

Written Testimony of Teresa Ghilarducci* 1

“100 Years of Progress In Equalizing Retirement Is Under Dire Threat”

UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON EDUCATION AND LABOR

SUBCOMMITTEE ON HEALTH, EMPLOYMENT, LABOR, AND PENSIONS

Hearing title: “Examining Pathways to Build a Stronger, More Inclusive Retirement System”

Wednesday, June 23, 2021, at 10:15 a.m. (Eastern Time)

1 LIFE BEFORE SOCIAL SECURITY AND PENSIONS

Before Social Security and defined benefit plans, workers were more likely to die than retire. In 1920 a 60-year-old man was more than likely to die on the job than retire.² Women’s work was mainly in unpaid household production, the most important paid work was taking in boarders— the modern day Airbnb and she likely didn’t retire either.³ Most workers who didn’t die on their job were disabled and bedridden were cared for mainly by wives, husbands, daughters or daughter-in-laws.

In the 15 years or so years before Social Security was passed in 1935, only a few soldiers, union members, and government and railroad workers had pensions. Up until 1950s only the privileged were able to truly retire. In the 1940s only 3% of retirees aged 65 and over said they retired because they wanted to — they had the wealth and health to do so. Retirement for leisure was rare.

At the end of the 19th century, the unlucky elderly without work or relatives lived in poor houses and when the county poor houses dismantled, the elderly poor were transferred to what were at that time called “insane asylums” in the early 20th century.⁴

Age was the biggest poverty risk factor. We do not have data on elder poverty before 1959,⁵ but we know that in 1920 elders spent 44% of their meager incomes on food.⁶ For comparison, now the average food share is about 7% and 10% for the poor.⁷ The U.S. still has high elderly poverty rates – the official poverty rate is 13% — and the OECD measure is 20% — the highest in the core OECD (see Graph below). Your grand or great-grandparents were at high risk of living in a walk-up, in someone’s basement, or in the barn.

2 LIFE AFTER SOCIAL SECURITY AND PENSIONS

Progress was marked by retirement equity due to DB pensions and Social Security.

In 2021, someone turning 65 could expect 12 to 18 years of not working depending on their class, race, and gender. Though Black women in the bottom third of the income distribution can expect to live 12 more years after she withdraws from the labor force (with a sad 30% of those years encumbered by severe disability). A working man in the bottom third of the educational attainment distribution – a good proxy for socio-economic status — who made it to age 50 could expect 12.6 years of retirement before he died. A man in the upper third of the class distribution could expect 14.3 years of retirement leisure. A class divide exists in retirement duration to be sure, but it is remarkable that now both the prosperous and low-income worker can each expect some period of leisure at the end of their working lives.

I am a federal court-appointed trustee of the \$60 billion health care trust for the United Auto Workers and \$1 Billion trust for the United Steel Workers. The DB pension plans and retiree healthcare gave workers the ability to leave the plant and mill. These over 700,000 or so elder members and spouses enrich the health and wealth of their communities with their health insurance and disposable income in every state: Michigan, Georgia, Pennsylvania, New Jersey, New York etc. They won't be there in the next generation.

Longer longevity is true progress. But life spans are not equally distributed. And longer lives don't come from the sky. Most of the longevity gains have gone to the top of the income distribution.

And much of the increased longevity and health gains are caused by relieving people from the stress of working or looking for work in their old age, offering pension and Social Security income instead. Peter Arno and colleagues found that⁸ cutting income to the elderly security could reverse longevity gains by at least a half. We cannot make the mistake of thinking because we have made progress in living longer, this means we can work longer.

Retiring voluntarily is progress, though we have some ways to go before achieving equity. In the last recession in 2008, Urban Institute's Rich Johnson and Peter Gosselin found 66% of retirees did not retire voluntarily⁹ and the numbers for this recession are probably higher.¹⁰ For reasons I will address later, forced retirement is worse for the bottom half of the income distribution.

Another sign of progress is, as Social Security, Medicare, and Old Age Assistance became a part of a working people's life cycle income, elders could reside and plan to reside independently. Most of the increase in older women living independently from 1950 to 1990 is explained by the increase in Old Age Assistance and Social Security.¹¹ In 1886, 46% of retired men aged 65 and older were living with kin. By 1990, that fraction fell to 5%. This change is not caused by new social norms or is the result of having fewer children, it is because incomes have risen.¹²

3 WHY HAVE WE LOST PROGRESS IN RETIREMENT EQUITY?

But we have lost ground in retirement and longevity equity and preventing elder poverty for four main reasons. We have less retirement equity and impending retirement elder poverty because of the following:

1. Unfair tax code transfers aid to the top earners.
2. Shift to 401(k) type-plans erodes pension security and coverage;

3. The lack of universal pensions creates elder poverty and inequality;
4. Middle and low-income older workers can't easily work longer which creates elder poverty and inequality.

