

Bending the Aging Curve

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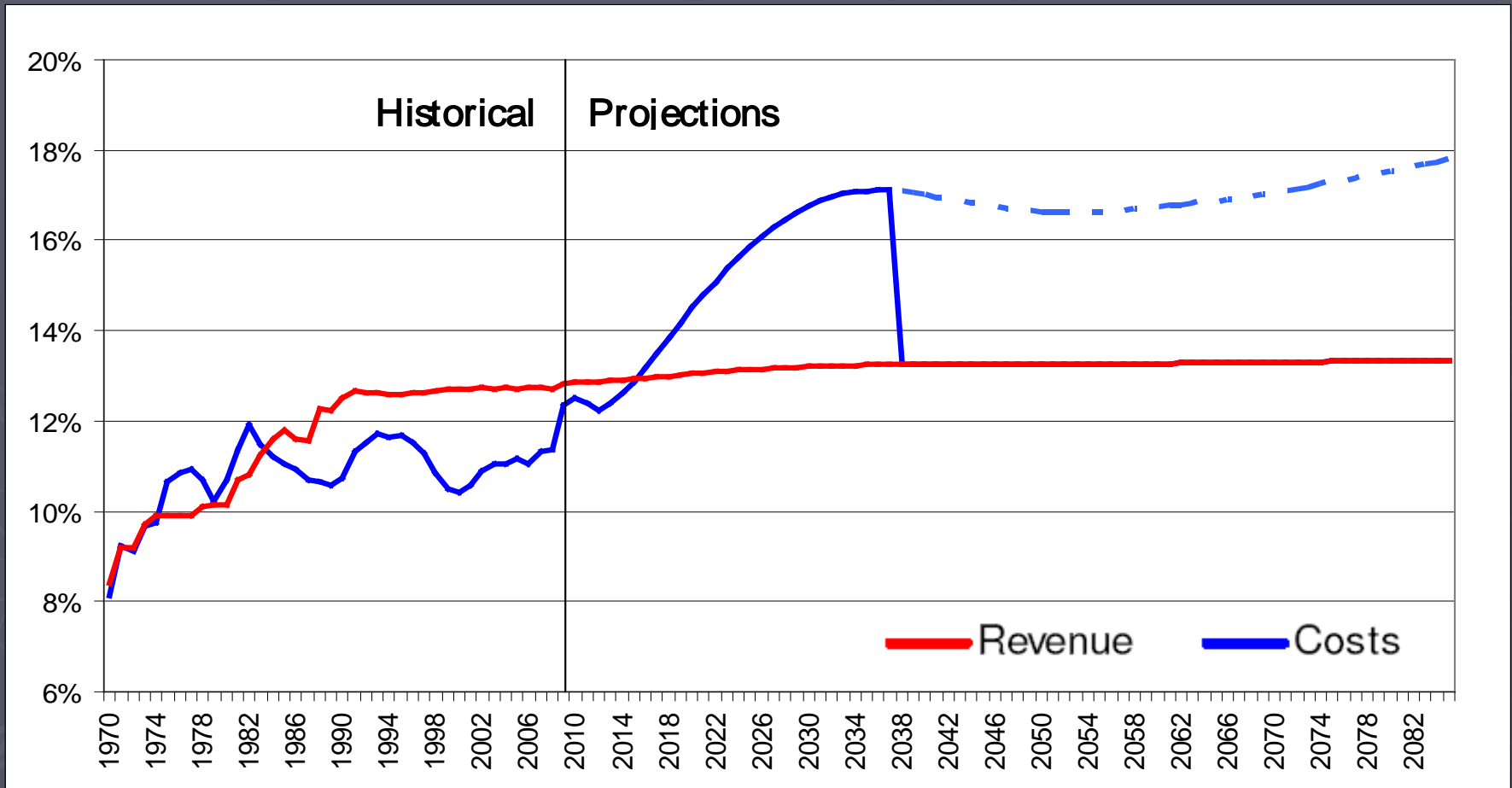
