

Older Americans' Journey to Retirement

Dr. Sanela Porča

University of South Carolina Aiken

Introduction

Retirement, a long anticipated time when one can withdraw from the labor force and from the active working life. A time to relax, rest, and enjoy the latter years. It is that easy, isn't it? Perhaps, it is not that easy to achieve financially comfortable retirement. In order for one to really enjoy the retirement, a successful pension plan should be in works for many years before the retirement. The transition to retirement is much more complex than anticipated and it requires adequate preparation and advanced planning. Not everyone is able to save for the future during their working years. According to the *National Compensation Survey* (NCS) in 2018, 69 percent of workers in the United States had access to a retirement program through their employers. Access to a defined benefit retirement plan was given to 27 percent of workers, yet only 23 percent of them participated in the defined benefit retirement plan. Similarly, 58 percent of the U.S. workers had access to a defined contribution retirement plan, but only 40 percent of these workers actually participated in the plan.

In spite of numerous pension plans and retirement options available during the active working life, many retirees experience financial and economic difficulties during the retirement time. In order to improve the quality of life for seniors, the federal and state governments have created various services and programs that are available for aging adults. In conjunction with state resources, federal funds are allocated to provide seniors and their caregivers with much-needed assistance. Federal and state government have been vital in providing resources for many impoverished senior adults and allowing them to maintain an adequate living standard.

Programs that ensure the quality of life for older Americans

Proper planning for retirement can result in multiple positive effects for workers, employers, government, and the overall economy. The percentage of older Americans who prefer to age at home has been on constant increase. Currently, more than 57 million people in the United States do not have an employer-provided savings program. According to the statistics collected by American Association of Retired Persons (AARP), 94 percent of workers who do not have access to a retirement savings plan at work end up facing their retirement with less than \$25,000 in total savings and investments. If left without assistance and mobility, elderly adult population can face isolation, malnutrition, and/or undiagnosed illnesses. The dilemma about the best way to take care of the large elderly population that does not necessary have adequate funding for the extended lives is very much present in our society and our economy today.

In order to improve the quality of life for the elderly, the federal government enacted supplemental programs to compensate for the lower income of older Americans. Social Security is a supplemental program that provides assistance for people age 65 and older. Many senior citizens rely on the Older American Act for assistance. The Older American Act (OAA) was created in 1965 with an intention to provide various services for senior adults who live below the poverty line. Federal government allocated resources to each state to use for provision of assistance to the elderly. To better serve the senior citizens and over time, the Act was edited and reauthorized to better define eligibility and streaming programs for the citizens. In its aim to alleviate seniors, the OAA also includes programs and services that support social, nutritional, and transportations services to older adults.

Some of the OAA Programs include the following:

1. Home and Community-Based services provide nutrition assistance (e.g. "Meals on Wheels), caregiver support (education, training, and/or counseling for caregivers of older adults), support services (transportation, home care, legal aid, info/referral services), and disease prevention and health promotion.
2. Elder Justice focuses on the long-term care ombudsman program as well as on responses to elder abuse, neglect and financial exploitation.
3. Information and Referral provides national eldercare locator services, a toll-free call center that connects older adults and caregivers to community resources.
4. Employment program, supported by the Department of Labor, provide employment and volunteering opportunities for older adults.

5. Tribal Grants awarded to Indian tribal organizations, Alaska Natives, and nonprofit groups that represent Native Hawaiians.

The Cost of Retirement

According to the U.S. Bureau of Labor Statistics, the retirement benefit costs per hour worked have increased significantly over the past several decades. For instance, employer costs per hour worked for retirement and savings plans were \$0.99 in March 2004; in March 2018 the costs were \$1.74. Naturally, due to the increases in retirement benefit costs, some employers, especially smaller employers, have either shifted the burden to employees or are currently unable to offer a retirement savings plan.

Currently, many American *workers do not understand their coverage and participation in retirement plans*. If we add to this the workers' lack of understanding of how to calculate "time value of money," we can see how confusing saving for retirement can get. Because of all this we are witnessing a high percentage of workers moving in and out of coverage, or simply not participating. Consequently, the Nation faces a real problem of *retirement security for current and future retirees*. Unfortunately, poverty is a serious issue facing older Americans. Different studies attempted to estimate how elderly are managing the retirement. For example, Mutchler and Xu used the 2016 Elder Economic Security Standard Index to account for necessary expenditures of elderly. The Elder Index computes the annual income within the county, state, and nation that a senior must generate in order to live without government assistance while providing for housing, food, transportation, health care, and basic household items. The findings of this study indicates that half of the elderly population that lives alone and one out of four adults that lives in two-elder households, lack the financial resources required to pay for their basic needs. Numerous similar studies and analysts recommend that the poverty among our senior citizens can be resolved by providing access to a convenient saving plan and educating workers about available saving options. In addition to the federal and state governments, different agencies and workers themselves recognize the need to increase *the awareness of retirement security* and allowing workers to be in-charge of it.

