

The Political Economy of
"Pro-Work" Retirement Policies and Responsible Accumulation

Teresa Ghilarducci
University of Notre Dame

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Robin Blackburn's masterpiece *Banking on Death* and his conference paper "The Great Pension in Crises" (2003) gets it right. Pension systems should be judged for their roles in promoting income security and economic development. Unfortunately, pension systems are now being harshly judged for "distorting" labor markets (by encouraging "premature" retirement) and bankrupting national budgets (OECD 2004, AARP Global Aging Project). Blackburn (2004) emphasizes that only under certain circumstances does securing workers' pensions serve the interests of business and finance and, optimistically, he claims these circumstances can be recreated under "responsible accumulation" programs. I share his hope but strategies to secure pensions are limited if they are constructed without regard to how pension systems conflict with labor policy goals. Workers' entitlement to retirement leisure is now challenged and the right to paid retirement undergirds any argument for labor's control over pension fund capital. Moreover, retirement rights are the reason pension funds are accumulated. Without the promise of retirement, the hope for responsible accumulation of capital to back up pension promises is moot.

This essay addresses this first principle – that workers' right to retirement is a hard-won labor victory and it is under attack. The right to control the funds that back labor's retirement depends on the quality of the argument for retirement.¹

In concert with Blackburn I connect the dynamics of capitalism, that both neoclassical and heterodox economists identify, which is as industrialized market

¹ The funding of pensions and workers' representation in the management of the funds is embodied in conventions of the International Labor Organization, which says that a fundamental right of labor is to participate in the management of the funds securing workers' pension promises. ILO Convention 128 Invalidity, Old-Age and Survivors' Benefits Convention, 1967 Article 36 (<http://www.ilo.org/ilolex/english/subjlst.htm>.)

economies mature, a greater share of the population become wage workers -- slaves become free labor, mothers clerks, children interns, and independent pharmacists WalMart associates. However, one sector of the adult population stands apart -- older workers struck a social bargain to be paid without working. In the last forty years, workers obtained financial ability and social permission to retire without proving infirmity – “healthy retirement” became a legitimate expectation of the working and middle classes. Yet, by the late 1990s, this bargain has become under attack around the globe as pensions are cut and retirement ages are raised.

This essay argues that public sector budgets and employers’ interests have prevailed in pension reform debates (I refer mostly to the U.S.) because pension reform is increasingly geared towards encouraging older workers to postpone retirement and retirees to reenter the work force. These policies do little to improve workers’ standard of living and could lead to unstable counter-cyclical increases in labor supply. Shoring-up pension promises with efficient and responsible fund management can be done with “inside-the-box,” conventional measures if the political will to support retirement was strong.

Here are some of my key findings on retirement:

1. Older Americans must work longer to regain 30% of pensions lost since 1970 to maintain the same material living standards. Since life expectancy has improved by only 16%, older Americans have lost 14% of old age leisure.
2. When men reached aged 65 in 1950 they got more retirement leisure than the cohort just 5 years older by retiring earlier. Men turning 65 in 1965 obtained even more retirement leisure by both living longer and by retiring younger. However, retirement leisure has taken a U-turn because gains in longevity have slowed and older men and women work more.
3. That improved longevity means workers should postpone retiring is a canard based falsely on the assumption that improved longevity and more retirement are unrelated. In fact, retirement causes better health. Retired men exhibit slower rates of health deterioration and retired women’s health improves (Neuman 2004).
4. The ability of older people to work longer has not improved. Since 1981 the share of older workers reporting limitations in the ability to work as stayed steady at about 15 - 18%.
5. Defined benefit pensions and state pensions allow workers to retire at approximately the same “real” ages, compared to chronological ages. (Italy does this best by allowing retirement based on years of work not birth year). Workers likely to die earlier are able to retire earlier. Defined benefit and other annuities are social levelers yet the change in pension form increase social inequality.
6. U.S. DC (401(k)- types plans) cause macro economic instability. Workers over 55 with DC plans work are less likely to retire in downturns and more likely in booms. Precisely, the opposite effect wanted to moderate unemployment.

Of course, identifying the loss of retirement begs the question about whether the financing of retirement is within reach. It is. Here are some of my policies to secure pensions and promote economic growth which align themselves loosely with Robin Blacwell's proposed ways to finance and govern a national pension plan.