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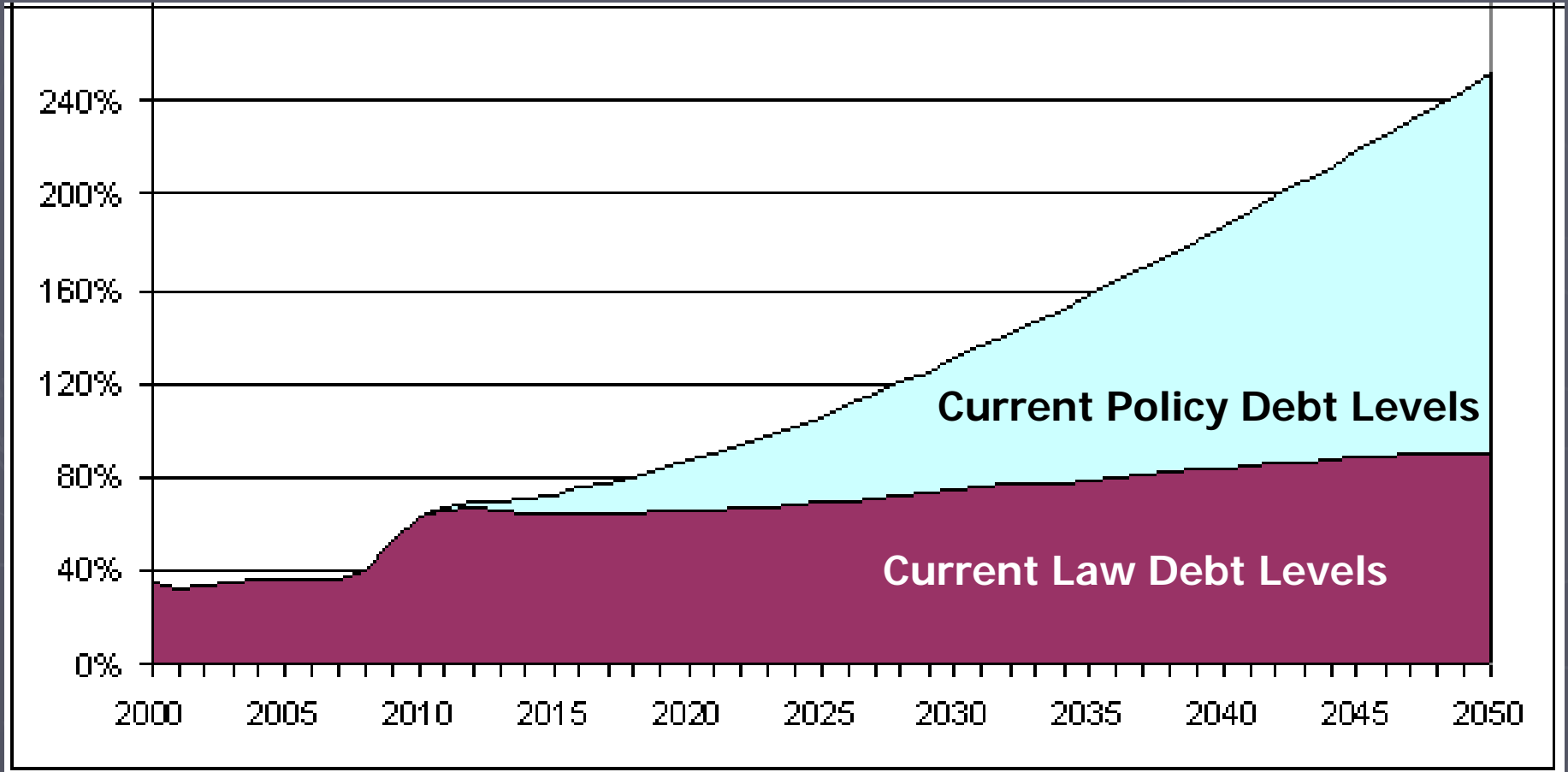
Looming Insolvency

