

Justice Partnership



PROSPECTS FOR THE SOCIAL SAFETY NET FOR FUTURE LOW INCOME SENIORS

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Executive Summary

Older Americans have benefited substantially from the two key government entitlement programs, Social Security and Medicare, and from extra support for those with very low incomes. But the gains from these programs and from other sources of retirement security have slowed over time (for a variety of reasons) and the future likely will not lead to substantial improvements in financial security for seniors unless policy changes in ways that do not now seem likely. Indeed, people reaching the age of 65 who have had only low incomes over their lifetimes will continue to suffer from a lack of resources, and others with modest incomes may face declining economic status.

Why are the prospects so guarded for the future of these individuals? First, shifts in the private sector suggest a number of barriers to retirement health and income security. For example, pensions are more likely to be based on defined contributions rather than defined benefits—and hence depend upon individuals' willingness and ability to contribute consistently over time and not withdraw contributions when they change jobs. People whose salaries are low or moderate are less likely to participate in the first place. Employers have reduced the generosity of retiree benefits over time. Another important source of economic well-being is savings, and again, lower income persons are more likely to reach retirement with low levels of savings. Savings tend to be even more unequally spread across the population than income. All of these trends contribute to a likelihood of greater inequality over time in retirement incomes, potentially masking the plight of the most vulnerable.

Projecting into the future is always difficult, particularly if one is focusing on a portion of the elderly population. Estimating future income and health care costs on average for the elderly is likely to be more accurate. The message even for the average senior is that health care costs paid by individuals will rise at a substantially faster rate than incomes for the foreseeable future. This will thus increase burdens and diminish the ability of older Americans (assuming no change in policy over time) to meet other needs in retirement.

Equally important is the issue of increased risk on older Americans. That is, the extent that income sources are based on individual decisions and behavior, there is less protection against untoward events. For example, poor individual decisions regarding investments in defined contribution pension plans, or shocks to the market—such as the recent housing credit problems that are beyond the control of individuals—can create considerable swings in returns that can be expected over time. Similarly, the decline in employer-covered retiree health insurance leaves more people vulnerable to problems with out-of-pocket health care spending.

What does this mean for our public programs supporting people in retirement? The need for these programs both to bolster financial status and to protect against risk will increase over time—contrary to claims made by analysts who expect increasing well-being for this group. In practice, there is little to indicate any willingness to expand these programs, even for the most vulnerable. For example, just as with other programs (like SCHIP), there is little sensitivity to the fact that low income protections likely need to rise over time as a share of poverty when health care costs grow as a share of income.

Moreover, the philosophy behind many current reform proposals is to increase personal responsibility—and hence to raise individuals' risks. Two good examples of this are the Medicare Advantage private health plan options and the new drug plans under Medicare. In both cases, out-of-pocket liabilities will vary depending upon individuals' choices. And if these plans morph even more explicitly into a defined contribution approach, risks of higher costs over time are also likely to be shifted to beneficiaries.

A key challenge for the future will be to sustain support both for entitlements overall but also to recognize potentially increasing needs for support for those with lower incomes. In terms of policy, this may lead to conflicts between these two goals and challenges for advocacy groups in setting priorities.