

Work Longer: It's Good for You and for the US Budget

By Stephen Slifer Thu, Jul 5, 2018

Retirement will prove less challenging for the baby boomers than feared because many will choose to work longer and many have a net worth cushion, writes our guest columnist.



A recent *Wall Street Journal* article noted how a generation of Americans is entering old age the least prepared in decades. The basic assumption is that baby boomers want to retire at age 65, but soon discover they do not have the financial resources to do so. Fair enough. But let's ask a more basic question, why do they want to retire at 65 anyway? What is magic about that number? To that group of Americans, I have a suggestion. Work longer.

When Social Security was first passed in 1935 retirement age was 65; life expectancy was 67. You retired, received your gold watch, and died a couple of years later. But over the years retirement age has not changed. It is still about 65 but we are likely to live until 85. Living 20 years on greatly reduced income consisting of Social Security and a pension plan or 401(k) is challenging. The math simply does not work.

But let's revisit the basic question of why do people want to retire at age 65? It has become a given that we are "supposed to" retire at age 65. But our parents and grandparents chose to work until much closer to their end of their lifetime.

What gives baby boomers the audacity to think that they can spend one-quarter of their lifetime sitting on their butts in front of the TV? Is that truly how they envision their retirement? That strikes us as sad, but many people seem obsessed with retiring at 65.

Our guess is that, over time, that perception will change, in some cases by the financial reality that it is not going to happen. But many of these older Americans may wake up to the reality that their retirement dream is not as satisfying as they expected it to be. It is boring.

Most retirees worked 40 years at something. They identified with what they did. They were accountants, attorneys, firemen, teachers, or economists. But upon retirement they are not that anymore. So who exactly will they be for the next 20 years? That is a difficult question

to answer. While some may have given thought to that while still working, most have no idea what their retirement years will look like until they get there.

Some may have a burning desire to become an artist, take up the guitar, travel extensively. Or “give back” to their community by volunteering at a local nonprofit. Those are all perfectly worthwhile choices, but they will not pay the bills.

Why not consider working a bit longer? The health of a 65-year-old today is far superior to the health of a 65-year-old in 1935. We have the ability to work far longer if we choose to do so.

A primary benefit is that working will keep these older Americans mentally engaged. Equally important it will reduce the monthly drain on their savings.

At a national level there is a chronic shortage of skilled workers. Employers can benefit substantially from keeping older workers around to impart their knowledge and skills to younger workers. Even if not actually on the payroll they can keep working as consultants.

There can be little doubt that retiring baby boomers have been a contributing factor to the recent dropoff in productivity growth. We cannot take a skilled worker with 40 years' experience, replace them with a 35-year-old, and not expect productivity growth to slow.

Finally, if older workers begin to work past age 65 it will reduce the drain on the Social Security Trust Fund and extend the date when its assets will be depleted. It will also slow the upward trajectory of the budget deficit. The driving force behind those higher deficits is demographics. As more and more Americans reach age 65, they start to draw Social Security and become eligible for Medicare benefits. If Americans choose to work longer, the deterioration will be less dramatic.

A couple of other points are worth noting. First, the article in the *Wall Street Journal* looks only at the likelihood of reduced income in retirement. Second, given the increase in net worth, consumers do not feel the need to save as much from their income as in the past. The savings rate today is 2.8%, which is well below its long-term average of 5.5%. Consumers do not need to save as much today as in the past because their net worth is providing a comfortable cushion.

Finally, baby boomers were born between 1946 and 1964. If they choose to retire at age 65 they will retire between 2011 and 2029. That means that they have been retiring for the past seven years and will continue to retire another decade. But, thus far, there have not

been the dire consequences predicted by the *WSJ*. Our guess is that retirement will prove to be less of a challenge for the baby boomers than many expect for two reasons. First, many of them will choose—either from desire or economic necessity—to work longer. Second, many of them have a net worth cushion to supplement their retirement income.

We are not going to suggest that working past age 65 is an option for all, particularly those with health issues, but it is a very rational and desirable choice for many. Keep working, you may actually enjoy it.

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