1. Integrate a mandated advanced-funded, DC supplement, with the state (Social Security) pension system. Workers apparently find individual accounts enormously appealing. This passion has power and should be embodied in a retirement income security scheme.
2. Encourage occupational pension across economically linked enterprises. Labor unions and worker organizations must coordinate these organizations when employers won't.
3. Provide not-for-profit money management firms (in the U.S. they may be best linked to state retirement systems or naturally occurring employer groups.)
4. Make employers pay 401(k) fees to lower costs.
5. Encourage cash-balance pension plans in order to reestablish defined benefit plans..
6. Maintain U.S. Social Security system by expanding the earnings base and raising payroll taxes.

This essay is weighted towards linking pension reforms with retirement trends and labor policies rather creating a detailed blueprint of pension reforms.

Pensions and Labor Policy Regimes

I agree with Blackburn that pension provision is intimately related to the regime of accumulation but pensions are also related to the labor policy regime. Ignoring the role in labor policy misses a crucial source of the pension crises. Employers need to boost the supply of labor to blunt upward pressure on wages and working conditions. Employers, especially throughout U.S. history, chronically complain about widespread labor shortages and call for pro-labor supply policies: these include guest work programs, liberalized child labor laws, the use of prison labor, and the economic emancipation of women.

Chronic complaints about labor shortages inform neo-conservative pension reform analysis in much of the OECD, especially in Sweden, the U.K., and Japan. In the U.S. pension reform discussions usually start with a version of the Department of Labor's forecast that 168 million jobs will be created in 2010 but 158 million people will be in the labor force. Every economist predicts this means equilibrium wages and working conditions will rise. Yet this is viewed as a crisis (these are different but related issues raised when populations age). Challenger (2003, 1) argues the underpopulation trend is expected "to worsen in the decades to come as worldwide population trends signal a significant decline in reproduction." His quote is an

example of the themes of various organizations including the World Bank, the AARP, and the OECD that demography is destiny and the destiny is labor shortages and one solution is to have older people work more.²

After this summary and introduction linking pension reforms to labor policies I discuss the U.S. pro-work economy which includes postponed retirement. Next, I analyze the distribution of retirement leisure and the incapacity of older people to work longer. Fourth, I describe the recent increase in labor force retirement of older Americans concluding that DC pension losses fuel increased elderly labor force participation not the lure of improved wages and job opportunities perhaps causing more unemployment in recessions. The fifth section reviews why pensions have diminished in the United States and the last part reflects on winners and losers when the elderly work more and what policies would secure workers' retirement.

America's Pro-Work Policies

The United States has a distinctive consumer and complementary work culture. Americans worked more hours per year, spend relatively fewer years in school, while American mothers and the elderly work more.³ See Table 1. The prowork culture helps make it socially acceptable to declare that the elderly who can work should.

² Challenger distinguishes himself by admitting that the occupations with specific forecasted labor shortages -- nursing, information technicians (in the federal sector), and construction -- are likely not going to be ones where retirees can or will want to work. He also blames companies for not keeping valued older employees and reaching out to train and recruit older workers. Instead business rely on cheap foreign workers.

³ The average annual hours worked in the U.S. is now, famously, higher than for all other nations. The average annual hours worked in the U.S. in 1998 was 1,966, the nation with the next highest number of annual hours worked is Japan, followed by France, Germany, and the U.K.. The Japanese work 1,889 hours per year and the Germans, the fewest, at 1,560. Just forty years ago, the rankings were quite different. The Germans worked an incredible 2,372 hours per year, the French 1,926 and the Americans, a relatively leisurely 1,867, fewer hours than any of the other four nations. (Phillips 2000, 63).

