Who Has 'Three Legs at Evening'? (The Elderly)

By Kerry Pechter *Thu, May 12, 2022*

The Pension Research Council's Spring Symposium took place (virtually), which meant no semi-formal dinner with the sphinx at the University of Pennsylvania's museum. But the presentations of research papers were still well-worth hearing.

The red granite Sphinx of Ramses II, all 13 tons of it, used to recline on its lion-haunches in the Egyptian gallery at the Penn Museum in Philadelphia. The Wharton School's Pension Research Council (PRC) once punctuated its Spring Symposiums with a white tablecloth supper there.

The PRC has hosted the two-day symposium since 1994. Selected from pension academics all over the world, six or eight authors offer slide-presentations of some of their latest research to an audience of several dozen representatives of universities, policy groups, and companies in the retirement industry.

This year, for the third year in a row, the symposium happened on Zoom, on April 28 and 29. There was no elegant dinner, no live face-time with pension specialists (or, unfortunately, with a sphinx, whose lethal question, 'What goes on four legs, then two, then three?' refers to the stages of aging). [Penn's sphinx has since been moved to a new gallery at the museum.]

"Real World Shocks and Retirement System Resiliency" was the theme of the 2022 Symposium. The papers looked at forces at work in the economy today—the entry of the Millennial generation into the workforce, COVID, the ever-rising costs of health care, and the growth in financial inequality—and their potential effects on retirement systems.

The conference dealt mainly with the public-policy side of retirement. On the private sector side, everyone asks: Will workers save enough? Will their investments perform well? Will they buy stocks, bonds, annuities, long-term care insurance, or reverse mortgages?

On the public-sector side of retirement, the fate of the less-affluent 50% of American retirees tends to occupy much of the discussion. Their future well-being depends largely on whether social insurance—what the private sector calls entitlements—remains funded at current levels or not.

Do the young face a tougher old age?

On average, Millennials (ages 26 to 41) aren’t doing the wealth-aggregating things, like marrying and buying homes, as much as their Boomer parents (ages 57 to 75) did at the same ages, according to Richard W. Johnson and Karen E. Smith of the Urban Institute.

Since marriage and homeownership lead to (or are markers for) wealth accumulation over a lifetime, Millennials are less likely to be on track to replace at least 75% of their peak earnings in retirement as were Americans born in the early 1960s (68% on track) or the early 1940s (74%) on track.

But individual outcomes depend on lots of factors other than “generation.” On the plus side, Millennials are more likely to be college-educated, which correlates with higher earnings. Millennial women are more likely than their mothers to have jobs outside the home, and they’re more likely to keep working as they age. These are the Millennials most likely to have a secure retirement.

Those with only high school degrees and/or people of color will tend to fare less favorably, Johnson and Smith found. They have will have the most to lose if—as many of them fear—there’s no Social Security (or a Social Security with only 75% of today’s benefits) to cushion their retirements.

Less income, more illness at older ages

In their paper, “Retirement Security and Health Costs,” Glenn Follette of the Federal Reserve Board and Louise Sheiner of the Brookings Institution assemble a mountain of data to figure out the future growth of health care costs, the degree to which it will fall on the individuals of different wealth levels, the implications for federal policy and the potential impact on the national debt.

“Health care spending by the elderly is a much higher fraction of their income than it is for the population in general,” they found. That’s not surprising, given that the elderly usually don’t have earned income and have more health problems than younger people. The situation has improved, however. The poorest elderly spent an average of 45% of their income on premiums, co-pays and deductibles in 1996. By 2016, that group was paying less than 10% on average.

The data also reflects a reduction in the growth of Medicare spending. “Total Medicare spending rose at a much slower pace than anticipated before the enactment of the ACA, with lower reimbursement rates the main driver, but lower utilization rates, and much lower spending on drugs were also important… Regardless of whether expressed in nominal dollars or as a share of GDP, by 2019, Medicare spending was about 20% lower than projected in 2009. This saved the federal government roughly $1 trillion from 2010 to 2019.”

Ready (or not) for retirement

Financial “inequality” is said to have been growing in the US and around the world. Some people consider that a big mystery. But after a 40-year bull market in stocks and bonds, the world seems clearly divided into those with investments (the richest 20% owns about 80% of equities) and those without (50% of Americans own few or no securities).

Inequality inevitably affects retirement policy, because people without adequate savings will retire in poverty and rely more or less on social insurance, on local public services, and on informal care. So how is the increase in inequality affecting America’s overall “readiness” for retirement?

That turns out to be a very hard question to answer. “Two researchers with very different retirement wealth adequacy yardsticks can look at the same wealth distributions and come to very different conclusions about the number of people facing retirement shortfalls, and how large those shortfalls might be,” according to John Sabelhaus of the University of Michigan and the Brookings Institution and Alice Henriques Volz, principal economist at the Federal Reserve.

The data varies, but a young/old divide seems to exist. The Boomers and their parents, after all, enjoyed a bull market for much of their working years.

“A large majority of the growth in average comprehensive wealth between 1995 and 2016 occurred at older ages,” Sabelhaus and Volz found. “Adjusting the wealth measure for expected social security funding shortfalls makes the age differentials even larger, especially for the bottom half of the wealth distribution. In fact, average comprehensive wealth is estimated to be lower in 2019 than it was in 1995 for younger individuals in the bottom 50% of their wealth distribution.”

The young/old divide—on average—will be even more striking if younger people face weak markets and they lose Social Security. The retirement preparedness levels of the wealthiest 10% of Americans won’t change if Social Security benefits drop 25% across the board after 2034, Sabelhaus and Volz concluded. But such a cut in benefits would devastate the poorest of the Millennials.