THE BROOKINGS INSTITUTION
FALK AUDITORIUM

IMPROVING OPPORTUNITIES FOR THOSE WHO WANT TO WORK LONGER

Washington, D.C.
Thursday, January 24, 2019

Introduction and Moderator:

MARTIN BAILY
Senior Fellow and Bernard L. Schwartz Chair in Economic Policy Development
The Brookings Institution

Keynote:

JAMES POTERBA
President, National Bureau of Economic Research (NBER)
Mitsui Professor of Economics, MIT

Paper 1: Enhancing Work Incentives for Older Workers:

ROBERT L. CLARK
Professor, Department of Economics, North Carolina State University
National Bureau of Economic Research (NBER)

JOHN B. SHOVEN
Charles R. Schwab Professor of Economics, Stanford University
National Bureau of Economic Research (NBER)

Paper 2: Proposals to Keep Older Workers in the Labor Force:

ALICIA H. MUNNELL
Director, Center for Retirement Research, Boston College

ABIGAIL N. WALTERS
Research Associate, Center for Retirement Research, Boston College

Discussants:

MODERATOR: BEN HARRIS
Executive Director, Kellogg Public-Private Interface, Kellogg School of Management
Northwestern University

STEVE GOSS
Chief Actuary, Social Security Administration

SETH HARRIS
Former Acting Secretary of Labor
Visiting Scholar, School of Industrial & Labor Relations, Cornell University

* * * * *

P R O C E E D I N G S

MR. BAILEY: All right, let's get started. So as I said, my name's Martin Bailey, I'm a Senior Fellow here at Brookings. Welcome everybody. I've been sort of praying to the Weather Gods all week, thinking that we're going to get snow and none of the participants were going to make it from Boston or San Francisco, but everybody's here. Unfortunately, they did provide a little rain to dampen the proceedings, but we got a great crowd here, so that obviously has not done too much damage.

This is a joint event with the Kellogg School at Northwestern University, a joint project that Ben Harris and I have been running. And I want to acknowledge the financial support we've gotten from the Sloan Foundation and the Arnold Foundation.

Could I ask everybody to turn their phones off or turn them to silent? That would help us all.

We got a sort of fairly tight program, which means I need to get off the stage quickly. But we haven't programed in any sort of coffee breaks, so as the people on the stage, if you need to sort of use the facilities, which are out the back there, or grab another quick cup of coffee, please do that sort of quickly and quietly and return. We haven't put any particular breaks in here, this program will run until about 12:30.

The papers are available or will be available on the website. There are some that are out there, hard copies. Certainly they'll be on the website, so there's actually three. The two main ones are the papers being presented, and then Ben and I wrote a kind of framing paper to talk a little bit about the issues. There may be some minor revisions to those, so it's possible that the final versions will take a few days to go out. But they should be available on the website.

Now it's my great pleasure to introduce Jim Poterba. Jim is the Mitsui Professor at MIT and the President of the National Bureau of Economic Research, one of our most distinguished economists. He's an expert on taxation, fiscal policy, and certainly on retirement.

I've dabbled in stuff around retirement in the past, but it was about a year and a half ago I decided I wanted to start a new project on the retirement area. And I cannot tell you how many people said to me "Well you've gotta read Jim Poterba's Ely lecture. In fact it sort of got to the point where – and, you know, not only would they tell me that but they'd say "And he says this and then he says that." It got to the point where I was sort of like "Yeah, yeah, yeah, I know, the Poterba paper, I read it, I read it." But seriously, it's really a terrific paper, it's one that I think if everybody hasn't read, they need to read. But of course Jim also has a lot of important research in this area.

So without further ado, I'd like to welcome Jim Poterba. He's going to give a speech and then he and I, I'm going to ask him some questions up on the stage. There'll be an opportunity for you to ask questions. So Jim Poterba. Thank you.

MR. POTERBA: All right. Good morning. Martin, thank you for that wonderful introduction, and thank you Brookings and Northwestern Kellogg for hosting this important event.

I think my role this morning is frankly to serve as the warm up band for the really important and exciting presentations by the true experts on the issues around working longer in the US economy. And I think before I start I just want to acknowledge that this is a really important problem that is never an acute issue that we have to think about, right? At a moment when we're confronting the shut down and what do we think about the immediate, you know, next couple of weeks. Working longer, the challenges of an aging society, these are questions that proceed very, very slowly and very, very gradually in an economy like the US. But that doesn't take anything away from their importance. And in some sense they are really fundamental challenges that we face.

