension Benefit Guaranty Corporation through bankruptcy proceedings.

contrast, points to the finances of the plans themselves—specifically, their market risk, longevity risk, and regulatory risk that make defined benefit pensions unattractive to employers. The final explanation is that with the enormous growth in CEO compensation, traditional qualified pensions have become irrelevant to upper management who now receive virtually all their retirement benefits through non-qualified plans. Each of these explanations contains a kernel of truth, and they all help explain the current trend.

As defined contribution plans steadily replaced defined benefit plans over the last 25 years, personal savings have declined from a total of \$480 billion in 1982 to \$103 billion in 2005, which is actually less than what the federal government now spends on tax subsidies to encourage pension savings—\$115 billion in 2004. Housing equity does not offset this decline in savings. The value of family homes rose by \$3.3 trillion from 1999 to 2003, but actual equity value changed very little as mortgage borrowing rose nearly as fast (Greider 2005).

Another perspective on the assets of the baby boomers is provided by Caner and Wolff (2004) who use data from the Panel Study of Income Dynamics (PSID) to “estimate the share of households that would be unable to survive for three months if forced to liquidate all wealth and consume the proceeds.” The referenced family asset poverty threshold in current dollars was \$2,589 in 1984 and \$4,151 in 1999. They found that the asset poverty rate for households headed by those ages 35-41 was 16.9 percent in 1984 and 22.6 percent in 1999, or 36.7 percent and 40.2 percent after home equity is removed from the estimates. For the ages 50-61 group, the rates were 11.7 percent in 1984 and 9.5 percent in 1999, or 27.4 percent and 24.9 percent after removing home equity. The asset poverty rate for all black households ranged from 52.2 percent (78.4

percent without home equity) in 1984 to 57.6 percent (75.6 percent) in 1999, and from 37.7 percent in 1984 to 52.3 percent (77.2 percent) in 1999 for Hispanics. These rates are approximately two-and-one-half-times to four times the official poverty rates and clearly indicate that millions of families, regardless of the age of household heads, have very little to fall back on during periods of economic crisis.

A recent study by the Employee Benefits and Retirement Institute (VanDerhei 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 equaling 5 to 25 percent more of earnings than they are saving now. Current average savings in the USA have fallen below 1 percent from 11 percent in 1983, with higher income groups saving up to 10-20 percent and lower income groups accumulating more debts than savings. For example, older, lower income women would have to save 25 percent of earnings to close the gap. In fact, all women in the lowest quintile (bottom 25 percent) income group, regardless of age would have to save 25 percent plus, which is highly improbable, given their low incomes. Furthermore, is it realistic to think that workers ages 47-64 will be able to increase their savings by 5 to 10 percent of income in order to have a 75 to 90 percent chance of achieving retirement income sufficient to cover basic expenses?

It should be noted that the EBRI model projections are based on very conservative assumptions such as everyone works till age 65 (most workers now retire well before age

65) and individual retirement account balances are annuitized over a period of time that expands life expectancy by five years, even though annuitization rarely occurs now, and no changes in Social Security (VanDerhei 2003).

Basic expenses for future retirees are likely to be higher than those projected by the EBRI model, especially for health care. According to an analysis by Johnson and Penner (2004), out-of-pocket health care costs for the retiree population, given current policies and projected cost increases, will increase from 12.7 percent to 27.3 percent for married couples between 2000 and 2030 and from 11.6 percent to 21.8 percent for unmarried adults. As a result, married couples in the lowest income quintile will see their net income shrink from \$13,326 on average to \$11,981 and those in the second quintile will see an increase of only \$1,680, from \$23,184 to \$24,764. The same trends hold for the growing population of unmarried retirees as well, but at substantially lower income levels—\$7,000 and \$12,000 for the two lowest quintiles. These projections are somewhat less than those generated by the Urban Institute (2005), which estimates that health care costs for boomers will eventually reach one-third of their retirement income, compared to 19 percent for current retirees.

Rising health care costs is one of the reasons baby boomers, whose ratio of accumulated wealth to income is essentially the same as past cohorts, are increasingly less prepared for retirement. The amount of accumulated wealth is not likely to stretch as far into retirement in the future as health care costs grow, defined benefit pensions decline, along with interest rates on annuities, and life expectancy increases (Delorme, Munnell and Webb 2006).