The Case of South Carolina

In South Carolina, 54 percent of employees (827,000 individuals) have no access to saving through their employer. It has been estimated that nearly half of Baby Boomers and Gen Xers will lack the income to meet basic retirement expenses and health care costs. As a nation, we are facing a retirement savings crisis in which 25 percent of households aged 55-64 do not have either a 401(k) or an IRA. *The issue is how well workers understand their own situation and what can be done to help them save for the future.*

Today, the challenge of ensuring the financial security of future retirees is further aggravated by workers' *inability* to save for their retirement through an employer-related payroll deduction plan. The majority of South Carolinians rely on Social Security as this program keeps many of them out of poverty. According to the U.S. Social Security Administration Office of Retirement and Disability Policy, the average benefit a new retiree in South Carolina can receive from Social Security is \$ 1,300. Given the current cost of living in South Carolina, most retirees will need more to achieve retirement security. A comfortable retirement requires reliance not *just* on Social Security, but also on additional savings.

Table 1. provides estimates of a monthly budget for a one-person household in eleven economic regions of South Carolina (The Economic Policy Institute¹). The estimates provided in Table 1. give us measures of income that one person needs for a modest, yet adequate living standard. Given that costs of living vary widely by geographic areas in the United States, the South Carolina community specific costs provide a more accurate and complete measure of economic security needs in our State. The six main components of a one-person family budget as provided in Table 1. include housing costs, food, transportation expenses, health care expenses, other necessities, and taxes. Please see Appendix I for detailed description of the six costs listed in Table 1.

The last column in Table 1. gives us the average costs of living in South Carolina based on the specific costs of the eleven economic regions. According to these calculations, a monthly income of \$2,378.73 is necessary for a one-person household to secure an adequate retirement. The difference between the average retirement benefit received from Social Security (\$1,300) and the estimated monthly expenditures of \$2,378.73, leaves a South Carolina retiree \$1,078.73 short. The lack of retirement savings increases individual reliance on government programs and support.

¹The Economic Policy Institute (EPI) is a nonprofit, nonpartisan organization that conducts research and analysis on the economic status of workers. (Source: www.epi.org)

As a result of the growing older adult population of South Carolina and their worsening financial preparation for retirement, the State can anticipate increased reliance on government programs such as Medicaid, Supplemental Security Income (SSI), Supplemental Nutrition and Assistance Program (SNAP), to name only a few.

Table 1. Monthly Budget for a Household with One Adult

	Colu mbia, SC metr o area	Aike n and Edge field Cou nties, SC	Ande rson, SC metr o area	Charleston/N. Charleston/S ummerville, SC metro area	Flor ence, SC metr o area	Greenville/Ma uldin/Easley, SC metro area	Myrtle Beach/N . Myrtle Beach/C onway, SC metro area	Roc k Hill , SC	Rur al Sout h Car olina	Sparta nburg, SC metro area	Su mte r, SC met ro area	Averag e Costs
Housin g	\$617	\$543	\$527	\$724	\$518	\$492	\$643	\$622	\$504	\$429	\$596	\$ 565
Food	\$271	\$271	\$271	\$271	\$271	\$271	\$271	\$271	\$271	\$271	\$271	\$ 271
Transp ortation	\$482	\$459	\$459	\$482	\$459	\$482	\$480	\$459	\$570	\$480	\$459	\$479.18
Health Care	\$274	\$307	\$292	\$252	\$286	\$292	\$271	\$317	\$274	\$274	\$261	\$281.82
Other Necessit ies	\$429	\$393	\$385	\$480	\$381	\$368	\$441	\$431	\$374	\$338	\$419	\$403.55
Taxes	\$400	\$369	\$357	\$450	\$351	\$348	\$411	\$409	\$375	\$311	\$379	\$378.18
Monthl y Total	\$2,473	\$2,342	\$2,291	\$2,660	\$2,266	\$2,253	\$2,516	\$2,509	\$2,369	\$2,103	\$2,385	\$2,378.8
Annual Total	\$29,676	\$28,109	\$27,497	\$31,920	\$27,190	\$27,039	\$30,194	\$30,109	\$28,423	\$25,242	\$28,625	\$28,547.6

In their 2015 analysis of South Carolina’s workers and their savings, John and Koenig found that nearly 51% of South Carolina workers ages 18 to 64 in the private sector work for businesses that do not offer a retirement plan. This suggests that more than half of the current working population in South Carolina must initiate their own means of savings. Furthermore, John and Koenig report that even the households that are eligible to contribute to an Individual Retirement Account (IRA) outside of their job, rarely do so.

