Poverty in Retirement: The Long-Term Impact of Rising Economic Inequality

David W. Rasmussen
James H. Gapinski Professor of Economics
Associate, Pepper Institute on Aging and Public Policy
Affiliate, Charles Hilton Jr. Center for the Study of Economic Prosperity and Individual Opportunity
Pepper Institute on Aging and Public Policy
Florida State University
United States

Abstract

The dramatic decline in poverty after 1960 among households 65 and over is about to be reversed. The labor market is being hollowed out as employment growth is concentrated in high and low wage occupations. This rising inequality will cause an increasing portion of households to be less prepared for retirement as they approach age 65: they will have saved less, have diminished access to defined benefit pension plans, and face smaller social security benefits due to lower life-time earnings even if the system can sustain current benefit levels. Prospects of lower saving in the context of declining defined benefit pension plan coverage indicates that Social Security will be even more important in the future. Instead of attempting to fix the system to sustain current benefit levels, reforms should account for this new reality.

Keywords: retirement, poverty, economic inequality, social security, aging, labor markets

I. Introduction

Keynes said that in the long-run we are all dead. In this paper, it is argued that a good way to evaluate the implications of current economic and social trends is to focus on the period before people die: their retirement years. In Falling Short: The Coming Retirement Crisis Ellis et.al, (2014) report that near retirees aged 55-64 are not well prepared for retirement. Their solution is straightforward: “That’s it: work longer, fix Social Security, save more through 401(k)s, and consider using home equity.” Abject poverty among some people who are over 65 is another issue because we need to “find a solution for those of us who simply cannot work longer due to health problems or outdated job skills“ (Ellis et. al, p.5).

If current labor market trends are sustained in coming years, there will be more low-income households that will find it difficult to prepare adequately for retirement. Magnifying the impact of an increasing number of low wage jobs are life style choices that will reduce the level of saving and wealth that are essential to support a good standard of living among future cohorts of retirees. These trends suggest that interpretations of a coming retirement crisis that emphasize problems with Social Security focus on the tip of the economic insecurity iceberg that awaits younger Americans when they choose to retire. “All this raises a question that seems to be studiously avoided in polite policy conversations: Is old-age poverty going to pick up again?” (Porter, 2015)

The four sources of income that support retired households are discussed in Part II. In Part III, economic trends are examined that are likely to undermine the economic well-being of many younger households in the decades prior to their reaching age 65. Culture and lifestyle aspects of contemporary America that increase the risks of poverty for future cohorts over age 65 and the implications for Social Security are discussed in Part IV. The final section concludes with a discussion of public policy options that might alleviate the consequences of current economic and social trends that will converge in the twilight of life.

II. The Sources of Retirement Income

Elements of Wealth

Wealth is the result of saving over one’s working life and, for some households, a bequest. Wealth and its twin, net worth, is usually defined to include the value of all assets minus liabilities.

Differences of opinion emerge as how to treat public benefits such as social security and Medicare when calculating the wealth that is available to support retirement. For example, (Saez and Zucman, 2016) define wealth to include individual retirement accounts, housing, pension funds and life insurance but not social security or unfunded defined benefit pensions. Their argument against including social security is strained because they claim that including it would also require measuring the value of Medicare benefits and potential education subsidies for children. While their position is logically consistent, from a practical standpoint measuring social security benefits is straightforward in contrast to the uncertain benefits of Medicare, which are obviously affected by a household's health status. In contrast, Gale and Sabelhaus (1999) and Moore and Mitchell (2000) include these public benefits which no doubt significantly enrich the life of older Americans.

Rather than rely on an aggregate concept of net worth as a source of financial support during retirement, evaluating the financial well-being of current and future retirees may best be evaluated by focusing on three types of wealth that are acquired during their lifetime of work. Differentiating among types of wealth allows us to consider that they 1) are acquired in very different ways; 2) vary in their contribution to income among older households; and 3) require unique individual behaviors and public policies to increase the retirement income that they generate.

The first source of income in retirement is here called "earnings based wealth," which is the result of working but does not require a personal decision to save. Social Security contributions are not voluntary but provide life-long benefits as early as age 62. Defined benefit pensions from private and public employers are similar in that workers do not choose to contribute to this source of future retirement income. Saving that is voluntarily invested in financial vehicles such as defined contribution plans, stocks, bonds, and business enterprises is the second type of wealth that provides income in retirement. Because saving requires giving up current spending for future needs such as retirement, it is not surprising that the U.S. Government Accountability Office (2015) reported that in 2013 52 percent of households age 55 and older had no saving dedicated for retirement, such as a 401(K) plan.