Social Security Revenues and Costs (percent of payroll)

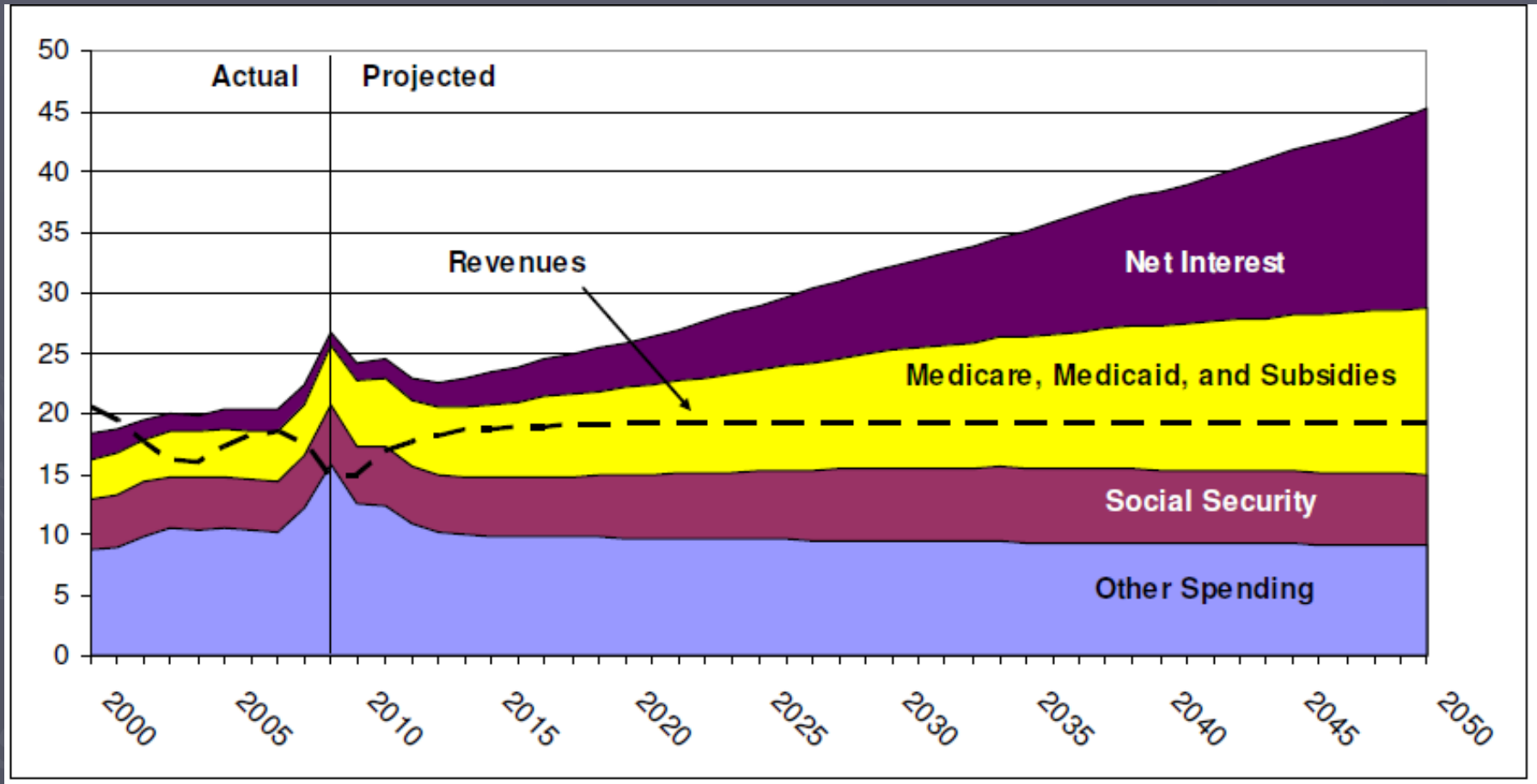


Source: Committee for a Responsible Federal Budget and Social Security 2009 Trustees Report