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. Families now spend a lot more on houses than 20 years ago. Housing prices increased by 79 percent from 1983 to 1998 for families (from \$98,000 to \$175,000 on average. Mortgage debt increased by 39 percent for the highest 10 percent of earners between 1989 and 2001, 94 percent for the middle 20 percent, 124 percent for the next lowest 20 percent, and 191 percent for the lowest 20 percent of earners. Owners' equity as a percentage of their real estate value fell from 70 percent in 1983 to 55 percent in 2003. With more flexible lending strategies (5-10 percent down payments) and increased housing prices, mortgage costs have increased 69 percent (inflation adjusted) since the 70s (Warren and Tyagi 2003).

Education and health care costs have also risen rapidly. Tuition fees at public universities have doubled in 25 years (inflation adjusted). Tuition, room and board now cost \$8,600 annually on average or 17 percent of the median family's pre-tax income, and private universities are two-to-five-times more expensive. Health insurance premiums have risen seven-fold since the 1970s and individuals are 49 percent more likely to be uninsured than 25 years ago. The number declaring bankruptcy in the wake of a serious illness has increased by 3000 percent since 1975 (Warren and Tyagi 2003).

Trends toward increasing reliance on mortgage and credit card debt are substantially driven by declining or stagnant family incomes. 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. Wage increases have lagged 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 (DeNavas-Walt, Proctor & Lee, 2005). In percentages, wages fell by 15 percent between 1973 and 2000 and the poverty levels increased, even as the per-capita GDP was 70 percent higher in 2000 than in 1974, productivity was 61 percent higher and the stock market was up 603 percent (Pollin 2003).

The latest recession may have ended in 2002, but new job growth remains slow and wages remain stagnant. The currently modest recovery is based on historically low interest rates, modest inflation and strong consumer spending which is debt driven. Bond and mortgage rates are still well above interest rates, but housing costs continue to increase rapidly (10-15 percent annually) and now consume almost 40 percent of income compared to 28-30 percent in 1990. Average household debt reached 107 percent of disposable income in 2002—in the past, debt ratios have always fallen during recessions (Warren and Tyagi 2003).

In short, the economic status of most future retirees is likely to be about the same as current retirees and for many, it will be worse. Most future retirees will have no more private retirement wealth than the current 65 plus 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. It should be understood, however, that 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. Dean Baker (1998) writes that:

The public attention given to the problems the nation will face as the baby boomers retire has been largely misplaced. By itself, the retirement of the baby boom generation will not prevent workers in the future from enjoying substantially higher living standards than do workers today. But tomorrow's workers still face another, more serious problem: rising health care costs and growing wage inequality threaten to greatly diminish the future living standards of most workers. In order to protect the well being of future generations, it will be necessary to bring health care costs under control and to stop, if not reverse, the trend toward greater wage inequality.

The future costs of Social Security and Medicare are not a serious threat to the economic well-being of families over the next 30 years. In fact, these programs are essential to their well-being in that they ensure the financial status of older relatives. The true threat to the economic well-being of families arises from neoliberal policies of tax cuts for the wealthy, reductions in spending for education, childcare and other social programs, privatization and deregulation, anti-union measures and other accumulation by dispossession policies that fuel rising inequality and out-of-pocket health care costs.

Neoliberal threats to retirement security

If future retirees are to have a secure retirement, the first policy priority must be the preservation and improvement of the Social Security and Medicare programs. This means that public pensions should be redesigned to reflect the value of productive activities, such as caregiving, that occur outside the formal marketplace, and that are responsive to the realities of contemporary work, such as multiple entries and exits from

formal employment. Flexibility within the occupational system should not come at the price of exclusion from provisions for financial security in old age.

Neoliberal proposals to privatize Social Security would make it as risky as private pensions have become with the spread of defined contribution plans (401(k) & IRA plans) over the last 25 years. As noted earlier, less than half of all employees in the USA now have private pensions and most of these are defined contribution plans. The level of benefits generated by these plans is contingent on employee and employer contributions and the performance of the equity and bond markets in the years prior to retirement. The growth of these plans over the last 25 years has not enhanced the retirement security of most employees who cannot afford to maximize their contributions and are often forced to cashout their accumulations prior to retirement to cover family expenses and reduce debt.

