WILL YOU STILL NEED ME? WILL YOU STILL FEED ME? WHEN I'M 65.

BY LEWIS RICE

As the first baby boomers reached the milestone age of 60 last year, they seem poised to enjoy their retirement years like no generation before. After all, they have higher incomes than their parents did at the same age and have accumulated more wealth. They're healthier and living longer.

But a generation defined by the turbulence of the 1960s could face turbulence ahead. And so could the country, as it faces unprecedented entitlement expenditures for the approximately 75 million baby boomers born between 1946 and 1964.

At the Kennedy School, several faculty members have studied the financial issues surrounding the impending retirement of the baby boom generation, from individual savings to government policy. Professor Jeffrey Liebman, who coordinated the Clinton administration's Social Security reform technical working group from 1998 to 1999, has proposed changes to the Social Security system. Professor David Wise researches issues on the economics of aging, while Professor Brigitte Madrian researches employee benefits and retirement savings plans. In addition, Paul Hodge MPA 2000, a research fellow at the Hauser Center for Nonprofit Organizations, serves as director of the Harvard Generations Policy Program and founded a nonpartisan think tank called the Global Generations Policy Institute.

Although those associated with the Kennedy School focus on different issues related to baby boomers, all agree that, as waves of people prepare to retire in the coming years, the country needs to address the ramifications — sooner rather than later.

TAKIN' CARE OF BUSINESS

In the past 25 years, company retirement plans have shifted. Once predominantly providing pensions, many companies now offer enrollment in private accounts like 401Ks for their employees. That change has benefited workers, according to Wise.

He notes that contributions have doubled per participant in 401K-type plans as compared to pensions. Plus, the investment return has been much greater. People also can carry private retirement plans from job to job, he says, whereas pensions work less well for people who don't stay at a single job for a long period.

Yet only about half of people who are employed participate in a workplace retirement savings plan like a 401K, says Wise. Some work at low wages for small companies that don't offer enrollment in a retirement plan. About half the population doesn't save any money — and not always because they can't afford to, he says.

"Saving is kind of a state of mind," Wise says. "Some low-income people save a lot, and some save nothing. But that's the same way for high-income people."

Whether people are responsible for their own enrollment in workplace retirement plans influences savings rates more than anything else, according to Madrian. Over the last 10 years, she says, companies have more frequently adopted a

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policy of automatically directing money from employees' paychecks into a retirement plan unless the employee opts out. This practice increases participation for white workers from 47 to 87 percent and for black workers from 27 to 80 percent.

Some employers have balked at automatic enrollment, calling the practice paternalistic or not wanting to choose investment options for their employees, says Madrian. Most employers, however, approve of automatic enrollment, she says, even though it takes the choice out of their hands.

"It's indicative of how many people are overwhelmed by thinking about signing up for the 401K plan even among people who know what they should be doing," says Madrian, who cowrote a paper called "The Importance of Default Options for Retirement Savings Outcomes."

To increase savings, government policies could encourage more companies to offer these retirement plans, she says. While more financial education would help people make active choices about investing their money for retirement, payroll deduction has proven to be the best way to save. "The money you never see," Madrian says, "is the money you never miss."

Hodge, who is chair of the Executive Committee of the Board of Directors of the Kennedy School Alumni Association and founding chair of the Dean's Alumni Leadership Council, notes that policy makers have encouraged Americans to consume rather than save. People fail to contribute to retirement plans and even extract money from their home in order to pay for consumer products — something they'll likely regret later, he says.

"It's going to come back to haunt you," says Hodge. "How many cars and TV sets can people really own?"

YOU CAN'T ALWAYS GET WHAT YOU WANT

Social Security was established in 1935 as a government trust fund to ensure older Americans financial stability. Yet with the large numbers of baby boomers on the verge of drawing benefits, the financial stability of the fund itself is in question.

According to Liebman, the aging population will cause benefits to exceed revenues in about 10 years. If no changes are made to the system, the gap would continue to grow — to 35 percent by 2050.

When President George W. Bush proposed changes in the system, Congress objected, particularly to a proposal to invest a portion of workers' payroll deductions in personal accounts. Liebman has offered his own bipartisan proposal, devised with former aides to Senator John McCain and President Bush, which includes benefit cuts and new revenue to maintain current levels of retirement income. It also includes mandatory personal retirement accounts funded by new contributions and from the trust fund.

"Some proponents of individual accounts act as if that's the solution in and of itself and avoid talking about the tax increases and benefit cuts that have to go along with the accounts," says Liebman.

Consensus can form around such measures, as long as the White House and Congress cooperate and both parties are willing to compromise, he says. Policymakers should move fast on reform, Liebman argues, to spread the costs over more generations and allow people to plan sooner.

The outcome is especially critical, he says, to low-income people, who will rely on Social Security. According to the American Association of Retired Persons, about a quarter of people receiving Social Security derive 90 percent or more of their total income from it.

"I think on substance it's clear what the outline of where the country needs to go is, and it should be possible to get a deal done," Liebman says. "The politics are tough."

Another entitlement program looms even larger, according to Wise, who has taught a course called "Population Aging, Economics and Policy." As technology

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improves medical care, people will want to increase the amount of money spent on it. The public in turn will likely want more out of the government program that funds health care for retirees.