The third type of wealth that affects the well-being of retired households is housing. The value of owned housing dominates the net worth of the median household over age 65, accounting for about 88 percent of the total (Vornovitsky et.al., undated). Unlike other forms of wealth, this physical asset generates a flow of housing services (the rental value) that are consumed by the occupants every month. When homeowners have significant equity in the home it can be used to support current spending by selling it and downsizing or draw down the equity via home equity loans or a reverse mortgages.

Wage and Salary Income

Staying in the workforce is the fourth component of income accruing to people of retirement age. Working after reaching the age of 65 is a major contributor to the variation of income among these households: those with incomes in excess of $70,000 report that earnings account for half of total income. In contrast, for the median household with an income in the $30,000-$39,999 bracket indicate that earnings account for only 12 percent of total income. These four sources of retirement income are components of Ellis, Munnell, and Eschtruth's (2014) prescription for dealing with the coming retirement crisis: individuals need to save more, work longer, consider using their home equity and the government needs to fix Social Security. This seems to be a simple directive, but future cohorts of retirees are likely to find it harder to prepare for retirement and the government may not be up to the task of fixing social security.

III. The Plight of Future Retirees

The life course of earnings critically determines how well people are prepared for retirement. The extent of labor force participation and the type of employment combine to determine an individual's earnings based wealth. These factors similarly affect the level of saving, and the extent to which households acquire housing wealth. Work experience during the life course also plays a major role in determining opportunities for earning income after age 65. The acquisition of wealth to support consumption after age 65 is fundamentally determined by a series of events over the life course, some of which are individual choices and others imposed by labor markets, genetics, family and the vagaries of life. While life-long earnings are likely to be the most important factor that determines the standard of living among households 65 and older, cultural changes that affect spending and saving decisions will also have an influence. The first task is to investigate labor market trends affecting pre-retirement cohorts with respect to labor force participation and wage and salary income.

These will directly affect the level of earnings based wealth for individuals, saving, investing in housing and opportunities for earning income after the normal retirement age. As McLaughlin and Jenson (2000, p.470) observe, "Those who do well during their working life do even better once they retire."

Life-Time Earnings: Setting the Stage for Life After 65

That those who do well in their early work years will do well in retirement has been confirmed by Guneven et. al. (2017). They examine lifetime earnings from age 25 to 55 for workers who turned 25 between 1957 to 1983 They report that the life course of earnings generally rises sharply from ages 25 to 45 and then flattens out during the years from 45 to 55. They find that over the life course earnings have declined significantly for 25 year-old men after 1967 in the range of 10 to 19 percent. Young men in the 25-35 age group have much lower incomes than earlier cohorts and this almost entirely accounts for the decline in lifetime earnings.· After 1983, data to calculate lifetime earnings to age 55 were not available for Guvenen et. al., but they were able to examine earnings during ages 25-35 for subsequent cohorts. The median male worker aged 25-35 has continued to get off to a bad start with lower incomes than earlier cohorts, reaching its nadir in 1988. After that year, the median income for the 25-35 age group started to rise until this trend was derailed by the 2007-08 recession. The 2003 cohort was the most recent cohort they could analyze; its income was 16 percent below that of the 1967 cohort. Labor market trends described below suggest that this trend is not likely to be reversed in the coming years. Unsurprisingly, women have had a much different experience. Their median lifetime earnings has increased substantially over the entirety of the 1957-1983 period, between 22 and 33 percent. This large increase in part reflects the relatively low level of earnings starting in 1957, but their income gains have been consistent over the period. Unlike men, income of women in the critical ages from 25 to 35 increased consistently: for the 1957 cohort median income grew 25 percent during these years and for the1983 cohort median income grew by 29 percent. More recent cohorts of women did not suffer the continuing decline in median income that plagued males, although cohorts entering after 1988 did experience a flattening of early career incomes.

Declining lifetime earnings has been characterized as the fading of the American dream that hopes that children will have a higher standard of living than their parents. Ninety percent of children born in 1940 are reported to have lived the American dream because they had higher income than their parents did at age 30. By the mid-1980s, this proportion fell to about 50 percent (Chetty et. al., 2017).This suggests that wealth resources for retirement will be compromised because lower lifetime earnings will result in reduced Social Security benefits and lower savings in defined contribution plans and other financial vehicles. What factors might account for the erosion of the American dream? The elephants in the analysis room are technological innovation, global competition, and consumer demand that will drive employment trends and change business practices. These factors are manifested in the dynamics of the labor market: labor market polarization, a changing occupational structure, what has been labeled the fissuring of the workplace, and the rise of contingent workers.