The tax expenditure for retirement plans favors the high-income worker with stable jobs —70% of the \$250B go to the top 20% of earners. Extending the age people need to withdraw from IRA, just makes the inequity worse.

Fewer than 15% of the workforce has a secure defined benefit plan now, back in the 1970s all workers with a plan had a DB plan. What is wrong with 401(k) type plans. Well, they are better than nothing but 401(k) work much better for the well off. That pensions and retirement accounts are not universal for all workers like Social Security is one of the main reasons we are going back to the past of undignified retirements.

The Do-It-Yourself, individual -directed, commercial, voluntary retirement system started in the 1980s with the 401(k) and Individual Retirement Account. Boston College economists, Ordinary workers who are lucky enough to have a retirement plan at work likely have do-it-yourself 401(k) type plans, and not the older-type of defined benefit pensions, in which employers contribute and professionals manage, and earn a much higher rate of return than individual accounts.¹³

One of the biggest problems with DC plans and also DB plans is that they were voluntary. Then as now most workers don't have access to a retirement account or rising wages expecting people to voluntarily save for retirement is a predictable disaster.

The current retirement system which include odd bits of tax code and employer practices ends up serving the short-term needs of mostly upper-income workers.

In sum: In the last 100 hundred years older people are better off because:

1. Progress is lower elderly poverty;
2. Progress is that elders can live independently from kin and out of mental institutions and off the streets and older women don't take in borders.
3. Progress meant higher incomes brought actual voluntary retirement, shorter work lives and more longevity.
4. Progress brought more equity in retirement time, the rich and poor alike could retire.

Increased national wealth produced a lot of everything good. —Today the GDP is about \$57,000 per person, which is an increase of almost nine times that of its value in the 1920s.¹⁴ With this increase, we have ended child labor, people are taller, we treat heart attacks, we negotiate world peace, and we achieved worker-choice retirement and retirement equity. But all this progress is at risk.

Forced retirement makes working longer a mere dream.

Using the HRS, a nationally representative longitudinal dataset, New School PhD candidate Aida Farmand, found that between the years 2010 to 2018, 55.3 percent of workers aged 55 and older in the bottom half of the income distribution were forced to leave the workforce because of layoffs, plant closings, age discrimination, poor health, and family concerns. A lower, but still substantial share, 32.4 percent in the next 40% of the income

distribution – the middle class – were forced out of work in old age. Even the most prosperous older worker was forced to retire before they planned; 30.4 percent of those in the top 10% of the income distribution were forced to retire. (Due to small sample sizes the averages are unstable.)

Share of retired workers who retired involuntarily 55 years and older. 2010-2018			
	Bottom 50 of income distribution	Middle 40 of income distribution	Top 10 of income distribution
2010	66.5	40.3	27.5
2018	38.2	23	18.1

Source: Author's calculations based on RAND HRS longitudinal File and Health and retirement study core files for 2010, 2012, 2014, 2016 and 2018. Note: Retirees who cite business closure or change of ownership, layoffs, poor health, family care or quitting over problems at work as causes for leaving their last job before retirement are classified as involuntary retired.

The bottom line is that in recessions almost half of retirees say they retire earlier than they wanted to because of work, health, or family care reasons.

History casts shade on the idea that cutting Social Security by raising the retirement age, essentially forcing people to work longer, is warranted because people are also living longer. Though it is true that people are healthier, people are living longer because they can voluntarily retire and take a break, with Social Security and pension income.

Even still, Americans have surpassed the Japanese and Germans in the number of hours of work per day, days per week, weeks per year and years per lifetime. Americans work more than any other worker in the G-7.¹⁵ Another reason working longer is a fantasy solution is that Americans already work more hours per day, more days per week, more weeks per year and more years per lifetime than any other worker in the G-7.