“The problem with Medicare is three to four times as great as the problem with Social Security,” says Wise. “If you lump these two things together, you have a serious matter to take care of.”

One solution is for older people to work longer. According to Wise, the number of years people live in retirement has gone up about 50 percent since the 1960s. The age at which people will draw full Social Security benefits is scheduled to rise to 67 for those born in 1960 or later, but benefits indexed to life expectancy would help stabilize the system, he says.

“It’s really great that people are healthy and living longer,” Wise says. “But the issue is, do you want to spend all those added good years collecting Social Security benefits? I would say, probably not.”

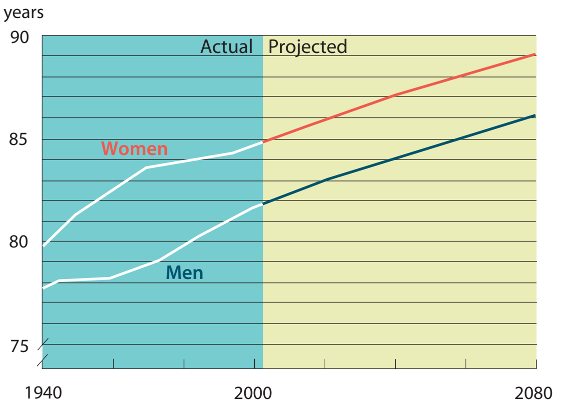
Both Social Security and Medicare are pay-as-you-go programs, meaning that the benefits provided to current retirees come from people working now. Thus the burden of caring for the baby boomers will fall on the next generation, who will also need to save for their own retirement. “I’m more worried about the people 40 years younger than the baby boomers,” says Wise. “They’re the ones who’ll have to bear the brunt of whatever adjustments are made.”

Hodge agrees that the longer we wait to adjust entitlement programs, the greater the pain. Unfortunately, he says, people talk about the problem of saddling the next generation with debt, but they usually don’t do anything about it. “Our basic history has been that it’s very difficult for our society to be proactive in terms of planning,” Hodge says.

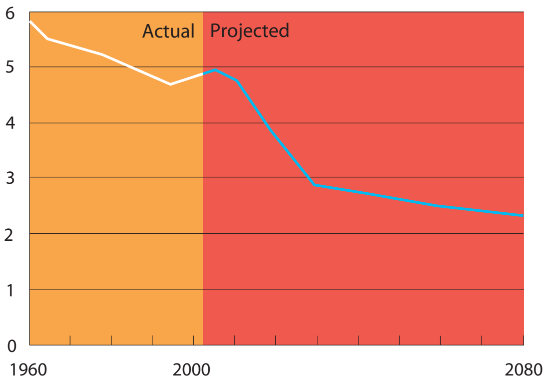
Social Security is a pay-as-you-go program, meaning that the benefits provided to current retirees come from people working now. But with life expectancies on the rise (typical boomers are projected to live about two years longer than their parents did) and the size of the labor force on the decline (there were 4.8 people ages 20 to 64 in 2000 for each person age 65 or older, compared with a projected 2.9 by 2030), changes must be made to keep the program solvent, say Kennedy School researchers.

Source: Congressional Budget Office

Life Expectancy of 65-year-olds



Ratio of population ages 20 to 64 to population ages 65 and over



HOW LONG WILL THIS BE GOIN' ON

Hodge told the 2005 White House Conference on Aging: "The graying of the United States, which is occurring as well in other industrial nations, constitutes a demographic revolution and presents the most critical public policy issue of our times."

While studying at the Kennedy School, Hodge wrote his thesis on establishing an aging policy center. Soon thereafter, he launched the Global Generations Policy Institute to raise national awareness about the necessity for planning for the aging of the American baby boomer.

He has helped do that with a recent study from the institute on baby boomer women, which warns that women have lower earning and savings rates than men and are less likely to have pensions, spousal benefits, or suitable health coverage in retirement.

"People have not paid attention to the issues related to women, especially in terms of the baby boom," says Hodge. "Most of the people who are going to be below the poverty level are going to be women, and if you take a look at the policies in place, they're all gender biased toward men."

Women are living longer than men, but life expectancy is increasing for all Americans. With life spans projected to regularly reach 100 and possibly cap at 120, Hodge says that social programs like Social Security and Medicare as well as public housing and transportation must adapt to serve the older population.

In turn, individuals must adapt as well, he says. Many people will need to work more years and save more money in order to maintain their expected quality of life. Lacking adequate savings, about one-third of baby boomers will need to work past their retirement age to supplement their income, according to Hodge.

Baby boomers may hope to tap the value in their homes to use in retirement. Yet Hodge says a softening of prices means that the equity people expect may not be available when they retire in 10 years or more. And though baby boomers stand to benefit from the largest generational money transfer through parental inheritance, Hodge also cautions that parents of baby boomers are living longer and spending more money, particularly on health care. In addition, government programs designed to support retirees may well fall short of money to do so, he says.

"A lot of Americans who are approaching retirement are adopting the point of view that the government is going to take care of them," says Hodge. "But the government's not going to be able to take care of them."

He says that people should heed the Aesop fable of the carefree grasshopper, who plays all day, and the ant, who plans for hard times ahead, when it comes to preparing for their retirements. The problem is, he says, "We have a lot of grasshoppers running around right now."

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