Labor market polarization refers to the fact that occupations requiring the most skill – managers, professionals, technicians, finance, and public safety – had rapid growth of employment since 1980 and the highest wage growth. Occupations in the middle of the skill distribution, which include production, transportation, construction, mechanics, mining, machine operators and assemblers, experienced low wage growth and continuously declining share of employment in recent decades. Low skilled service occupations experienced rising employment since 1980 and more rapid wage growth than middle skilled workers. Thus, the labor market has become increasingly polarized as income and employment growth has been fastest among the highest and lowest skilled workers (Autor and Dorn, 2013).

Technological change is probably at the root of this rising inequality of labor market outcomes. Computerization is most easily applied to routine tasks that are in the middle of the skill distribution. In contrast, highly educated professional occupations are engaged in problem solving and management tasks the require judgement that is not easily duplicated by a computer. Similarly, low wage service occupations are engaged in highly personal interactions of health care and other personal services that generally defy technological substitution (Autor and Price, 2013).

Projections of employment growth by annual wage provide a glimpse into the polarized structure of employment that will shape the well-being of future households ages 65 and older. The U. S. Bureau of Labor Statistics provides projections of how much major occupational groups are expected to grow from 2016 to 2026. Table 1 shows two job growth scenarios for occupations categorized by their median annual wage in 2016.

Wage categories are shown in the first column; the U. S. Department of Labor's projected job growth for each category is shown in column two. Column 3 shows the job growth that would be expected during 2016-26 if the distribution of jobs remained unchanged over that ten-year period. Thus, since occupations with a median wage exceeding $75,000 accounted for 12 percent of all jobs in 2016, column three shows the expected growth of employment if they also received 12 percent of the expected job growth during 2016-2026.

Occupations with the lowest incomes between $20,000 and $29,999 have the greatest growth relative to their expected share. These occupations are projected by BLS to increase by over four million during 2016-2026. This means that occupations in this wage group will gain more than one million jobs over what would be expected if the occupation distribution remained unchanged over the decade.

In second place is the 60,000- $74,999 wage category that accounted for almost 12 percent of all employment in 2016 but received 15 percent of growth between 2014 and 2024—898,000 more jobs than their share. The biggest losers were occupations with wages between $30,000 and 39,999: they accounted for 30 percent of employment in 2016 but are expected to grow by only one percent over the decade. Actual growth was almost

Table 1. Actual and Expected Employment Growth by Wage Class
2016-2026 (in thousands)

		Employment Growth, 2016-2026		
		Projected	Expected*	
Median Annual Wage, 2016				Projected Minus Expected
Over $75,000		1,725.3	1,316.5	408.8
$60,000-$74,999		2,235.2	1,337.2	898.0
$40,000-$59,999		2,564.7	2,028.8	535.9
$30,000-$39,999		535.2	3,411.2	-2,876.0
$20,000-$29,999		4,458.2	3,424.9	1,033.3
Total		**11,518.6**	**11,518.6**	

**Expected growth is total employment growth times the employment share in 2016.*

Source: Author's calculations from data provided by the Occupational Employment Statistics Program, U. S. Department of Labor

2.9 million below that which we would expect based on their share of employment in 2016.

Globalization and other competitive pressures cause firms to lower costs in order to maintain profit margins and returns to their investors. One strategy, called fissuring, contributes to the rise of low wage employment and declining opportunities in the middle. Fissuring involves large firms contracting out relatively high wage-low skill jobs to firms in a highly competitive environment that pay lower wages and provide fewer benefits (Weil, 2017). Spinning out these activities to smaller firms lowers costs that can be passed on to consumers as lower prices and/or better returns for investors. This process generates more jobs in firms that must offer lower wages and perhaps fewer benefits in order to effectively compete for outsourcing contracts from lead firms.

Contingent work arrangements are those in which the worker does not have a regular relationship with an employer. Arrangements such as working as a self-employed contractor or working for a contract firm that sells worker services to other firms grew from 10.7 percent in 2005 to 15.8 percent in 2015 (Katz & Krueger, 2016). From 1979 to 2014 the proportion of workers reporting that the self-employment income to the IRS rose from 8.7 percent in 1979 to 16.5 in 2014 (Jackson, Looner & Ramnath, 2017)

Contingent work arrangements allow firms to achieve needed workforce flexibility and, indeed, can be of great value to some workers who want flexibility in work time in order to accommodate other personal and family needs. Contingent workers can receive competitive wages but receive fewer benefits. Self-employed contractual workers must pay both the worker and employer's contributions to Social Security, a financial burden that can compromise personal saving. Income earned prior to age 65 determines the standard of living after that age. We know that how you start out determines how you end up.