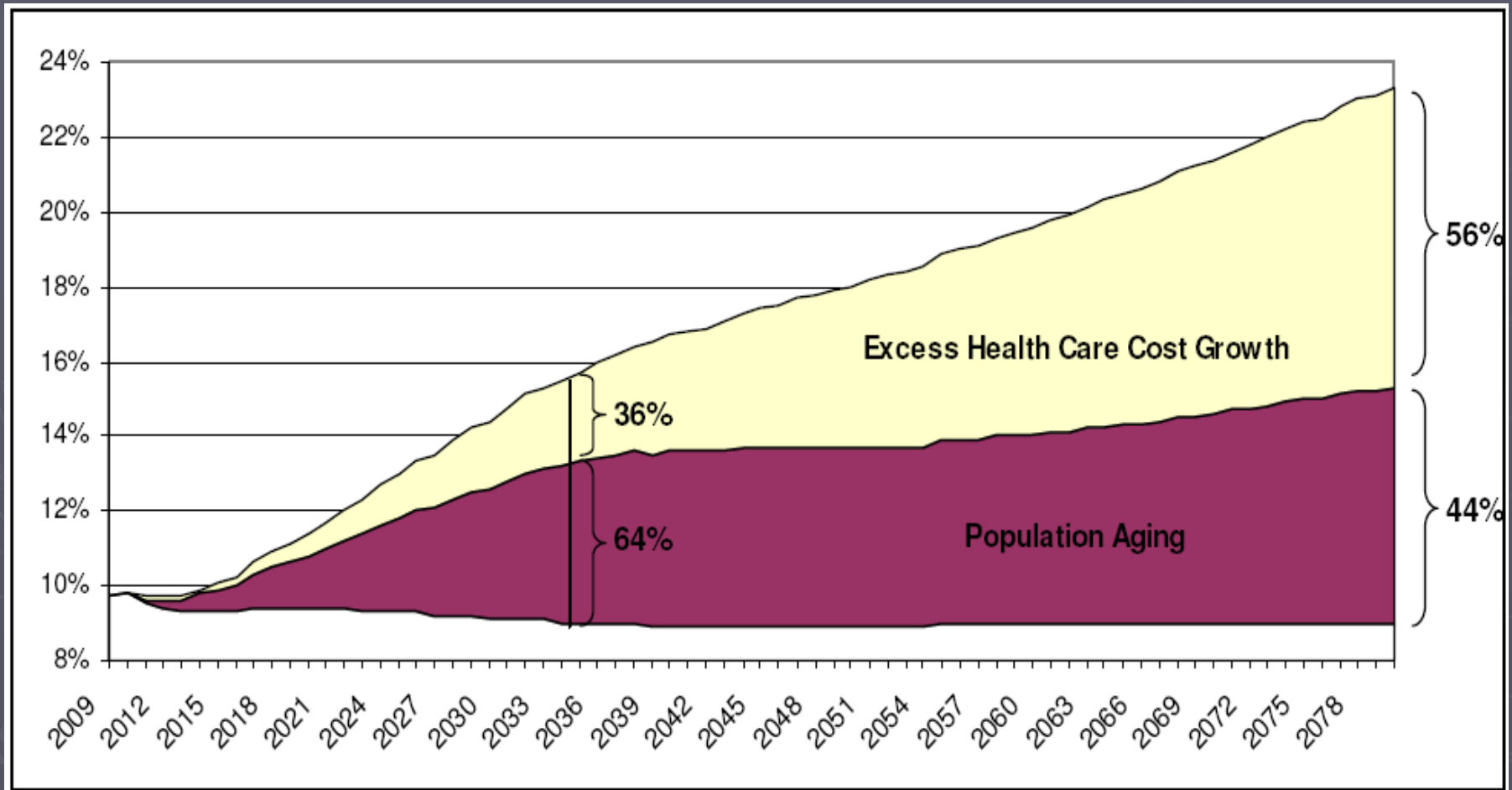
Growing Levels of Debt



Caused by Growing Entitlement Costs



Driven by Health Care and Aging



Source: Committee for a Responsible Federal Budget and Congressional Budget Office