This country's vision for pensions and modern social insurance was present at its founding. Thomas Paine's last essay, published in 1795, called for a public system of economic security for the new nation. Paine proposed "a 10% inheritance tax [to] help fund a one-time lump sum at age 21 and annual benefits to every person aged 50 and older to guard against poverty in old-age."¹⁶

4 THREATS ERASING 100 YEARS OF PROGRESS IN RETIREMENT EQUITY.

The median retirement savings balance for the bottom 50 percent of American families is \$0.¹⁷ And if we do nothing in the next ten years two in five of older middle- and lower-income workers and their spouses will be downwardly mobile into poverty when they move into their retirement years.¹⁸

If we do nothing for pension or retirement security, we will erode years of progress. We will have

1. More elders living with adult children
2. More elder poverty
3. More people dying on the job or looking for work.
4. More older women taking in boarders.
5. Significant inequality in retirement time equity
6. Only the well - off and high – income profession will have access to a dignified old age

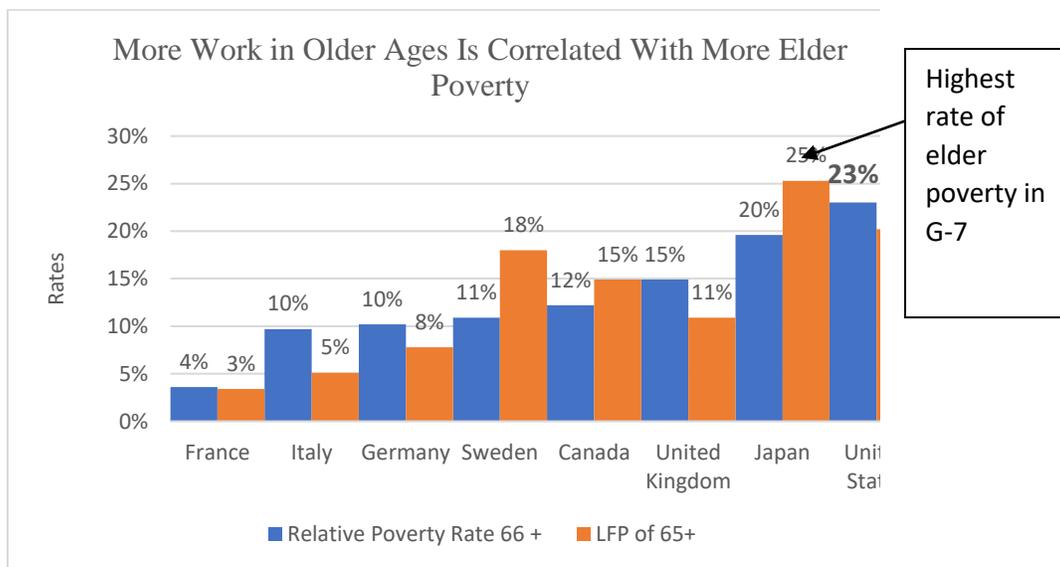
To continue the progress of retirement equity, longer lives, less retiree poverty and more retiree security Congress should tend to Social Security finances and create pensions for all.

In my 2008 book I recommended universal funded pensions for all. Tony James, then President of Blackstone Group, and I wrote *Recusing Retirement* a book with the a similar proposal in 2018, and now Kevin Hassett, former chair of President Trump’s Council of Economic Advisors and I have come together with the Economic Innovation Group to propose that everyone should have [access to a pension like the one federal government employees enjoy](#), the Thrift Savings Plan.¹⁹ Kevin and my plan is a truly bipartisan framework to equalize wealth and retirement.

Congress should avoid making things worse by privileging those with substantial wealth in Individual Retirement Accounts, and force elders to work or look for work. Such an approach could erase decades of progress of equity and dignity in old age.

Appendix:

Elder Labor Force Participation and Elder Poverty in the G-7 Plus Sweden



Source: (OECD). Note that the rate of poverty in the U.S. differs from the U.S. lower reported number because the OECD uses a relative standard and the U.S. an absolute which is much lower than the national standard .

OECD (2020), Poverty rate (indicator). doi: 10.1787/0fe1315d-en (Accessed on 01 September 2020); <https://data.oecd.org/emp/labour-force-participation-rate.htm>

Class Differences in Retirement Time (derived by author and published several places) ²⁰

	MEN Retirement Duration (years)	WOMEN Retirement Duration (years)	Share of retirement time spent sick	Share who died without retiring (share with zero retirement time)
Average	13.7	17.7	26%	9%
Lowest one third of Education Attainment*	12.6	15.9	35%	10%
Middle Third of Education Attainment	14.3	17.5	26%	10%
Highest Education of Education Attainment	14.3	19.7	20%	7%

REFERENCES

¹ Professor Teresa Ghilarducci, Bernard L. and Irene Schwartz Professor of Economics and Director, Schwartz Center for Economic Policy Analysis (SCEPA) at the The New School in New York and for 2021 I am a Visiting Scholar in the Economics Department at the University of California Santa Cruz

² Dora Costa, The Evolution of Retirement. University of Chicago Press 1990. P.