The prognosis for future retiree cohorts is not bright: In 1975, 25 percent of men aged 25-34 had an income less than $30,000; in 2016 that share was 41 percent (in constant 2015 dollars). The percentage of women in the age group making less than $30,000 fell from almost 80 percent to 58 percent over the same period (Vespa, 2017). Earnings based wealth is more or less set long before age 65, as is retirement savings and home equity. Continuing to work is the only way for a household 65 or older to amend their life-long work and saving history. Examining the income prospects for households in future cohorts entering the over 65-age group is our next task.

Declining earning based wealth

Social security and private and public pensions, earnings based wealth, in 2015 accounted for about 60 percent of income for households 65 and older with incomes between $10,000 and $40,000 and almost 50 percent among those with incomes between $40,000 and $70,000. Above this income, the importance of earnings based wealth generates a much smaller portion of annual income. Many members of future cohorts entering the ranks of households 65 and older will probably have less income generated by their earnings based wealth.

Social Security. A payment from Social Security provides most of the income from earnings based wealth. In 2014, it accounted for 33 percent of aggregate income for households 65 and older while pensions provided 21 percent, of which private pensions accounted for 60 percent (Social Security Administration, 2016). The Social Security Administration (2016) reports the system is not sustainable at current benefit and tax rates. After 2034, projections indicate that income into the fund will be sufficient to pay only about 80 percent of program costs. Survey results make clear that coming cohorts of 65 and older households are not confident that Social Security will continue to provide the current level of support. Seventy eight percent of survey respondents think that Social Security will run out of money during their retirement (Nationwide Retirement Institute, 2017). Gallup reports that 59 percent of current retirees say that Social Security is a major source of their income whereas only 36 percent of non-retirees anticipate the program will play a major role in retirement. Fourteen percent do not expect to get any funds from Social Security (Jones, 2015).

Social Security has been the bedrock of financial security for older households for half a century. If no reforms are forthcoming, future cohorts of households 65 and older can count on receiving about 80 percent of current benefits. Given the importance of Social Security for the economic wellbeing of current cohorts 65 and over, erosion of the standard of living for many households in future cohorts is a distinct possibility.

Public and Private Pensions. The availability of defined benefit pension plans that guarantee workers an annuity for life has declined markedly over the last thirty years. This decline is the result of two contemporaneous trends: a decline in union membership and a shift to occupations that generally have less coverage. Pension coverage has declined for union as well non-union workers. In 1993, 76 percent of union workers had coverage compared to 28 percent of full time nonunion employees. The Bureau of Labor Statistics reported a sharp decline in pension coverage by 2011. Coverage fell 12 percent for union workers (from 76 to 67 percent) while coverage among nonunion workers plummeted 54 percent, from 28 percent in 1993 to 13 percent in 2011 (Wiatrowski, 2012).

Contributing to the demise of defined benefit plans is the fact that union membership in the private sector has fallen consistently since the early 1950s. Workers retiring at 65 in 2015 could have entered the workforce when about 24 percent of workers were union members; these older retirees would have had higher chance of union employment with a defined benefit pension during part of their working life. In 2017, only 6.5 percent of private sector workers were members of a union (Hirsch and Macpherson, 2018).This decline may continue to some extent since the fastest growing occupations are in the personal care and service sectors, which have the lowest rates of defined pension coverage (Wiatrowski, 2012).

Government employees account about 14.5 percent of the U.S. workforce, the majority (12.7) of which work for state and local jurisdictions. These workers have much better access to defined benefit retirement plans than those in the private sector. The Bureau of Labor Statistics reports that about three-quarters of state and local workers were in defined benefit plans in 2011 (Wiatrowaki, 2012) The financial viability of these defined benefit plans are being discussed at all levels of government as indicated by the fact that 57 percent of these plans are frozen or no longer open to new employees.[i] Social Security and defined benefit pensions were intended to provide two legs of the retirement security stool. As things stand now, neither can contribute as they once did, so future cohorts entering the ranks of 65 and older households will need to rely more on their personal saving to finance their retirement.

Saving

Savings in this discussion includes money in defined contribution accounts and other financial assets such as savings and brokerage accounts. Households ages 55-64 are approaching retirement with very low savings, according to the U. S.Government Accountability Office (2015). It reports that 41 percent of this age group have no retirement savings in vehicles such as IRAs or 401(k) plans. This group's financial profile shows a median net worth of $21,000, median non-retirement financial resources of $1,000, and a home ownership rate of 56 percent with only 22 percent having no mortgage debt. The only bright spot in this profile is that 32 percent have a defined benefit retirement plan. Financial distress is awaiting many households aged 55-64 as they anticipate retirement since 27 percent have neither retirement savings nor a defined benefit plan. The U.S. GAO (2015, p. 10) reports that "their median net worth is about $9,000 and 91 percent have less than $25,000 in financial assets. The households' median home equity is about $53,000." The median income for this group is about $26,000. Although over one-third of households in the 55-64 cohort that is on the verge of retirement is not well prepared for retirement, these households are very likely to be better prepared for retirement than their counterparts in subsequent cohorts are. Projections that show low wage jobs are among the fastest growing occupations will surely make it harder for many members of subsequent cohorts to save for their future retirement. Under current arrangements, fewer of them will receive benefits such as health insurance and opportunities to invest in 401 (k) programs.

