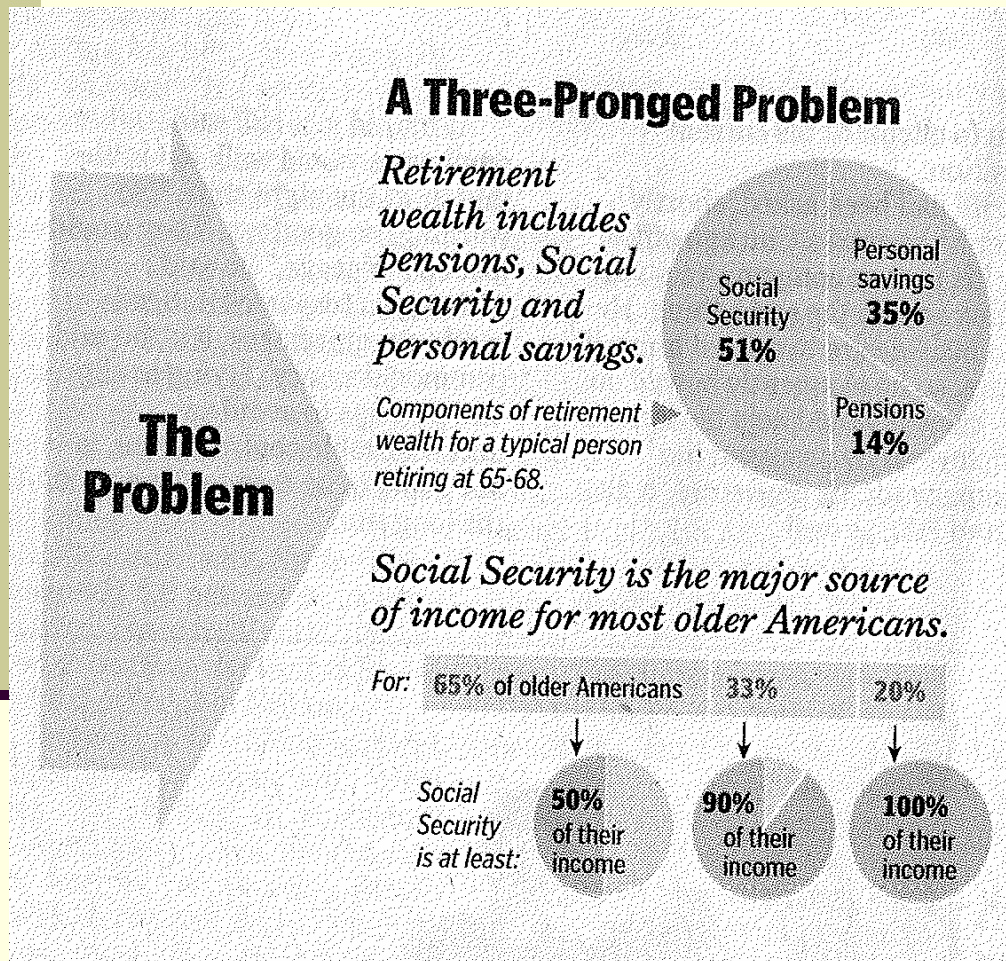# *Discussion: What Will the Elderly Need in Retirement?*

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Comments do not necessarily reflect the opinions the federal government.

Issue well covered in the press…

A Three-Pronged Problem

The Problem

Retirement wealth includes pensions, Social Security and personal savings.

Components of retirement wealth for a typical person retiring at 65-68.

- Social Security **51%**
- Personal savings **35%**
- Pensions **14%**

Social Security is the major source of income for most older Americans.

For: 65% of older Americans | 33% | 20%

Social Security is at least: **50%** of their income | **90%** of their income | **100%** of their income

- •"Social Security in running short of cash…

- •Personal Savings is falling…

- •(DB) Pension plans are in decline..

⬇

…America's elderly face a growing income shortfall."

Yourish and Stanton (2005), "Retirement Out of Reach," Washington Post, July 24th.

How do these papers answer the question?

- Hurd and Rohwedder examine consumption based poverty measures in HRS.

- Burtless considers the relative burden of population aging in a cross-national context.

- Munnell and Soto study various replacement rates to evaluate retirement well being.

Hurd and Rohwedder

- Consumption a better measure of well being than income
  - Economic theory – U(C,L) but this is tough to get in survey data
  - Income misses consumption from wealth
  - HRS and CAMS
- Consumption-based measures suggest lower poverty rates than income based measures.
  - 75+: CBP 6.2% versus IBP 14.2%

Hurd and Rohwedder (cont)

- Consider a broader definition of well being :

  - Medicare – annual health care costs for Medicare enrollees age 65+ over $10K (MCBS - 2001).

  - OOP health care - Over 20% of HH income for poor/near poor 65+ whom reported OOP costs (MEPS - 2001)

(Source: *Older Americans 2004*)

Hurd and Rohwedder (cont)

- Consider a broader definition of well being (cont):
  - What is the value of leisure and time-use?
    - Economic model suggests leisure has utility value
  - Shouldn't health matter?
    - What is the economic value of good health?

- HRS is a gem for considering these issues
  - Administrative data from SS and CMS
  - CAMS

Burtless

- Previous cross-national analyses on population aging focus on changes/differences in the old-age dependency ratio.

- Burtless looks at the proportion of old-age consumption covered by:
    - Working age households.
    - Earnings and savings of old-age households.

Burtless (cont)

- Good news for US:
  - Aging of US population relatively slow.
  - Older population earns more from labor and investments – rely less on transfers.

- Bad news for US:
  - Benefit system tilted toward elderly ? population aging leads to proportionately faster increase in dependency burden (taxes rise faster)

Burtless (cont)

- May need to reconsider the definition of "the older population" because:
  - Incentives for elderly to continue working may change as population ages:
    - Asset returns (?)
    - Wages (?)
    - Life expectancy (?)
    - Disability (?)
  - Therefore, future older populations might behave in ways that mitigate transfer burden.

Munnell and Soto

- Compare Social Security RR calculated from SSA and HRS data – pretty close.
- Consider RR that include:
  - Pensions
  - Financial assets
  - Housing
  - AIME, high-5, earnings above the cap
- Divorced single worker may receive benefit from unobserved ex-spouse.

Munnell and Soto (cont)

- Conclusions:

  - Today's retirees "are in pretty good shape."

  - Challenges face future retirees

Munnell and Soto (cont)

- If the RR is intended to measure the extent that benefits replace earnings, why use AIME?
  - Drop-out years increase AIME relative to average lifetime earnings.
  - AWI versus CPI – which better represents consumption out of lifetime earnings?
  - AWI produces higher average earnings than CPI adjusted.
  - AIME captures covered earnings, not total earnings.

So, What Will the Elderly Need in Retirement?

- Three papers paint a pretty good (near-term) picture of retirement prospects.

- Future might get dicey.

Closing thoughts

- Do the elderly know what their retirement needs are?
    - Don't know what benefits they will receive from Social Security.
    - Don't take full advantage of 401(k).
    - Can't differentiate between DC and DB.

- Information regarding retirement benefits could improve retirement outcomes.

…and retirees consider the future.

sipnass

"Everything was better back when everything was worse."