Other Consequences of Aging

- ▶ Slower Economic Growth
 - Fewer Workers
 - Fewer Investors
- ▶ Greater Risk of Poverty in Old-Age
 - More years in retirement
 - Higher chance of outliving savings
- ▶ *Fiscal Insolvency*
 - More Entitlement Costs
 - Less Revenue

We Can Bend the Aging Curve



The Dependency Ratio

Workers =



Retirees =



Change the Demographics

Workers =



Retirees =

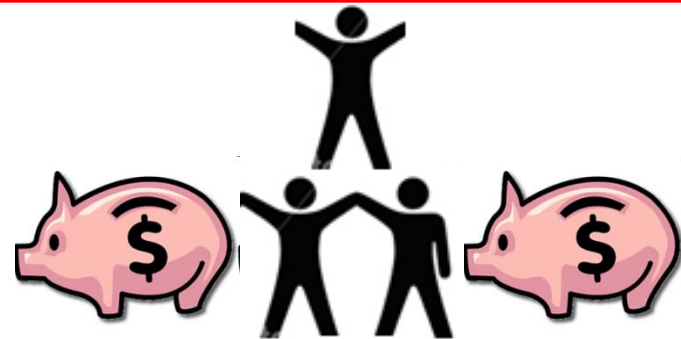


Make Retirees Less Dependent

Workers =



Retirees =



Make Workers Wealthier

Workers =



Retirees =



Change the Equation

Workers =



Retirees =



Mitigating the Effects of Aging?

- ~~▶ Increase Mortality~~
- ~~▶ Increase Fertility~~
- ~~▶ Increase Immigration~~

- ▶ Encourage Longer Working Lives
- ▶ Increase National (and Personal) Savings
- ▶ Improve Economic Growth

