



Boomers and the Budget: Implications of an Aging Society

A DISCUSSION FEATURING:

Greg O'Neill, PhD

Director

National Academy on an Aging Society

C. Gene Steuerle, PhD

Institute Fellow and Richard B. Fisher Chair

The Urban Institute

Paul N. Van de Water, PhD

Senior Fellow

Center on Budget and Policy Priorities

FORUM SESSION ANNOUNCEMENT

FRIDAY, MAY 13, 2011

11:45AM–12:15PM—Lunch

12:15PM–2:00PM—Discussion

LOCATION

Reserve Officers Association
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Congressional Hall of Honor
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National Health Policy Forum

2131 K Street, NW
Suite 500
Washington, DC 20037

T 202/872-1390
F 202/862-9837
E nhpf@gwu.edu
www.nhpf.org

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OVERVIEW

It is 2011, the first year baby boomers turn age 65. The event that has been the lead in news stories on aging for many years is now a reality. Indeed, the aging of America and the pending retirement of 76 million baby boomers occupies the center of current discussions about the federal budget deficit and health care and income support policies. Policymakers are concerned about slowing the growth in expenditures for the largest entitlement programs: Social Security, Medicare, and Medicaid. With an increasing proportion of the federal budget devoted to entitlement programs, some argue that public sector support should be modified so that individuals assume more responsibility for their retirement and health care costs. Others say that any policy changes must not compromise the nature of the implied social contract the public sector has made with older people. This Forum session will address the socioeconomic characteristics of the elderly, expectations about the well-being of both the current older population and future retirees, and policy issues affecting the major entitlement programs.

BACKGROUND

Overall, today's elderly population enjoys better health and financial security and stays employed longer than previous generations. Even so, some groups of the elderly who live in poverty or have poor health have not shared in these overall improvements in well-being. The financial well-being of future retirees is difficult to predict. While some may do better than earlier generations, others may not do as well. Some analysts worry that the economic security of some cohorts of the baby boom population has been eroded by the recent recession, resulting in lower retirement portfolios and losses in home values. Those who were laid off or had wages frozen may suffer loss of future retirement income. The persistently low savings rate of people preparing for retirement is also a concern.

The good news is that older people are enjoying increased longevity and most have access to basic income and health services through Social Security and Medicare. But the costs of these programs are growing faster than the overall economy, raising concerns about their future viability. According to the Congressional Budget Office (CBO), the aging of the population and the rising cost of health

care will cause spending on Social Security and the major mandatory health care programs to grow from roughly 10 percent of GDP (gross domestic product) today to about 16 percent of GDP 25 years from now, if current laws are not changed.¹

Socioeconomic Status of the Elderly

Many socioeconomic characteristics—not age alone—play a role in determining a person’s need for social support programs. Any discussion of possible policy changes to retirement and health care programs might consider the interrelationships of age with multiple socioeconomic factors, including income and wealth, poverty, health and minority status, as well as functional abilities, living arrangements, educational attainment, and personal health care spending.

A report prepared by the Federal Interagency Forum on Aging-Related Statistics, *Older Americans 2010: Key Indicators of Well-Being*,² describes the elderly population from multiple socioeconomic perspectives. The report presents data from over a dozen national data sources to construct broad indicators of the status of the elderly. Highlights of the report are presented below, along with selected data from other sources.

Income and wealth — Social Security provides the largest share of income for most older people, followed by pensions and earnings. The share of income from earnings has been increasing since the mid-1980s, after declining for more than two decades. However, among all elderly income groups, wide differences exist in proportionate shares of income types. People with the lowest overall income rely most heavily on Social Security as their primary source of income, whereas those with the highest income have proportionally more income from other sources such as earnings, private pensions, and assets.³

Poverty rates among the elderly have declined significantly over the past four decades. Almost 30 percent lived in poverty in 1966; by 2009, about 9 percent lived in poverty.⁴ Despite these improvements in the overall picture, poverty remains high among certain groups of elderly, including minority populations (especially those living alone) and people 75 and older.

