Essay

# More Work and an Elusive Retirement

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Economic inequality has grown to historic levels over the last several decades and has received increased attention in the last few years. As we contemplate the future of work for older workers, what are the implications of growing economic inequality for them? Income inequality was at its lowest point in the last 100 years in the 1970s, around the time today's retiring baby boomers began their adult working lives. Since then, inequality has grown to levels not seen since the Gilded Age.

The first implication of growing economic inequality for low- and middle-income older adults is that they have been economically smothered by stagnating or declining wages *their entire working lives*, even though the overall economy and incomes of the top earners have grown at a healthy pace.

The second implication is that a lifetime of low wages produces low Social Security retirement benefits. The Urban Institute found that approximately two out of three baby boomers that had low earnings between ages 22 and 62 will end up with low incomes in retirement. Although a low-income retirement is a function of low incomes in the working years, the growth in inequality has exacerbated this problem, leaving even more retirees to face economic insecurity in retirement.

The third implication of increased economic inequality for low- and middle-income workers as they age is the inability to contribute to other retirement benefits to counter-balance their scant Social Security benefits. Across the board, employers have shifted away from offering traditional defined benefit pensions and moved toward defined contribution plans. This may have helped increase profits for corporations and shareholders, but it has reduced retirement economic security for workers.

Low-wage jobs frequently lack any sort of employer-based retirement benefit; workers in those jobs often cannot afford to contribute to retirement accounts in any case. In 2010, only 1 in 10 households in the bottom fifth of the income distribution had savings in a retirement account. The disparity between the top fifth of earners and the bottom fifth is enormous: in 2010, the savings in retirement accounts for the top fifth of earners amounted to 72 percent of the total national savings in retirement accounts.

A final implication of growing economic inequality is anemic and vanishing assets and wealth to help people get ahead during their working years, to use in retirement, or to pass on to the next generation. Between 1995 and 2010, the bottom 40 percent of

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income earners lost wealth, while their wealthier counterparts experienced flat or increased wealth. Similar to the struggle to save for retirement, low- and middle-income workers struggle to save and invest in home ownership, education for themselves or their children, and other investments. A stagnate income can only go so far, especially when it is being eclipsed by the rising costs of housing, health care, and education.

Nationally, from the height of the economic boom to the lowest point in the bust, household wealth lost approximately $16 trillion dollars. Of what has been recovered, most of the gains were in the stock market, which primarily benefit wealthier households, as less wealthy families accrue wealth predominantly in home ownership. In terms of income gains in the wake of the recession, the top 1 percent of households captured more than three-quarters of those gains between 2009 and 2013.

So what can we do to mitigate these tough implications? Action is needed for low- and middle-wage workers on two fronts. First, we need to protect Social Security benefits for older workers whose entire careers have been marred by economic inequality and who face bleak retirements. These benefits provide a critical economic cushion for these older workers.

A recent survey by the National Academy of Social Insurance (NASI) on Social Security trade-offs found that most Americans—across ages, income levels, and political party affiliations—preferred a package of Social Security reforms that would include increasing Social Security's cost-of-living adjustment and raising the minimum benefit so that a worker who pays into Social Security for 30 years can retire at 62 or later and have benefits above the federal poverty line. Survey respondents also preferred to gradually (over 10 years) eliminate the cap on earnings that are taxed for Social Security (the cap in 2014 was $117,000) and to gradually (over 20 years) raise the Social Security tax rate that workers and employers each pay from 6.2 percent of earnings to 7.2 percent.

The impact of any further increases in the retirement age should be carefully considered, since low-wage workers in physically demanding jobs will struggle to keep working with worn-out backs, knees, and hips. Respondents to the NASI survey agreed that the retirement age should not be significantly increased. Additionally, we must protect and strengthen the social safety net for all low-wage workers and families, including those in their later years. This includes public health benefits like Medicaid and Medicare, Supplemental Security Income, housing supports, food assistance, and so forth.

On the second front, we must work to prevent future generations of older workers (i.e., today's prime-age workers) from such economic insecurity in their older years. Raising wages to levels at which workers can support their families helps those families today and in the future in the form of stronger Social Security benefits and additional retirement savings. Ensuring that housing, health care, education, and other basic needs are affordable through policies like the Affordable Care Act and Pell Grants can counterbalance the increasing costs of these essentials. Both fronts need to include healthy doses of financial literacy to better prepare individuals for the shift to "do-it-yourself" retirement and other investment management, and for the complex financial instruments and transactions involved. More transparency, "plain language" literature, and guidance on these complex financial products would also be helpful.

Older workers have not escaped the recently spotlighted economic inequality; they've been living with it their entire working lives. The future of work for many low- and middle-wage workers is that they will have to continue working and forgo traditional retirement in order to achieve basic economic security in their older years. However, protecting Social Security benefits and strengthening the social safety net can help them carve out a semiretirement in which they can rest from full-time work, spend time with grandchildren, and age with dignity.

*The views expressed by the author are meant to encourage debate and discussion; they do not necessarily represent official policies of AARP.*

Essay 14, June 2015


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