Table 1 Americans Work More and Retire Later				
	Average Education/1	LFP of Mothers*/2	Average Annual Hours worked 1997-98 /3	Average labor force participation rate of 60 and over
U.S.	12.7 years	69%	1,966	18.7%
Japan	13.5 years	54%	1,889	30.3%
Britain	13.02 years	62%	1,731	15.5%
Germany	12.02 years	41%	1,560	8.8%
France	10.66 years	68%	1,634	4.2%

*with husbands and partners children under 6
 Sources: 1. computed by weighting the percentage of the population having attained certain levels of education. Statistical Abstract of the United States: 2000. "Educational Attainment by Country: 1998. Table 1362 p. 830 2. "Early Childhood Education: An Overview of Development in the OECD countries" International Journal of Education and Research 3. Phillips, Kevin. 2002. Wealth and Democracy p. 163 data from the International Labor Organization or the OECD for 1990-98.
 From my manuscript in progress "*The Attack on Retirement* (under contract Princeton University Press)

Thus, it should not be surprising though ironic, that the capacity to work is an “asset” in American retirement portfolio. Income from paid work is becoming an important source of income for retired Americans. The existence of this “asset” class is part of U.S. policy of retirement income security. Since the 1978 passage of the Age Discrimination Act, the United States became, and still is, the only OECD nation that bars age discrimination in employment. Employers may not: demote employees, change work assignments, alter pay structures or layoff or fire anyone because of their age. Mandatory retirement is illegal in the United States (except for commercial pilots).

Americans view these restrictions as protections – an acceptable part of what constitutes labor rights. Interestingly though, at the time of its passage, the labor movement was ambivalent about the legislation. One of the sources of the ambiguity was that being legally protected to be able to work makes retirement “voluntary” and weakens a claim to pensions. Therefore, in the U.S., unlike any other developed nation, retirement income is based on four pillars, the state pension, the occupational pension, personal assets, and the capacity and performance of paid work.

In this context, the twenty year erosion of coverage and benefits of employer-provided pensions and the decline in social security benefits -- both which affect lower and middle income workers the most (Munnell 2003)– and the dramatic decline in health insurance for 55 and older workers may have encouraged the elderly to work more to maintain their buying power (the loss of retiree health insurance and the

increase in cost of coverage may also mean that people are going without health insurance and relying on emergency or public sector health care or going without health insurance.) Also employer-pensions have declined in value more than any other forms of wealth, e.g. home equity and financial assets (Wolff 2002).

The loss in retirement income and the increased health expense for the elderly may be causing older U.S. workers to “consume” less leisure. Therefore, since there is no indication that wage rates have risen to compensate for the loss in leisure workers working longer are unambiguously worse off. However, received wisdom about developments among the elderly population is somewhat different. The thinking is that, although the elderly will work more, they will be better off because improved life expectancy cause no loss in leisure. In other words, the argument states that the boost in work effort is compensated for by an increase in life expectancy. However, there is no economic law that says it has or should. Indeed there have been large improvements in life expectancy; since 1973, average life expectancy for men and women age 65 improved by 16% (Arias 2003). That is good news. However, average worth of pension income has fallen by 30% (Calabrese 2000) and older Americans approaching retirement have less pension wealth than they did 20 years ago (Wolff 2002).

Thus, it may not be surprising that older Americans are working longer in order to make up for the decline in employer pensions. How much longer are Americans working to make up for the loss of pensions? The answer can be summarized in a back-of-the envelope calculation. Americans lost the equivalent of 30% of pay for their retirement time, if they want the same consumption, they would have to work 30% more. Since they live only 16% longer, then older Americans have lost, on average, 14% of leisure. But averages often don't provide insight into the appropriate policy response.

Distribution of Retirement Leisure

One way to examine the distribution of retirement leisure is how certain generations were able to obtain it.⁴ To be sure, in America for particular cohorts – if you are an American age 50 or so reading this in 2004 I am talking about your father,

⁴ Healthy leisure at the end of one's working life evolved as a concept; just as any entitlement to time off work evolved, for instance “the weekend” and the 8 hour day. Social reform legislation, collective bargaining, and individual negotiations between employers and employees are forums in which the negotiations between labor, capital, and the state occur that establish entitlements to paid and nonpaid time off. Workers, throughout the post World War II period paid for contracted holidays, vacations, and leaves, in the form of lower pay or increased productivity. Specifically, with regard to time off at the end of one's working life, unionized workers explicitly traded wages for pensions, used their bargain power to achieve pensions and even went out on strike solely for pension benefits. Workers came to regard pensions as one way to achieve middle class status.

retirement leisure was improving. There are two ways to attain mature leisure -- work less and/or live longer. Certain generations got both in different degrees. Working men, born at the turn of the last century and who were born during World War 1, they obtained a greater improvement in end-of work-life leisure at older ages than any other cohort, because only for a short while, between 1970 – 1985, did life expectancy and labor force participation trends move in the same direction towards more retirement leisure – life expectancy increased while the labor force participation rates for men fell.