Retirement trends — Older men and women are delaying retirement and working longer in comparison to recent decades. In 2008, almost 36 percent of men age 65 through 69 were working, a level not seen since 1972. More than 40 percent of women age 62 through 64, and



more than one-quarter of women age 65 through 69, were working in 2008. Researchers attribute a portion of the increasing labor force participation among older people to the effects of various public policies, including the elimination of mandatory retirement, liberalization of the Social Security earnings test, and gradual increases in delayed retirement credits under Social Security.⁵ Continued good health of many older people as well as fears about the future of the national economy and declines in pension funds may play a part in decisions to work longer.

Spending on health care — Average annual health care costs for Medicare enrollees—both out-of-pocket and those covered by insurance—rose by 50 percent from 1992 to 2006 (after adjusting for inflation). High rates of chronic illness among some of the elderly account, in part, for higher overall spending. People with multiple chronic conditions have higher costs than those with better health.

Rising health care costs do not affect all elderly groups equally. Average annual health care costs were higher for Medicare enrollees with lower income than those with higher income, in part due to poorer health among low-income beneficiaries who also may be among the older old. While Medicaid covers health care services for those with very limited income and assets, many low- and moderate-income individuals may be ineligible for Medicaid and face large out-of-pocket expenses.

Paying for long-term services and supports (LTSS) — The risk of needing LTSS increases with age; most people are not prepared for the expenses associated with paying for potentially high costs of care they may need in the future. For example, in 2010, the average annual cost for nursing home care was almost \$75,000; for care in an assisted living facility, the cost was over \$39,000.⁶

One study estimated the risks of needing LTSS. It found that 69 percent of people turning age 65 in 2005 would need, on average, three years of LTSS assistance before they died; the other 31 percent would not need any LTSS. Most older people who need LTSS receive help from family and other informal caregivers in their own homes and may not incur large out-of-pocket expenses. However, for a small proportion of people, paying for LTSS can be a significant burden. About 6 percent of people can be expected to incur expenditures of \$100,000 or more, and about 12 percent will likely have expenditures from \$25,000 to \$100,000.⁷

While long-term care insurance could help offset future LTSS costs, very few people carry such policies. In 2009, only about 7 million lives were covered by long-term care insurance policies.⁸ Paying for LTSS may exhaust the income and assets of many older people who do not have long-term care insurance and may lead to Medicaid eligibility. In fact, Medicaid is the largest source of payment for LTSS expenses. Of all national spending for LTSS in 2009 (over \$203 billion), Medicaid represented almost 62 percent, followed by out-of-pocket spending by consumers at almost 23 percent.⁹

The Future Well-Being of the Boomers

Whether future cohorts of the elderly population will mirror the patterns of preceding generations is difficult to predict. Various socioeconomic factors, such as health and disability status, household composition, income and wealth, age at retirement, and minority status play a part in assessing the retirement security of future retirees. Some research on the baby boom population conducted by the Urban Institute (UI) has suggested that some can expect higher incomes and lower poverty rates in retirement than current retirees, but not all groups will be equally affected. One study suggested some subpopulations will remain economically vulnerable, such as divorced women, never-married men, Hispanics, high school drop-outs, those with weak labor force attachments, and those with the lowest lifetime earnings.¹⁰

The pace of increase in health care costs is likely to erode the retirement income of many retirees. Although many factors, such as federal policies to rein in costs and technological advances in care delivery, may affect out-of-pocket health care spending, many analysts are concerned about continuing and sustained increases in costs on future cohorts of retirees. Another UI report indicated that because health care costs will grow more rapidly than incomes, the financial burden of paying for health care services by older adults will also increase. The report estimates that between 2010 and 2040, the median share of household income to be spent on health care by Americans age 65 and older will increase from 10 to 19 percent, and that “rising out-of-pocket health care spending will consume about 60 percent of the growth in older Americans’ real household incomes between 2010 and 2040.”¹¹ In addition, the need to pay for LTSS expenses may affect retirement security of many older people.