Privatizing Social Security would increase the economic insecurity of future retirees with defined contribution private pension plans or no private pension at all. Social Security, in its current form, may be a more essential source of income for future retirees, especially women, minorities and lower income workers generally, than it is for current retirees. Privatization of Social Security along with the growth of DC private plans, would put retirement income at greater risk *without* solving the Social Security Trust Fund shortfall problem and creating a huge, \$2 to \$4 trillion transition cost problem for which no one has offered a feasible solution. (Anrig & Wasow 2005).

An analysis of the impact of the two privatization proposals developed by the President's Commission on Social Security found that a sizable majority of future retirees would have lower retirement incomes under both proposals than under the current

program. Those who had the misfortune of retiring during a downturn in the stock market would be especially disadvantaged. During the most recent market decline (2001-2003), defined contribution accounts lost 20-40 percent of their value and are still far short of their 2001 pre-decline levels (Weller 2005).

The Bush Administration's proposal to tie the amount of the initial Social Security benefit to a progressive price indexing methodology would reduce benefits even further for future retirees. Progressive price indexing, in combination with President Bush's proposed private accounts, would reduce the Social Security benefit for a medium earner retiring in 2055 by 66 percent from \$22,100 to \$7,510 a year. For many middle-income workers retiring in 2055, Medicare premiums deducted from their Social Security checks would leave their benefits at or close to zero. These proposals (private accounts and price indexing of benefits) are clearly designed to completely dismantle Social Security (Furman, Greenstein and Sperline 2005).

Medicare beneficiaries have been experiencing a steady growth in out-of-pocket spending for health care for several years. This percentage of discretionary income spent on Medicare premiums, copayments, and deductibles has increased from 12 percent in the 1980s to 22 percent on average (Caplan and Brangan, 2004) and is now over 30 percent for lower income beneficiaries. These increasing costs have put routine medical care beyond the reach of many less affluent older people, especially women. Adding a prescription drug benefit to Medicare will help reduce out-of-pocket costs for some retirees, but many older people will not have adequate access to health care until Medicare co-payments and deductibles are substantially reduced and long-term care,

which is now available under Medicaid for only the impoverished, is made an affordable Medicare benefit.

The recently passed Medicare Prescription Drug Improvement and Modernization Act of 2003 (MMA), which includes a relatively meager, bizarrely designed drug benefit, is fundamentally a neoliberal proposal which includes several provisions designed to privatize Medicare, including private sector administration of the drug benefit, health savings accounts, a lot more money for HMOs, and six demonstration projects designed to test the relative cost-effectiveness of managed care versus fee-for-service Medicare beginning in 2010. What MMA does not include is any plausible prospect of cost-containment. All major components of the health care industry do well in the bill with pharmaceutical companies and HMOs set to make many billions of dollars over the next five to ten years, and physicians and many hospitals receiving rate increases.

If Medicare costs are contained following implementation of the MMA, it is likely to occur as a result of increased beneficiary out-of-pocket spending. Without effective regulation, Medicare costs and beneficiary spending are both likely to increase. The MMA essentially leaves the struggle over the privatization of Medicare unresolved, and guarantees that it will intensify in the future as health care costs continue to increase and the population ages 65 and older grows. As noted earlier, health care costs are projected to consume one-third of the average retiree's income by 2030, which is a clearly unsustainable trajectory.

President Bush's failure to gain support for his Social Security privatization (personal accounts) proposal in 2005 is a reassuring sign of public opposition to the neoliberal agenda for unraveling retirement security. This does not mean, however, that

the threat is over. Social Security privatization will remain a neoliberal priority for the next several years and new initiatives will be introduced to reduce Medicaid and Medicare funding by limiting eligibility, shifting more costs onto beneficiaries and privatizing as much of both programs as possible. The fundamental contradiction between tax cuts, increased military spending, and adequate funding for Medicaid and Medicare cannot be managed through deficit budgeting for much longer.