Despite the sea change in public sentiment that made retiring while still able to work socially acceptable, most of the post- World War II increase in American end-of-life leisure has come about because of improvements in life expectancy NOT early retirement.

Before I leave the discussion about how the distribution of average retirement leisure changed over the century because of changes in life expectancy and retirement age it must be known that averages hides significant differences by race and sex. Males improved their life expectancy much more than females. White male's life expectancy at age 65 improved so that in 1979 they were expected to live to age 79.3, by 1999 the age of death rose to age 81.1. Black males' life expectancy at age 65 rose from a 78.3 to 79.3. Women's expectancy barely budged. Therefore only men have had a chance to compensate for the loss in retirement leisure due to working more by living longer. Yet, the received wisdom is that retirement leisure is increasing because people are living longer and collecting more pension benefits in ways that will bankrupt the retirement systems.

Work Limitations

We need a way to untangle the debate about whether averages can be interpreted correctly. Asserting that those who are retiring later are living longer is an assertion based on faith, only examining what actual people do, who dies and who retires, can we accept or alter the assertion. Moreover, the longer lives do not mean an increase in the capacity to work. In fact, there is powerful evidence that it has not. The Current Population Survey (CPS) and the national Health Interview Survey (NHIS) data asks men and women of different ages about whether they have a work limitation. In the CPS among men and women aged 55-61 the percentage who reported a work a limitation, 16.1%, in 2000 is actually slightly higher than 1991, 15.8%, and about the same from 1981, 16.8%. A larger 30% of people in this same age group reported some work impairment in the NHIS in 1995. (Clark, Burkhauser, Moon, Quinn, and Smeeding. 2004. P. 22.) Who would you rather hire to jazz up your website, a 60 year old or a 14 year old. Longevity and suitability for work is weakly connected.

Is the Distribution of End-of-Life Leisure Becoming More or Less Equal?

Here is the punch line: The startling result is that so far, income and wealth does not determine how much retirement leisure one has. In America, through our Social Security system of disability and early (age 62) retirement and the employer

pension system that does seem to pension off people who have lower real ages we are able to, so far, equalize end of life leisure⁵

We don't know what the life time retirement leisure is for everyone by just observing the retirement periods of those who are alive at any point in time. First, these people are not dead yet and we have no information about the retirement behavior of those that did die. We need to know how much leisure people who died enjoyed, in order to analyze whether people who retired early are the ones that received the most retirement leisure. One challenge in retirement social policy is to ensure people are able to retire at the same age. But chronological age doesn't make much sense since what we mean by age is just how much time we have until we die – the “distance to death.” Many retirement programs -- DB plans and Social Security -- adjust the timing of collection based on work limitations and “real age”, directly and indirectly. Challenge: How to let people retire at the same “real age” since age 65 is different for everyone (denotes different distances to death). Italy(!) come closes to this ideal – collection depends on length of service not age.

Retiring at the Same “Real Age”

An important social policy question is, regardless of the coercive element in the older person's decision to work more, is whether longer lives and the historical trend for people, in particular, men to retire at younger ages imply Americans had been spending more time in retirement. It has been assumed that average increases in longevity and average reductions in retirement age have meant longer retirement lives. But in fact that has never been analyzed due the lack of a data base that linked a large group of individuals' retirement age with their age of death. One's age is really only meaningful as a measure of how much time a person has until they die. This measure varies considerably for people of the same chronological age.