Households aged 55-64 with incomes below the median have obviously found it difficult to save in retirement assets or in other wealth building vehicles. Throughout life, households with modest incomes have immediate needs that undermine any desires they may have to save. Current trends in household income make it unlikely that the median household in future cohorts reaching age 65 will be more successful savers that those who have reached this age or are on the verge of doing so. Studies have shown that job tenure is a significant determinant of participation in defined contribution retirement plans (Munnell, Sunden and Taylor, 2001). The Investment Company Institute (2016) reports that 401 (k) balances rise with job tenure for all age groups except for workers in their twenties. Job tenure is getting shorter for men. Men aged 55-64 had a median tenure of 15.3 years in 1983 which declined to 10.7 years in 2014. For workers in the 45-54 age group, median tenure fell from 12.8 to 8.2 years during that period. Women of all ages, in contrast, had a slight increase in median tenure from 1983 to 2014 (Copeland, 2015). These trends in worker tenure are consistent with the changes in employment generated by increased competition from globalization, technical change, fissuring of the workforce and the rise of contingent workers. This trend reinforces the notion that future retiree cohorts are not likely to build retirement savings accounts to sustain sufficiently a comfortable standard of living when they enter the ranks of households 65 and older.

The other side of savings is debt. Continuing formal education beyond high school is a two edged sword when viewed from the perspective of future retirement. It is expected to have a significantly positive effect on income, which is increasingly offset by loans to pay for their education. Saving is not likely for individuals who cannot pay off their debts. In 2015 over 62 percent of student loan borrowers did not pay off any principal the previous quarter, had an increasing balance over the previous quarter, were delinquent by 90 or more days or defaulted. The number of student borrowers under 30 rose by 53 percent from 2004 to 2015. That these student loans are not easily discharged is reflected in the fact that the number of borrowers ages 40-49 more than doubled over the same period; borrowers aged 50-59 increased by almost 150 percent. Taking on student debt means that many individuals will get off to a slow start in building savings for retirement. Forty-four million people have student debt; this represents 35 percent of the U. S population over 25 with some college (Federal Reserve Bank of New York, 2016).

Comparing a variety of sources, Munnell and Bleckman (2014, p. 1) report the "our best estimate is that, at any given point, only about half of private sector wage and salary workers age 25-64 participate in any retirement plan. About 65 percent may have access to a plan through their current employer." They also report that one-third of households reach their sixties with no retirement plan at all. In the future many households in this age group may well have lower lifetime earnings than the current population and will have fewer claims on earnings based wealth, suggesting that the need for saving will be greater but the likelihood of it being achieved is small.

Wages and Salary Income After 65

Working longer is the obvious antidote for low savings and lower earnings based wealth. Working longer improves prospects for retirement in four ways: it increases income, increases earnings based wealth via greater Social Security participation, potentially facilitates increased saving, and shortens the retirement period. Two factors determine whether continuing to work can alleviate economic hardship among future cohorts of households 65 and older. First, are these older populations willing and able to stay in the workforce?
Secondly, will the labor market need their services? Personal expectations appear to be consistent with the need to remain in the labor force. According to one survey of workers, 58 percent of respondents expect to work after age 65. Older workers indicate that they understand what lies ahead: 82 percent of workers in their 60s plan to work past age 65 or do not expect to retire; 59 percent of workers in their fifties and 61 percent in their forties have the same expectation. Half of workers under 40 are still hoping to retire at 65 or sooner (Collinson, 2015).[ii] These expectations have changed substantially since the early nineties. In 1991, only 11 percent of workers expected to retire after age 65, a proportion that rose to 36 percent in 2015. Over that same period the percentage of workers expecting to retire before age 65 fell from 50 percent in 1991 to 25 percent in 2015 (Retirement Confidence Survey, 2015).[iii]

There is no doubt that future cohorts reaching age 65 will be able to work. About 46 percent of men 65 and older were in the labor force in 1950, a proportion that reached its nadir at 16 percent in the mid-1990s. Coile, Milligan & Wise (2017) investigate the extent to which current people in their early 60s would be in the labor force if they were to work as much as previous generations worked who had similar health status. The results make clear that the labor force participation rate of older workers could increase substantially – 17 percentage points for 60-64 year olds and 31 points higher for those between the ages of 65 and 69—implicitly assuming that the employment opportunities have not changed in the intervening years. The rising rate of obesity in the U.S. is likely to compromise the ability of some individuals to stay in the labor force even if their well-being in retirement would require it. Renna and Thakur (2010) find that men and women who are older workers with a body mass index (BMI) exceeding 35 have a significantly higher probability of taking early retirement and a greater incidence of disability.