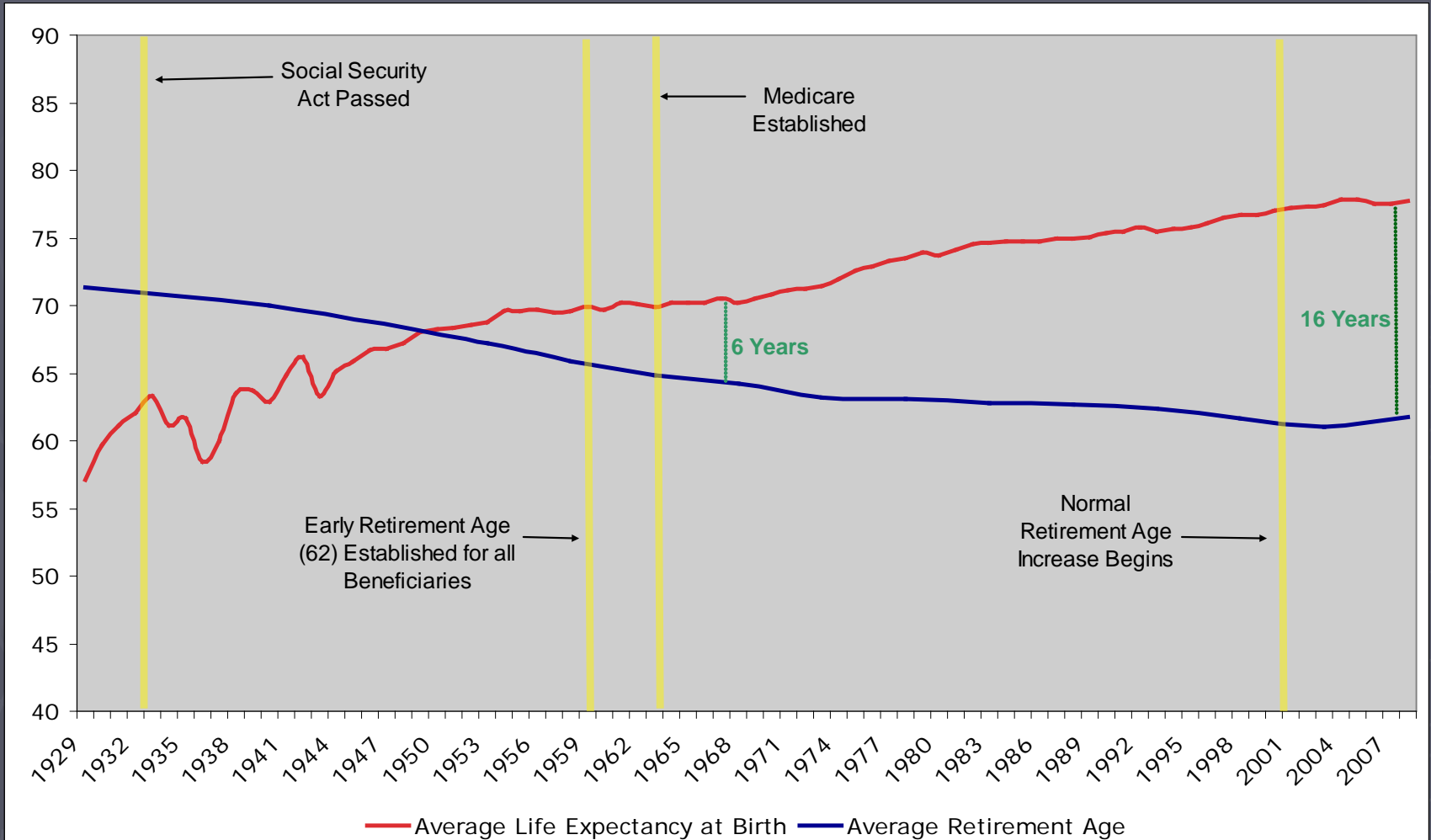


Benefits of Later Retirement

Policy	Percent of 75-year gap closed	Percent deficit closed in 75th year
Raise Normal Retirement Age (NRA) to 68	23%	17%
Index EEA and NRA to Life Expectancy	28%	28%
Increase Computations Years to 38	15%	10%
Modify Early/Late Retirement Penalties/Bonuses	15%	5%
Exempt Workers with 45 Years of Work from Their Half of Payroll Tax	-7%	-4%

- ▶ Lower Social Security Costs (or larger annual benefits)
- ▶ Higher Payroll Tax Revenues
- ▶ Higher Income Tax Revenue
- ▶ Greater Retiree Wealth
- ▶ Fewer Years of Reliance on Wealth by Retirees
- ▶ Stronger Economic Growth