Neuman and Ghilarducci (2004) solved the data problem of measuring retirement leisure time by using a 1992 sample of over 3,000 workers born between 1931 and 1935 who were tracked for 8 years.⁶ Women and men who died before age 65 retired earlier and also had fewer years of retirement leisure. Women who died early had 3.88 years compared to the 3.99 years of the survivors. Comparably, men who died early and had retired had 3.29 years of early retirement leisure, compared to 3.9 years for those that lived and retired. This means that for men and women retiring,

⁵ Filer and Petri (1988) survey pension plan features show that the existence of early retirement incentives in an employer pension plan is correlated with job characteristics that are linked to bad health and shorter lives, including: requiring performance under stress and hot environments, repetitive manual processes, physical strength, coordination, and flexibility. Thus, they reverse the common interpretation that generous early retirement benefits induce early retirement. Job characteristics may induce workers to push for early retirement benefits because these job characteristics lead to physical deterioration, disability, and early death.

⁶ A sample from the Health And Retirement Study (HRS)

retiring at younger ages does NOT mean more retirement leisure. Boosting the chronological retirement age would mean taking more leisure from people who die young. Early retirement eligibility only available in defined benefit type plans allows people who have worked while others were attending college or keeping house to retire after the same number of years in the labor force. Since workers with less education have higher rates of morbidity and mortality they can retire at earlier chronological ages that are certainly at older “real” ages.

In sum, in order to understand current pension policies we must note that leisure has always been contested terrain in the U.S. which has, in general always been characterized by wage pressure upwards due to the chronic shortages of labor. Workers’ lost of leisure from postponing retirement is probably not made up for with increases in longevity.

Older Males are Reversing 50 years of Leisure Progress by Working More

If paid time off is contested terrain then workers may be losing. Does the increase in the labor force participation of older men mark a defeat and reversal of hard-won victories for workers? Or, are these trends the result of pleasing developments in the health and vitality of the workforce and the robustness of the economy to create jobs for those ready and willing to work?

Most economists view the increase in elderly labor force participation very positively given that global population aging troubles social security finances.

Here are the facts. Older American men, between the ages of 55 to 64, began to retire almost half a century ago. Their labor force participation rates dropped sharply during economic expansions since November 1948 to the 1980s -- only recently has labor force participation risen during an upturn. The average peak-to-peak labor force participation rate change for this young old group is -.53 percent. Men over age 65 behaved similarly except the declines have been more pronounced – their average peak to peak change in labor force participation is -2.6 percent.

American women’s labor force participation – notably among wives and mothers -- has increased relentlessly for 60 years, and at all stages of the business cycle. However, not all women worked more over this time period. Those over age 54 dropped out of the labor force during the expansions in the early 1970s and 1980s. (Overall, the average increase in older [age 55- 64] women’s peak labor force participation is 2.83 percent.) Few women over the age 65 work; and their rate of increases in the labor force participation rates in the last 50 years have been moderately declining (Ghilarducci and Hermes 2003) except recently.

The labor force withdrawal rates for older men suggest that they have enjoyed more retirement leisure before the age of 65 in most of the last half century. Women workers over 65 may also be enjoying more retirement leisure.

Knowing why older people are working more in the last 15 years helps us interpret the trend and judging whether older people are doing better or worse. Also, some groups of older people may be retiring for different reasons than other groups. Some older people may be voluntarily working more because, on average, they like

work or employers are offering better benefits or working conditions. If these are the reasons for the increased labor force participation rate, then older workers can be viewed as being “pulled” in and policies would be oriented toward protecting and training older workers. If workers are drawn to the market because of better pay and working conditions then it is likely that the labor demand is expanding and younger workers are not being displaced by the older workers.

On the other hand, older people may be working more because the non labor income has fallen. When income available in retirement, employer pensions, savings, social security, or medical insurance fall in value people are pushed to work in order to maintain the same levels of income.

Push Factors Greater than Pull Factors

There is weak evidence that the increase in the elderly’s labor force participation is due to key “pull” factors -- higher wages and lower unemployment (these indirectly measure how much employers want workers). The evidence is mixed because while the oldest female cohort, age 65 and over, experienced the highest increase in labor force participation, .31% per month, they also experienced the most severe increase in unemployment. 9.95% per month. Also their wages were decidedly not enticing; they experienced only the third largest increase in wages. Please examine Table 2 for the unclear pattern of push and pull factors.

Congress helped encourage more work among the elderly through the April 2000 “Freedom to Work Act” allowing persons who work past age 65 to 69 will no longer have a Social Security earnings test.⁷ This clearly is a pull factor at work.