Some additional statistics from John and Koenig study indicate that the level of education is closely related to the retirement saving. For example, John and Koenig indicate that eighty one percent workers without high school degree, did not have access to an employer-provided savings plan. Furthermore, forty two percent of workers who have at least a bachelor’s degree are not covered by their employer.

In addition to education, John and Koenig analyzed the socioeconomic characteristics of the South Carolina workers. They are suggesting that minority status also factors into plan availability. The authors noted that close to seventy six percent of Hispanic workers and fifty five percent of African American worked for employers that did not provide a retirement plan. John and Koenig also note that only six percent of those without access to such a plan had over \$25,000 saved, and only three percent had \$100,000 or more in a retirement saving plan. Left on their own and without assistance and education about the retirement saving, the vast majority of South Carolinians are unable to save sufficient funds needed to maintain their standard of living during the retirement time.

Long-Term Solution for South Carolina’s retirement security

For the State of South Carolina to reduce government expenditures, the key recommendation is to introduce a program that will improve savings for retirement. A program that encourages even a modest savings by young and mid-aged South Carolinians can result in *retirement security for current and, future retirees*. A saving program that would encourage employers voluntarily to set up a payroll deduction with an automatic enrollment in an IRA or 401(k) plan would benefit everyone. For example, the AARP of South Carolina recommends the “*Work and Save*” program that would not require employers to match the employees’ contribution. This is a partnership between the public and private sector, where the State of South Carolina, or another entity, creates and manages a self-sustaining mechanism for retirement saving. There is no risk to the State, as employees save privately and the start-up costs can be absorbed by the participants.

As the population 60 years and older is projected to increase to 1,450,487 by the year 2030 and as the poverty among seniors continues to be a major concern, the State of South Carolina understands the potential costs associated with the financial un-readiness of future retirees. Improving the quality of life for seniors is an important issue facing the residents and government of South Carolina. Currently, federal and state governments provide various services and programs to seniors who live beneath the poverty line. Within South Carolina, the Lieutenant Governor's Office of Aging (LGOA) is responsible for managing and distributing these various services. LGOA administers the federal funds received through the Older Americans Act, as well as the state funds appropriated through the State of South Carolina. However, the gap between the adequate budget necessary for a one-person household and the average Social Security benefit can only be achieved by educating and empowering workers to save for their own future. The need to meet current and future needs of older Americans and to improve their quality of life has never been more pressing.

Conclusion

Serious approach to the retirement preparation must be taken by all parties involved, workers, businesses, and government. Preparing for the retirement is a very serious task that the current and future workers have to be aware of. Knowing the conditions of the current retirees and their economic and financial needs, raise the issue of retirement preparation for the future employees. Workers have to start saving for their retirement early, while the businesses should be ready to assist as well. Currently, about quarter of small businesses offer a retirement plan for their employees. The businesses that do not offer a retirement or a saving plan cite several reasons for their decision. Most of the employers who do not offer a retirement plan report a high costs and complexity of retirement as the main reasons for not having a saving plan. Nevertheless, the business owners express concern regarding their employees having enough retirement savings. Due to the lack of the retirement saving, many retirees have become dependent upon government assistance to sustain their living standard. However, despite many numerous benefits, programs, and assistance that the government sector can provide, the economic situation of workers who do not save (enough) for retirement, can be very uninviting.

In conclusion, due to a steady increase in life-expectancy at retirement, older residents will require income and resources to last for another decade or more after the retirement. Older adults are at increasing risk of retiring poor as it is expected many of them will retire with more debt than savings in the future. The solution to the potential financial crisis of proper education about sustainable financial resources that are needed for retirement. Individual financial preparedness for retirement is the key to the solution. In addition, some analysts suggest state support of retirement pension plans for employers who cannot afford to offer retirement plans. With the constant increase of the costs of governmental programs that assist elderly and poor, it is estimated that the total burden to taxpayers will reach new high in the next decade. Even a modest improvement in savings rates and increasing participation in retirement programs for young and mid-aged workers, could significantly reduce government expenses and save taxpayers millions of dollars in revenue.

Given that our existing retirement saving structures are not adequate to solve the retirement security issues, the opportunities to save at work through payroll deduction must be assured. Once again, future retirees will encounter many economic challenges after retirement if not educated about the costs of retirement and if not provided with an option of employer sponsored retirement plans. This will put additional burden on state and federal governments that will result further result in undesirable economic inefficiency. Therefore, the time to start educating our current workers and business about the retirement is now.

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