There are enormous differences in health and mortality caused by differences in education and social status (Munnell, Soto, and Golub-Sass, 2008). The overall percentage of men ages 50 -64 reporting fair or poor health has declined from 29.3 percent in 1975 to a 2005 figure of 14.2 percent. Among those with a college education, these health conditions fell from 8.9 percent to 6.8 percent. For men who have not graduated from high school the percentage reporting fair or poor health actually rose in the 30 years following 1975: from 35.3 percent to 36.2. The overall decline in the percentage of men reporting fair or poor health is a product of the changing distribution of educational outcomes, a sharp rise in college graduates and a diminished number of those not finishing high school. Munnell, Soto, and Goub-Sass (2008, p.17) conclude that "many of those who need to work longer – low-wage workers dependent on Social Security—are precisely the individuals who have onerous jobs that stress their health and lack the education to manage their care." Although many older workers report that they are healthy enough to work, there remains the question of whether they can find suitable employment with pay sufficient to sustain a comfortable life after the normal retirement age. The labor market realities are that older workers who are highly educated are most likely to find employment and are in better health; employment opportunities for less educated older workers are not likely to be abundant (Mermin et.al, 2008; Bosworth and Burke, 2012).

Discrimination against older workers may negatively affect older workers attempting to remain in the workforce. Mermin et.al. (2008) report that large employers with defined benefit plans shy away from hiring older workers and high health care costs reduce their willingness to retain or hire older workers. To the extent that older workers desire part-time work, flexible work and schedules, the trend toward alternative work arrangements should increase the employment prospects for older workers. Projections of high job growth in relatively low paying occupations may result in increased employment opportunities for older workers.

Home Equity

Timmons and Naujokaite (2011) note that "Reverse Mortgages are complex financial transactions that have considerable closing costs, but when used correctly and under the right circumstances, have the potential to greatly enhance to lives of senior borrowers who obtain them."[iv] Taking out a reverse mortgage may significantly improve the lot of some households age 65 and older, but the number of households for whom this is true is likely to dwindle in the future. Two factors determine the feasibility of using a reverse mortgage to augment life after age 65. First, a household must be a homeowner and second, it must have sufficient equity to generate meaningful increase in income. Taking out a reverse mortgage requires that they properly maintain the property as well as keep up with insurance and tax payments. Thus, any large maintenance costs could put tremendous pressure on their budget and potentially force them out of the home.

More than 20 percent of households 65 and older did not own a home in 2017. Assuming that non-owners generally have less income in retirement than owners, the households most in need of augmenting their income with home equity will not have any. This proportion will increase in the future. Homeownership among individuals aged 25-34 has declined markedly since 1975: almost 60 percent were homeowners in that year while only 29 percent owned their own home in 2016 (Vespa, 2017). While these young adults say they will eventually have a rate of homeownership at about the same rate as the 1975 cohort, they are likely to have less home equity at age 65 because they will have made this investment later in life. Further compromising their access to home equity is the increasing use of home equity loans to finance relatively large expenditures such a paying for education, buying a car or making home repairs.

Consider households aged 65-74 that have no retirement savings assets: this comprises 52 percent of all households in this age group. Their median net worth is $86,000, which includes about $4,000 in non-retirement financial assets. Thus, home equity dominates their net worth. Sixty-four percent of these homeowners continue to pay off their mortgage (U. S. Government Accountability Office, 2015).Thus, half of the current cohort of the 65-74 year olds do not have any functional access to home equity to supplement their income. Prospects for home equity to support future cohorts entering retirement is not promising since they will be less likely to own a home, will have acquired less equity due to later home purchase, and are in a financial market that encourages borrowing against their home equity before retirement. The case that home equity cannot provide significant financial support for relatively low- income households entering the ranks of 65 and over is straightforward. Home ownership can provide valuable housing services but relatively low levels of equity and obligations to pay taxes and maintenance combine to reduce its capacity to support inadequate income.