⁷ This means workers can keep their full time jobs and collect full social security benefits. Employers of lower income workers now employ workers who collect a 50% raise. Workers lifetime benefits do not increase. Had they waited to collect Social Security’s actuarially adjusted benefits would have increased. The “young” old full time workers collecting SS may suffer from the lower benefits when they can’t work.

Table 2 Women and Men Face Different Incentives to Retire Since the Recession Started in March 2001 (Average Monthly Change in LFP, Wages, and Unemployment by Age and Sex, March 2001– October 2002: source: U.S. Dept. of Labor Bureau of Labor Statistics.)			
	LFP Changes 3/01 – 10/ 02	Earnings Changes 3/01 – 10/ 02	Unemployment Changes 3/01 – 10/ 02
Women 55-64	0.27%	0.74%	2.45%
Men 55-64	0.14%	0.48%	1.94%
Women 65 +	0.31%	0.67%	9.97%
Men 65 +	-0.11%	0.78%	4.36%

DC Plans Cause Destabilizing Counter-cyclical in Labor Force Participation

The fact that unemployment has increased when labor force participation has increased suggests that “push” factors are the plausible reason older Americans are working more. The delay in retirement and increased work effort among the elderly could be due primarily to the expectation of greater uncertainty in pension income (due to the switch from DB and Social Security to financial – market linked DC plans) and to the actual decline in the value of pension income. Ghilarducci and Hermes (2003) using the HRS survey and perform a “difference – in difference analysis” (a statistical technique) and find that the probability of retirement for men and women aged 63-64 with DC pensions was half that of people with DB pensions from 1998 to 2002.⁸ Since the business cycle peak of March 2001, older Americans are working more than they have in any previous recession.

In making international comparisons of work patterns among the elderly we must not forget the workers in the U.S. are much more exposed to fluctuations in the financial markets because an ever-increasing proportion of retirement income is coming from accumulated savings that are invested in financial assets (Jones 2002, Crenshaw 2003, Klein 2003).⁹ In addition, American elderly are keenly affected by

⁸ We use cohort averages from the CPS to estimate that the 40% decline in the S&P 500 since January 2000 caused the labor force participation of older workers aged 55-64 to increase by 2.64% and 5.36% for men and women respectively. Using micro-data from the HRS to perform a difference-in-differences analysis, we find that the probability of retirement for men and women aged 63-64 with DC pensions fell by 24.6 and 20.4 percentage points respectively from 1998 to 2002.

⁹ Other scholars have found that wealth shocks are an important determinant of retirement labor supply decisions (Friedberg and Webb 2000, Eschtruth and Gemus 2002, Sevak 2001). It was not only the stock market crash of 2000 that makes Americans view their retirement income as

changes in the cost of health insurance for those over age 65 and therefore are surely responsive to the increase in costs. American employers are spending far less on pensions in the fastest growing industries – retail and service because employee benefits are less generous and coverage is much lower.

In sum, increasingly pension income is coming from defined contribution pensions, sources that are tied to financial markets and these forms of pensions are displacing Social Security and defined benefit pensions. DC account values fall during recessions causing retirement postponements that may generate more unemployment.

Why Have Employers Stopped Providing Pensions?

What happened? Why have American employers ceased to expand employer based benefits? One hypothesis is that there has been a sea change in the fundamental relationship between employer and workers. The 1980s and 1990s has been characterized as more becoming unstable and insecure, especially for men, and is attributed to employers' declining interest in having a long term relationship with their workers. This sea change is occurring at the same time there is a rise of cash compensation and the decline in employee benefits as a share of total payroll. Since the jobs in the secondary sector always had low benefits and did not rely on workers and firms being committed to each other related to decline in fringe benefits (Osterman, 2000).

A second hypothesis (not necessarily inconsistent with the first) is that 401(k)-type pension plans are cheaper so that employers have a stake in employees "preferring" them over traditional pensions. Ghilarducci, Sun and Nyce (2004) found that a 10 percent increase in the use of defined contribution plans (which include 401(k)s) are associated with a reduction in pension costs per worker by 1.7 percent to 3.5 percent. In the sample, 8.4% of 780 firms contributed nothing to their 401(k)s in 1998. This suggests firms use DC plans to lower pension expense and drive the change not employee preferences for this type of pension.