We Can Do It

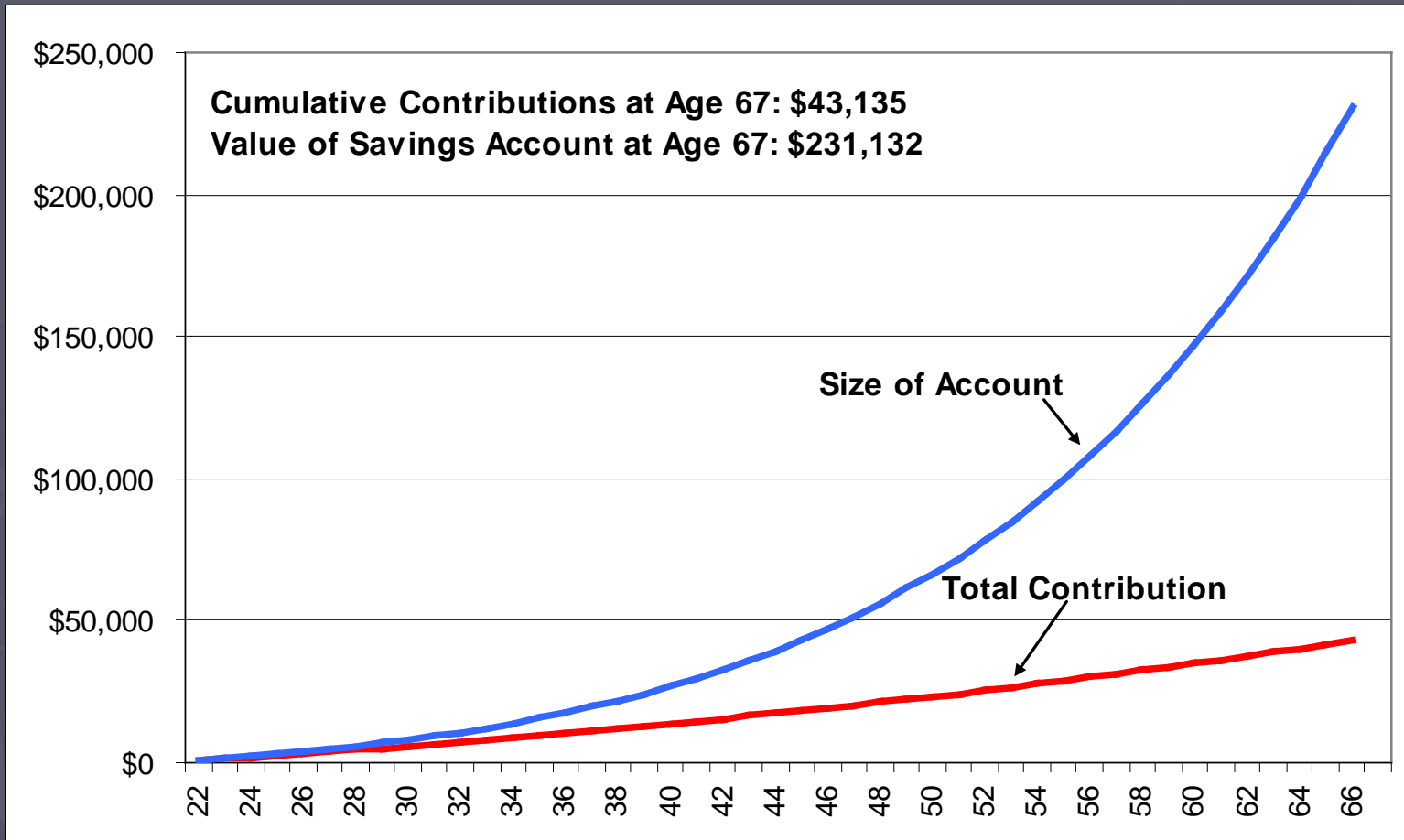


Increasing National and Personal Savings Through Add-On Accounts



- ▶ Greater Retirement Security (especially in light of benefit cuts)
- ▶ Increased Availability of Safe and Low-Cost Investments
- ▶ Better "Pre-Funding" of Retirement Benefits
- ▶ Stronger Economic Growth