IV. Wealth, Culture and Policy

Culture and Policy

We have painted a grim picture of the retirement prospects for many members of future cohorts reaching the age of 65. Stagnating wages and inequality of labor market outcomes that are driven by market responses to technological change and the demand for low productivity service occupations. These are shown to lead to a cascading of effects that will reduce, for a significant portion of our population, their earnings based wealth, render it more difficult to save, and probably undermine the accumulation of home equity. Economics is not the only thing, culture matters. How people engage in the workforce and whether they are able to marry and stay married can importantly affect their fortunes in retirement.

Labor Force Participation

The labor force participation rate is declining. During the prime working years between age 25 and 54 it was 83.8 percent in 1996 and the Bureau of Labor Statistics projects it to fall modestly to 81.6 in 2026. Most of this decline is due to fewer men being in the labor force. Almost 92 percent of men were in the labor force in 1996; in the following two decades it fell to 88.5 percent. The Bureau of Labor Statistics predicts that this decline will continue to 2026. Ninety percent of men who are 35-44 are in the labor force but the percent falls to about 86 percent as they turn 45-54. Fourteen percent of men in this last decade of the prime earning years are not in the labor force. Women ages 25-54 in the work force rose rapidly after 1960, reaching a peak of 76.1 percent in 1996. Since then it has been essentially level and is predicted to remain that way through 2026. Cultural factors may contribute to the changes in the labor force participation rate. This is undeniable In the case of women. They now dominate enrollment in higher education and face fewer discriminatory barriers to employment than they once did. One can speculate that the declining attachment to work among men is in part a cultural phenomenon. The rise of contingent employment, which is characterized by the absence of a formal relationship with an employer, lends itself to sporadic attachment to the labor force. It is surely true that it is now more acceptable for individuals to have the freedom to choose a flexible life of work, an option that was neither available nor acceptable to most current retirees.

A manifestation of this cultural phenomenon is found in the fact that in 2015 there were almost 8.4 million people aged 25-34 who lived with their parents, 25 percent of which are neither working nor going to school. Most (57 percent) were men and almost 65 percent had a high school education or less. For these individuals, like those with intermittent engagement in the workforce, the price of this flexibility is inevitably a decline in earnings based wealth and probably financial vulnerability after reaching the normal retirement age (Vespa 2017).

Marriage

Being married is good for wealth creation. Table 2 shows that the net worth of married couple households in every age category is higher than that of male or female householders. The net worth of married couples aged65 and older in 2011 was almost $285,000 while male and female householder net worth is $130,000 and$104,000 respectively. Excluding home equity, their net worth is five times that of male-headed households and about 10 times that of female households.[v]If the median single male married the median single women, their combined net worth pales in comparison to the median married couple. Among households in the 35-54, these newly married would have total net worth that is about one-fifth of the established married couple.

Table 2 Median Net worth of households by age of householders 2011

	Total net worth				Net worth excluding home equity		
	Type of household						
Age	Married Couple	Male	Female		Married Couple	Male	Female
Under 35	$19,526	$6,200	$ 1,392		$10,226	$3,746	$972
35-54	116,170	14,813	9,640		43,493	9,887	5,260
55-64	239,847	55,718	61,879		108,607	14,226	11,481
65 and older	284,790	130,000	104,000		92,238	19,626	8,480

Source: U. S. Census Bureau, Survey of Income and Program Participation, 2008 Panel, Wave 10

The process of selective sorting in the marriage process has led university educated men and women to marry each other, thereby facilitating a comfortable life that affords saving for retirement. Moreover, Cherlin (2016) reports that the divorce rate among this population has declined since it peaked around 1980 whereas marriages of high school graduates and dropouts have much higher rates of divorce.

Vespa (2017) reports that young people are delaying marriage but they intend to marry at some point in the future. For example, in 1975 about 85 percent of women and 75 percent of men were married by age 29. By 2015, these proportions were not achieved until young adults reached age 40. It is apparent in Table 2 that married households of all ages invest more in housing and have greater non-housing wealth. By delaying marriage, they will have fewer years to acquire home equity and other wealth, a trend that will reduce their readiness for retirement at age 65.

Fixing Social Security

With the demise of defined benefit plans, the “stool” of retirement security has been reduced to two legs, a vulnerable Social Security program and personal saving that includes defined contribution retirement plans. It is estimated that the system can pay full benefits until about 2034, after which the funding shortfall will result in benefits falling to about 80 percent. A modest fix for Social Security is to simply continue the existing schedule of benefits. Several proposals to achieve this goal effectively cut benefits, examples being a gradual raising of the retirement age and using the chained consumer price index instead of the Consumer Price Index. Increasing the payroll tax rate on employers and employees from 6.2 to 7.2 percent over a 20-year period would eliminate about 53 percent of the funding gap (AARP, 2015). This is, in effect, a forced savings plan imposed on workers that is analogous to those that were imposed by defined benefit pension plans. Imposing social security taxes on all earnings above the current maximum of $128,000 is the most potent tool to sustain current benefits. Eliminating the taxable earnings base while maintaining the current benefit formula changes the year that the trust fund is depleted from 2034 to 2082 (Congressional Research Service, 2017).