A third contributing factor to the decline in fringe benefits is that a change in tax policy, particularly changes in lowering the tax rates for higher and middle class families can have unintended consequences on retirement plans coverage rates and adequacy. Since tax favoritism is an indirect way the American government helps fund retirement benefits (pensions is the largest U.S. tax expenditure [taxes not collected] larger than for health insurance or mortgage deductions, about \$87 billion a year (Slemrod and Bakija 2000: 281). This means the U.S. relies on workers desire to avoid income taxes as a means to encourage retirement savings. When the tax rates fall the incentive to shelter income in pension plans diminishes. Tax rates have dropped and so has the incentives to shelter income. Since the Clinton Administration

insecure. The sudden and specific fall in the value of defined contribution accounts, 401(k)s, and the fact that more people have financial asset based pensions suggest that a motive for older people to work is that they not only have less pension income but also expect future income to not be as reliable as it was in the past.

the top tax rate has fallen from 39.6% to 33% in 2003. A 1% drop in the tax rate has been associated with a .4% decrease in pension expenditures (Reagan and Turner 2000).

The trends in coverage in pensions and health insurance (GAO 2002, Calabrese and Medoff 2000) are of some interest here because the decline in retiree health insurance may induce people to work until age 65 when they are eligible for Medicare. An important indicator of the distribution of the losses in retirement income and therefore a hint about the distribution of the pull and push factors are that blue collar and lower wage workers are experiencing the worst declines in retirement income. Please see Table 3a and b.

Table 3.a. Employee Benefits; Coverage and Employer Spending (Source: Calabrese and Medoff 2000)				
	Blue collar		White collar	
	1979	1998	1979	1998
Health Coverage	62.9%	49	69.3	60.3
Pension Coverage	46.7	33.6	49	49

Table 3.b. Employer Spending 1979 – 1998 (change for different parts of the wage distribution)		
	Health: Employer Spending 1979 – 1998 change	Pension: Employer pending 1979 – 1998 change
Bottom third	-6 %	-35
Middle third	0	-27
Top third	+4%	-4

Pensions are becoming a less important part of retirement income since the 1970s. Work is becoming a significant source of income for retirees (Am I the only one thinking this is ironic). In 1984, 13 percent of income for the elderly came from earnings; the share rose to approximately 15 percent in the early 1990s, and, by 2000, \$ 1 out of every \$ 5 going to elderly households was derived from paid employment (see Table 3). At the same time, employer pensions and individual assets have become

less important. The share of income to elderly households coming from these sources has fallen from more than 43 percent in the mid-1980s to 39 percent in 2000.

Again the distribution of income matters. The sources of income to the elderly depend very much on socioeconomic status. The lower income elderly depend less in earnings. Other evidence suggest that these elderly groups are more likely to be in poor health, but they are low income elderly because they do not have supplemental income from work. See Table 4.

Table 4 Importance of Income Sources for Household Units 65+ 2000 (Source: Social Security Administration: SSA.gov "Income of the Population 55+)			
Source of Income	Median	Bottom	Top fifth
Earnings	11%	2%	29%
Assets	11	6	21
Employer Provided Retirement Benefits	15	3	22
Social Security	58	9	24
Public assistance	2	8	2
<i>Total (rounding)</i>	<i>97%</i>	<i>98%</i>	<i>98%</i>

Note: The elderly buy 50% of their health care but all over age 65 are covered by national health insurance (Agency for Health Care Research and Quality 1996)

Conclusions and Policies to Secure Pensions

In the last decade, Social Security emerged as the only reliable source of income for the elderly, while wage income emerged as the fastest-growing source. The matter now for public debate is whether the increase in retirement and the increase in longevity “overshoot” the amount of leisure an older person in America has or should have? The debate on optimal retirement consumption will affect economic growth. Workers may continue to work longer in recessions because they more likely to have DC/ The American and other global pension system is evolving to induce work which reverses decades of improvements in retirement opportunities. If we wanted to pay for more retirement security – to consume what Blackburn refers to as the Third Age here is a roughed-out roadmap.

What is to be done if we want retirement security?