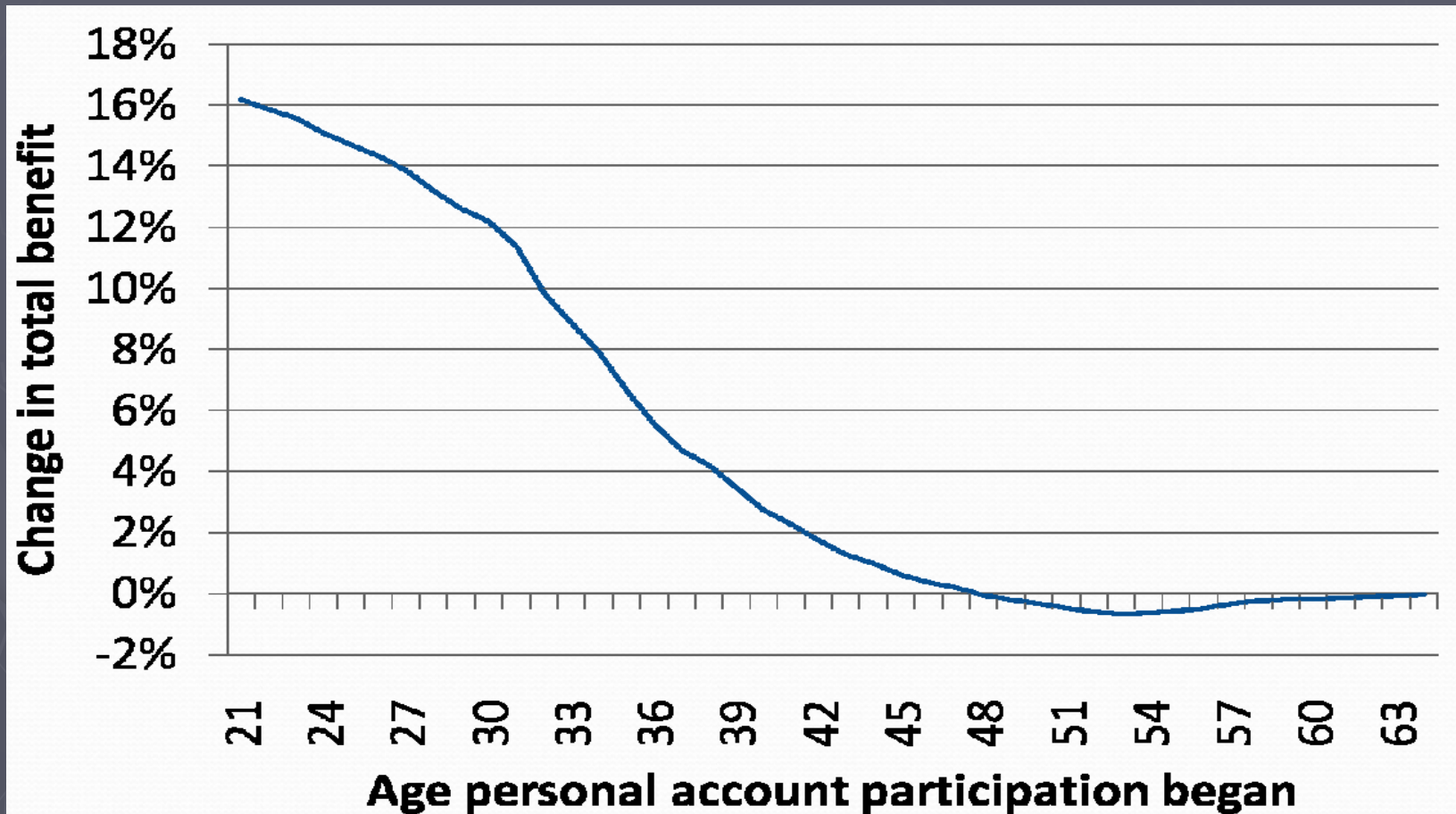
Saving 2% of Income



Based on data produced by bankrate.com's 401(k) retirement calculator

Returns to Accounts After a Market Crash

Average Change in Total Benefits



Source: Andrew Biggs, American Enterprise Institute

Making Hard Choices

Policy	Percent of 75-year gap closed	Percent deficit closed in 75th year
Immediately Cut All Future Benefits by 5%	31%	19%
Slow the Growth of Initial Benefits for Higher Earners	31%	36%
Slow the Growth of Initial Benefits for High and Medium Earners	66%	91%
Index Benefits to a Slower Measure of Inflation	25%	16%
Apply Progressive Benefit Formula Based on Annual Rather than Lifetime Wages	21%	19%

Policy	Percent of 75-year gap closed	Percent deficit closed in 75th year
Immediately Raise Payroll Tax by 1%	50%	25%
Raise Taxable Maximum to Cover 90% of Earnings	37%	14%
Eliminate Taxable Maximum	95%	38%
Apply Payroll Tax to Employer-Provided Health Care Benefits	57%	22%
Impose 3% Surtax on Payroll Income Above \$200,000	19%	10%

Source: Committee for a Responsible Federal Budget and Social Security Administration Actuaries

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