Martin and Weaver (2005) wrote that the Social Security System entered its "second" phase in 1977, one that focused on stabilizing costs and securing adequate revenue. The exploding population 65 and over was recognized as a potential problem when the last major reforms were instituted in 1983.

Since then labor market polarization and the demise of defined benefit plans have combined to make Social Security more important than ever. Avoiding an increase in poverty among households 65 and older may require increasing social security benefits in what will represent the third phase in the history of Social Security.

V. Conclusion/Discussion

Predicting the economic status of future cohorts reaching retirement age two or three decades hence is a hazardous undertaking. Rising poverty and economic insecurity among future cohorts of households 65 and older may be inevitable under current institutional arrangements. Labor market polarization is the result of the competitive processes of globalization, technical change, and increased demand for human services that are dominant features of our market economy. The result has been an inexorable increase in income and wealth inequality. Human nature is not likely to change: current needs will crowd out saving for retirement, delaying marriage undermines wealth creation, and opportunities for contingent work allows some people to craft a life style that may maximize immediate satisfaction but thwarts wealth creation needed for a comfortable retirement.
Prospects for increasing poverty among people aged 65 and older puts economic conservatives is an awkward situation. From World War II until the early 1980s economic growth was shared throughout the income distribution, providing powerful support for the contention market capitalism in America was a shared enterprise. Not so since then. The markets that provided shared growth are now characterized by technological change and global competition that has generated more low-income jobs as firms have been forced to cut costs to sustain profits. These developments could undermine political support for the status quo, especially if too many older households are allowed to languish in poverty.

Moreover, the rising inequality of income and wealth is not only the result of these market sources and life style choices of individuals. Government has its thumb on the scales of justice. Stiglitz (2012, pp. 34 and 66) writes, "Much of the inequality that exists today is a result of government policy, both what the government does and what it does not do…. Markets are shaped by laws, regulations, and institutions. Every law, every regulation, every institutional arrangement has distributive consequences—and the way we have been shaping America's market economy works to the advantage of those at the top and to the disadvantage of the rest." And most lower income people believe that the system is rigged to serve the wealthy and a majority of high-income people agree with them (Desilver, 2013).

The consequences of rising inequality and social trends that undermine the acquisition of wealth will converge most dramatically as younger cohorts enter retirement with a higher risk of being in poverty. Guaranteeing an adequate income among the future retirees seems at odds with the current political sentiment against government. It is tempting to look to the government to alleviate the poverty and uneven medical care that may arise from these economic and social trends. Indeed, the Economist (March 26, 2016, p. 78) suggests, "it is very hard to see how rising levels of inequality can be squared with a smaller state." However, in a special report on increased longevity the same newspaper (July 8, 2017, p. 4) seems somewhat optimistic that the growth of the state is not inevitable. "The problems already in evidence and the greater ones feared for tomorrow; largely arise from the failure of institutions and markets to keep up with longer and more productive lives." It is entirely possible that current inequality that will be manifested in increased economic insecurity among the older households will play a critical role in determining the future role of the state in economic affairs.

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[i] https://www.bls.gov/opub/ted/2017/three-quarters-of-state-and-local-government-workers-were-in defined-benefit-pension-plans-in-2016.html

[ii] A Gallup Poll found that adults 18-29 expect to retire earlier than adults do in middle age and older, commenting that this “likely reflecting youthful optimism about their future income and savings” (Saad, 2016).

[iii]Many workers are forced to retire earlier than planned due to health problems or disability factors that are more prevalent among lower income workers. (Retirement Confidence Survey, 2015 and American Psychological Association, undated).

[iv] The monthly payment option mortgage draws down home equity and therefore may not a desirable vehicle for households with a strong bequest motive (Chiang and Tsai, 2016). However, if by taking the Line of Credit option they are able to properly maintain the home and meet other criteria for keeping a reverse mortgage, this vehicle may not be inconsistent with a bequest motive.

[v] Research suggests that being married has a positive impact on wages. If the institution of marriage per se does not affect success in the workplace, an alternative explanation is that the characteristics that make for an intact marriage may be the same ones that are valued in the workplace. Thus, it is possible that these data are reflecting the factors that are not uniquely related to marriage, but they reflect the characteristics of people who choose to marry and stay married. (Cornwell, 1995).