³ In 1920s, about 60% of men over age 65 were in the paid labor force – at the farm or in the rapidly developing industrial sector. Dora Costa, The Evolution of Retirement. University of Chicago Press 1990. P.23. That women have emerged economically is progress, for women have gained independence and access to leisure. Working class women today have many other choices beside taking in boarders and performing unpaid care work. (Although over 90% of personal and home healthcare workers are women.)

⁴ If you want to know more about how the elderly poor were treated before Social Security and pensions, read this student review of the literature, Huddleston, Diane M. "The Poorhouse: Industrialization of the Poor." Department of History Capstone paper, Western Oregon University, 2012. But I rely on the scholarly writings of Skocpol, Theda, Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States. Cambridge: The Belknap Press of Harvard University Press, 1992. and Sutton, John R., "The Political Economy of

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⁵ <https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-people.html>

⁶ Dora Costa, *The Evolution of Retirement*. University of Chicago Press 1990. P. 137.

⁷ Who spends what on what by income distribution? These government data are very instructive. The poor pay more of their income on food. [Annual expenditure, Consumer Expenditure Survey, 2019](https://www.bls.gov/opub/reports/consumer-expenditures/2019/home.htm#tableC) <https://www.bls.gov/opub/reports/consumer-expenditures/2019/home.htm#tableC> Table 2. Deciles of income before taxes: Average annual expenditures and characteristics, 2019

⁸ Norstrom, T. and Palme, J. (2010) Public Pension Institutions And Old-Age Mortality In A Comparative Perspective. *International Journal of Social Welfare* 19: S121-S130.

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See also, Cutler, D. and Meara, E. (2004) “Changes In The Age Distribution Of Mortality Over The 20th Century.” In: D.A. Wise (ed.) *Perspectives on the Economics of Aging*. Chicago, IL: University of Chicago Press, pp. 333-366.

⁹ Johnson, R., & Gosselin, P. (2018). *How secure is employment at older ages?* Urban Institute. Retrieved June 13, 2021 https://www.urban.org/sites/default/files/publication/99570/how_secure_is_employment_at_older_ages_2.pdf

¹⁰ The retirement rates in the pandemic shot up for workers without college in the first quarter of 2021. Davis, O., Fisher, B., Ghilarducci, T., and Radpour, S. (2021). “The Pandemic Retirement Surge Increased Retirement Inequality.” Status of Older Workers Report Series. New York, NY. Schwartz Center for Economic Policy Analysis at The New School for Social Research.

¹¹ [A house of her own: old age assistance and the living arrangements of older nonmarried women](#) DL Costa - Journal of Public Economics, 1999

¹² Costa, Ibid. Page 130

¹³ Scholarly work show that defined benefit plans are structured so the value is high at relatively younger ages compared to peak value in DC plans, which always increase over time Switching from DB to DC boosted elderly work effort. There are several classic articles on this point. See

Friedberg, Leora and Anthony Webb. "Retirement and the Evolution of Pension Structure," *Journal of Human Resources*, University of Wisconsin Press, vol. 40. no. 2 (2005): <http://jhr.uwpress.org/content/XL/2/281.full.pdf+html> and the powerful duo, Gustman, Alan L. and Thomas L. Steinmeier. "How Changes in Social Security Affect Recent Retirement Trends." *Research on Aging*. vol. 31, no. 2 (March 2009): 261-290. <http://doi.org/10.1177/0164027508328312>. More from Alicia Munnell's research shop, Wenliang Hou, Alicia H., Munnell, Geoffrey T. Sanzenbacher, and Yinji Li. "Why Are U.S. Households Claiming Social Security Later?" *Center for Retirement Research at Boston College*. (April 2017): https://crr.bc.edu/wp-content/uploads/2017/04/wp_2017-3-2.pdf.

¹⁴ See *St Louis Federal Reserve* series on GDP.

¹⁵ Ghilarducci, T. 2020 "Making Old People Work". *Politics and Society*

¹⁶ <https://www.ssa.gov/history/briefhistory3.html>

¹⁷ https://www.economicpolicyresearch.org/images/Retirement_Project/Guaranteed_Retirement_Accounts/RetirementSecurityFastFactsJune3.pdf

¹⁸

https://www.economicpolicyresearch.org/images/docs/research/retirement_security/Downward_Mobility_in_Retirement_P_N.pdf

¹⁹ The Economic Innovation Group (EIG) has published [my paper](#) with Kevin Hassett the former Chair of the White House Council of Economic Advisers for Donald Trump.

²⁰ Teresa Ghilarducci and Tony Webb. "The Distribution of Time in Retirement: Evidence From the Health and Retirement Survey." *Work, Aging and Retirement*, Vol. 4, No. 3, July 2018, p. 251-261.