This public policy contradiction at the heart of USA fiscal policy will make the privatization of the health care programs an increasingly urgent priority among neoliberal intellectuals and policy makers. Opponents of the neoliberal policy agenda must be prepared to ratchet up their resistance to what is likely to be an increasingly comprehensive campaign for privatization that will spread well beyond the Social Security program. This resistance should be more than just a defensive effort to limit damage to public pensions and health care programs; it should be at least as comprehensive and “big-picture” driven as the neoliberal campaign and include all of the issues related to preserving and improving retirement security for all Americans.

Progressive policies for retirement security

The necessary components of a progressive strategy for protecting retirement security should be included in a comprehensive policy framework, like the one suggested below, that could be used by opponents of neoliberalism to do more than just blunt the attack on our publicly funded retirement security system. The opponents of neoliberalism should be prepared to pursue the achievement of a policy regime that represents a full scale alternative to the neoliberal vision of a fully privatized “ownership” society based on policies of accumulation by dispossession. A progressive

policy framework for retirement security has critical implications for all Americans, not just retirees and baby boomers on the cusp of retirement, and must include provisions within the private as well as the public sector, as indicated in the framework suggested here, which includes immediate as well as longer-range objectives. A progressive framework for retirement security should be explicitly designed to offer a broad range of coherent alternatives to the neoliberal agenda of wealth concentration among corporate elites through privatization and financialization of pensions and health care, and state redistributions, primarily tax cuts for the wealthy.

Preserving and improving Social Security. Social Security must be maintained as the cornerstone of the USA retirement security system. Social Security provides far more retirement income for the average retiree than any other source and will continue to be the major source of income for the baby boomers when they retire. Privatization of Social Security in combination with increasing dependence on private, defined-contribution pension plans, and the increasing instability of many defined benefit plans would make retirement security far riskier than anytime since the 1930s.

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 percent 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.

Preserving Social Security and Medicare entails not only preventing their privatization, but also overturning the neoliberal tax cuts (state redistribution) of the last six years, which threaten the fiscal foundations of the programs as revenues decline and interest payments in the federal budget grow.

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

- ***Impose an 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.
- ***Amend the 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 and to eliminate the privatization provisions in the current legislation.

- ***Add a Medicare 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. A progressive long-term care policy would make long-term care universally available under Medicare and a far more flexible benefit than is currently provided in the Medicaid program.
- ***Prevent the expansion of health savings accounts (HSAs).*** HSAs are fundamentally designed to shift the costs of health care from public and private insurers to individuals, undermining insurance pools, and making health care even less affordable for those who need it the most—those with expensive, chronic conditions and average-to-low incomes. Deductibles and the costs of catastrophic insurance for this high need population would escalate under HSAs, just as they have for those who have to acquire insurance in the individual market.

These initiatives would cost the federal budget several hundred billion dollars, which would force policy makers to address the fundamental problems of out-of-control costs, declining insurance coverage in the USA health care system, and declining federal revenues. These problems represent profoundly serious threats to the health and standard of living of all Americans, except the most affluent. USA health care is now far more expensive and less effective than the health care system of any other developed nation.

Dean Baker (2005) estimates that excessive health care costs have reduced the average worker's income by 12 percent since 1985 and these costs will reduce average income by another 8 percent over the next ten years. Given the greater health care needs and expenses of retirees, their incomes will be reduced by an even greater percentage unless Medicare coverage is improved and overall health care costs are contained. The only proven method of containing health care costs is the national health care system developed by the other developed countries over the last several decades and could be implemented in the U.S. by extending Medicare to the entire population.

Private pensions and savings. 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 percent 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 (Orszag, 2005; Wasow 2004).

Other initiatives should include a reduction in the dozens of confusing, barely distinguishable saving incentives and pension vehicles in the USA 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.

These initiatives constitute a comprehensive alternative to the neoliberal effort to dismantle publicly funded retirement support programs. Achieving these initiatives would ensure retirement security for future retirees and help protect the resources of low-to-moderate-income families of all age groups. Achieving them, however, is fundamentally dependent on restoring the solvency of federal finances by undoing the tax cuts of the last five years and preventing the elimination of the estate tax. Public polls indicate that most Americans would support efforts to enhance retirement security through increased federal revenue and expenditures, especially for Social Security and Medicare. In order for this support to be given effective electoral expression, however, political organizations and leaders must be willing to present the public with a coherent package of progressive policies. The presentation should clearly articulate the benefits for the average worker of these reforms and the costs of allowing the neoliberal agenda for the future of retirement to be achieved in the years ahead.