1. Integrate a mandated advanced-funded, DC supplement with the state pension scheme. In the U.S. this means compensating for industries

without pensions by mandating a supplement to Social Security which involves a variant of the Carter Administration's MUPS plans (Mandatory Universal Pension system) which would have required all employers to put aside 3% of pay into a defined contribution pension system and Clinton and Gore's Universal Savings Account (USAs).

2. Explore ways to expand and encourage employer insurance networks so that annuity, DB plans, can cover workers who change employers often. This means that occupational pensions across economically linked enterprises need to be encouraged. Labor unions and worker organizations must coordinate these plans when employers won't. Closely related are reforms and enforcement of U.S. labor law regarding the restrictions on leased and temporary workers, more workers would be categorized as employees and be eligible for pension and health insurance. This would help coverage among peripatetic and low income workers.
3. Provide not-for-profit money management firms (in the U.S. they are best linked to state retirement systems.) The TIAA-CREF is one of the best – run money management firms in the world and for over 90% of its existence it was non profit; it originated as an eleemosynary gesture for university professors by steel magnate Andrew Carnegie. Union occupational schemes and state and local government pension systems are variants of the TIAA CREF model.
4. Require employers to pay administrative fees for 401(k)s so they are induced to find the most the efficient provide and make sure “bells and whistles” are worth the money. This may open the door to workers controlling their 401(k) assets. The ability for workers to control the content of the 401(k) commodity and to bargain for centralized control of the 401(k) assets so proxies can be voted and efficiencies pursued is a right that Southern Cone workers (in Chile, Argentina, Peru) have not been able to win in their individual account pension systems.
5. Though much maligned cash-balance pension funds are the best way to provide defined benefit pans that are appreciated by employers and employees. (See Cahill and Soto [2003] for a brief primer on cash balance plans.)
6. Social security reform should not cut benefits.¹⁰ The payroll tax rates would have to increase from 12.4% to approximately 14.2% to keep these replacement rates from falling after 2030. The earnings ceiling should be raised to cover at least 90% of earnings that would substantially decrease the require tax increases. Payroll taxes cleave

¹⁰ The 1983 reforms of U.S. Social Security system solved half of a forecasted deficit that would have appeared in one year (not in 35 years) with benefit cuts and tax increases. The tax increases were immediate and the benefit cuts were postponed until now when the replacement rates for the low earners will fall from 55.5% in 2000 to 49.1% in 2030; for medium earners from 41.2% to 36.5%; for high earners (over \$55,000 in 2000) from 27.3% to 24.0% (Munnell 2003).

retiree and workers interests: good pensions rely on healthy labor markets. Payroll taxes also establish workers rights to participate in the management of the pension system.

It is becoming received wisdom -- not unlike the misguided "wisdom" that labor regulation in Europe causes unemployment -- that in order to maintain economic growth the labor supply will have to grow. If nothing else changed (health care costs falling, pension benefits expanding, real wages growing briskly, and the stock and bond market booming) then the average person turning 65 now (born in the Great Depression) will have to work over 30% more to obtain the same income from employer pensions a retiree had in 1974. Though, on average, 65 year olds live longer in 2000, projected leisure time (if retirees strive to maintain income levels) will be reduced by 14%. Powerful interest groups may find advantages in pension erosion, especially those employers who want to blunt the wage hiking effects of labor supply shortages.

Just as the pension debate reflects a contest over who controls the accumulation of capital; the pension debate is also a battle over work and leisure. Of course the Keynesian lesson is that stable accumulation schemes can be constructed. He predicted that his contemporary's grandchildren's (we are the age his grandchildren would be) economies would be eight times larger (the U.S. economy is 6.5 larger) and we would have had a much different problem. In his 1928 essay "Economic Possibilities for Our Grandchildren" -- Keynes writes,

"Let us for the sake of argument suppose that a hundred years from now we are eight times better off than we are in the economic sense than we are today..... for the first time since his creation man would be forced to confront his real and permanent problem, how to use his freedom from pressing economic cares, how to occupy the leisure, which science and compound interest will have won for him to live wisely and agreeably and well." (Keynes.1972 328)

It's a wonder that Keynes would have been so right about many other things and miss our predicament so thoroughly; where overwork, rather than the problem of living "wisely, agreeably, and well", is arguably our major problem.

Resources

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