Retirement patterns may not be similar for all groups of older workers. While many baby boomers appear to be delaying their age of

retirement, some groups may not be able to do so, for example, people with poor health status or disabling conditions and those caring for a disabled spouse or other family member. UI research has shown that there are racial differences in retirement patterns with African Americans retiring earlier than other groups, possibly due to labor market discrimination, family care responsibilities, and lower levels of job satisfaction.¹²

KEY QUESTIONS

- How fast is the elderly population growing? Which states and communities have the highest concentrations of elderly? Income below the poverty level? Higher proportions of those with disabilities?
- What are the major sources of income among the elderly population? How are the sources and distribution of income among the elderly population changing over time? Which subpopulations of the elderly rely most heavily on Social Security?
- What effect will increased labor force participation have on incomes of future elderly?
- How will rising health care costs and the need to pay for LTSS expenses affect the retirement security of baby boomers?
- Are baby boomers saving enough for their retirement? If not, how can they be encouraged to do so?
- What are the implications of the increased spending for Social Security, Medicare, and Medicaid for the federal budget, budget deficits, and tax and fiscal policy?
- How much of the increasing costs of federal spending on Social Security, Medicare, and Medicaid is due to the growth of the elderly population versus higher health care costs?

SPEAKERS

Greg O'Neill, PhD, is the director of the National Academy on an Aging Society, the policy institute for the Gerontological Society of America that specializes in population and aging. He is the co-editor of *Public Policy & Aging Report*, the Academy's signature publication. His publications include "The State of Aging and Health in America," a national and state-by-state report card on healthy aging and "The Baby Boom Age Wave: Success or Tsunami?"

C. Eugene Steuerle, PhD, is Richard B. Fisher Chair and Institute fellow at the Urban Institute. He serves on the advisory panels or boards for the Congressional Budget Office, the Government Accountability Office, and the Joint Committee on Taxation. Dr. Steuerle has served as deputy assistant secretary of the Treasury for Tax Analysis, president of the National Tax Association, resident fellow at the American Enterprise Institute, federal executive fellow at the Brookings Institution, and a columnist for the *Financial Times*, among others.

Paul N. Van de Water, PhD, is a senior fellow at the Center on Budget and Policy Priorities, where he specializes in Medicare, Social Security, and health coverage issues. Previously he was vice president for health policy at the National Academy of Social Insurance, was assistant deputy commissioner for Policy at the Social Security Administration, and served at the Congressional Budget Office.

ENDNOTES

1. Congressional Budget Office, "The Long-Term Budget Outlook," June 2010, available at www.cbo.gov/ftpdocs/115xx/doc11579/Summary_LTBO.pdf. CBO defines the major mandatory health care programs as Medicare, Medicaid, the Children's Health Insurance Program, and health insurance subsidies that will be provided through the exchanges established by the Patient Protection and Affordable Care Act of 2010.
2. The Federal Interagency Forum on Aging-Related Statistics (FIFARS), *Older Americans 2010: Key Indicators of Well-Being*, July 2010, available at www.agingstats.gov/agingstatsdotnet/Main_Site/Data/2010_Documents/Docs/OA_2010.pdf.
3. FIFARS, *Older Americans 2010*. For these data, incomes of older people are divided into quintiles. Those with the lowest income are people with income below \$12,082; those with the highest income are those with income above \$55,880.
4. The 2009 poverty threshold for an elderly person was an annual income of \$10,289 or less. Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, *Income Poverty and Health Insurance Coverage in the United States: 2009*, U.S. Census Bureau, Current Population Reports, P60-238, September 2010, available at www.census.gov/prod/2010pubs/p60-238.pdf.
5. Joseph F. Quinn, "Has the Early Retirement Trend Reversed?" Boston College Working Papers in Economics, Working Paper 42, May 1999, available at <http://fmwww.bc.edu/EC-P/WP424.pdf>.
6. MetLife Mature Market Institute and LifePlans, Inc., "Market Survey of Long-Term Care Costs," October 2010, available at www.metlife.com/assets/cao/mmi/publications/studies/2010/mmi-2010-market-survey-long-term-care-costs.pdf. Amount cited for nursing homes is for a semi-private room. The national average annual cost for a private room in 2010 was \$83,585.

7. Peter Kemper, Harriet L. Komisar, and Lisa Alexih, "Long-Term Care Over an Uncertain Future; What Can Current Retirees Expect?" *Inquiry*, 42, no. 4 (December 2005): pp. 335–350.
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12. Dan Murphy, Richard W. Johnson and Gordon B.T. Mermin, "Racial Differences in Baby Boomers' Retirement Expectations," *Older Americans' Economic Security*, The Retirement Project, no. 113, May 2007, available at www.urban.org/UploadedPDF/311414_Racial_Differences.pdf.