Progressive supporters of ensuring retirement security should recognize that pension and health care initiatives may not be enough to fund an adequate standard of living in retirement for many in the future and serious consideration should now be given to more far ranging, aggressively anti-neoliberal strategies. One of the more promising new strategies is Robin Blackburn's "share levy" proposal, which is a modified version of the Meidner plan originally introduced in Sweden in the 1970s. Under this proposal, corporations would be required to contribute shares to a regionally organized common fund, which would be used to make socially responsible and productivity enhancing

investments and generate profits to fund uniform pensions for retirees. The share levy fund would be administered by boards that include ample and competent representation of workers and retirees. This form of “gray capitalism” could become an important part of a larger, anti-neoliberal, post Keynesian program for a new political economy that protects the interests of workers and retirees and generates a higher rate of sustained growth than neoliberalism has been able to achieve since the 1970s (Blackburn 2006).

Blackburn notes that corporations benefit enormously from a variety of social expenditures (education, health care, physical infrastructures) that proponents of neoliberalism would like for us to forget, from the shift to defined contribution pension plans and the dramatic decline in corporate taxes over the last 30 years and other neoliberal initiatives to shift wealth to the upper class and the costs of retirement to workers. It is now time for them to begin contributing fairly to the overall well-being of the general population in ways that do not raise labor costs and dampen employment or allow increased taxes to be passed on to consumers. Blackburn’s share levy proposal runs directly counter to the neoliberal goal of wealth concentration by requiring corporations to give a portion of their profits to funds for secondary pensions and other socially oriented investments (p. 169).

Conclusion

The struggle between progressive and neoliberals over the future of public policy for the elderly is likely to play a major role in shaping the direction of politics for the next several decades and the aging experience of the baby boom generation. The future of Social Security and Medicare in the USA has already

been placed in great jeopardy by the emergence of enormous long-term deficits in the federal budget and the possibility of large, continuing increases in military spending necessary to sustain a long, open-ended war against terrorism, and to create a system of international security that could become the foundation for an expanded American empire.

Neoliberalism, of course, is not limited to an agenda of privatization of public pensions and health care for the elderly. The neoliberal agenda includes the privatization of public programs for all age groups and across all policy domains, from education and child care to housing, health care, employment and income support programs. These proposals are as risky and counter-productive for society as a whole as the neoliberal agenda for Social Security and Medicare is for retirees. Maintaining the income and health care pillars of the publicly supported retirement system is essential for the economic security of future retirees. The neoliberal agenda, however, must also be opposed in all of the other policy domains through the renewal of the social democratic vision of a just, generous, and productive society.

A progressive policy agenda based on public welfare as an essential form of social investment is more likely to achieve growth and a high quality of life for the vast majority through a comprehensive family support program, a high priority on gender and ethnic equality, and public provisions for old age security. A family support program designed to prevent poverty and featuring extensive investments in early childhood cognitive development can qualitatively reduce levels of educational failure and increase employability and overall productivity. Gender equality has several dimensions; but from a growth and development perspective, programs that help to harmonize child

rearing with employment can prevent child poverty and reduce the labor force and birth shortages confronting many developed countries over the next several decades. These growth-oriented social investments can better position countries to meet the increasing costs of ensuring retirement security and enhance the labor force participation of women through publicly supported caregiving programs for the growing population of frail elderly persons in all developed countries.

Neoliberal proposals to privatize education, health and caregiving activities would greatly increase the economic and psychological burdens on families already short of resources, generate greater inequality, diminish the employability potential of many people, especially minorities and women, restrict longer term productivity growth, and undermine the capacity of nations to meet the income and health care needs of retirees. The damaging consequences of neoliberal policies for education, health care and public welfare can already be seen in countries across the developing world where the accumulation by dispossession policies of privatization, deregulation, and cuts in public spending have occurred in tandem with stagnant or negative growth and declining living standards for the last 25 years (Polivka & Borrayo, 2002).

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