And what I'm going to try to do this morning is sort of to introduce the issues around working longer by trying to provide a little bit of a demographic and economic setting for the landscape in which these questions come up. Because there are, you know, a range of different policies issues one can think about, but I think the setting, which is as an economy looking forward for the next couple of decades, we face a really important challenge in terms of the demographic structure of our population, is something that we just want to recognize at the outset. And that's kind of the big picture, and then the tactics we want to use to address that I think are important questions to think about.

I want to just say, lest I forget later on, that I've come wearing three different hats. MIT and NBER, which Martin mentioned, but I'm also a Trustee at TIA, which is a provider of retirement security products and retirement advice and annuities, and I just want to recognize that because I hope that I can still look at this with, you know, with unconflicted eyes. But I don't want anyone to say "Gee, you know, he didn't tell us about that before he started.

So okay, let me start by talking about two interrelated issues. What I will call the macroeconomic concerns that lead to thinking about working longer and the microeconomic concerns. And they in some sense are different issues.

The macro starts from the fact that we are fortunate to live at a time when life expectancy has been increasing substantially in countries like the United States. Let me see, maybe someone can move this a little bit so that the grid lines don't quite cut through the numbers.

But what I've just shown you here is life expectancy at age 65, you know, kind of a traditional retirement age for men and for women, starting in 1960 and running out to projections that as I say, makes for 2060. And what you find is that in that century, right, life expectancy for men rises by about eight years, and life expectancy at age 65 for women, which started out higher, rises by something less, about six years.

So all else equal, that means that we'll have more older people in the population, and if retirement ages stay where they are, we're going to end up with a larger set of retirees who are not working relative to the size of the workforce, if nothing else changes. You can see we're, you know, we're about halfway through this transition along the way. And one important thing that I will note now and say more about in a few minutes, is this is not an equally distributed improvement in mortality across the income distribution, and that's something's worth thinking about as we come back. Okay?

So what this would map into is something like a larger share of the over 65 population. And you can see that by looking at a measure, which is the old age dependency ratio. And this is just the fraction of the population 65 plus over the 25 to 64. And, you know, there are various different measures of dependency ratios. The other alternative is to add in children plus the elderly and divide them by the prime age population. There's an old Swedish adage that I heard from George Akerlof that says "One woman can take care of seven children, but seven children can't take care of one mother." That somehow the way societies and families handle child care versus elder care can sometimes be different. So I have focused here on the older part of the dependency ratio. I'm thinking about that because it's particularly relevant for our discussion today.

What you see is that in 1960 there was basically one member of the 65 plus population for every five people that were in the 25 to 64 group. Projecting that forward it rises by a factor of two and a half to 2060. And we haven't gone too far down that path just yet, right? We're now in the mid-20s in those numbers. And of course the aging of the baby boomers and the entry of the baby boomers into retirement is going to ramp this number up quickly.

This increase is not just due to the increase in life expectancy and old age, okay? It's also due to the fact that fertility rates have fallen, which means that there's a double whammy. As people reach 65 they're reaching there with more years yet to live, and there are smaller cohorts coming up behind. So we're moving through a transitional period where even if life expectancy hadn't changed, a decline in fertility would have meant a larger old age population relative to the younger population. The two forces together mean that we are in a period of really historic transformation of the demographic structure of the US population.

And this raises what I will call the macroeconomic question, which is how does one manage to provide for an older population with a smaller group of workers relative to retirees? And one answer to that question is, well, perhaps you encourage people to work longer. And just to set this in some perspective, right, if instead of doing the ratio 65 plus to 25 to 64, you've looked in 2060 at the ratio of 70 plus to 25 to 69, right? Assuming that people worked for five more years. That 48 percent number would turn out to be around 32 percent. Right? So it would take you to a higher level than we are today but you would see a much more gradual increase in terms of the change.

Now I'm not immediately suggesting that a five-year increase in work life is on the agenda. But I think it's important to understand for the macroeconomics here where this fits in. Okay.

The second issue is the microeconomic aspect of this working longer. And this focuses in the here and now and it talks about the adequacy of retirement security and retirement preparation of US households approaching retirement. Okay? And here heterogeneity's going to be the watchword. And I'll say a little bit more in a minute about, you know, the status of the population.

But there's certainly concerns that some significant part of the US population, particularly the baby boomers, are not very well prepared for retirement. And this has to do with the shifting nature of retirement security provisions, the shift away from defined benefit plans to defined contribution. And I'll focus for a minute on the low level of returns that people might expect to earn these days relative to in the past. Which I think is a very important challenge.

Taken together, this means that there may be a group of people, okay, maybe half the population, maybe somewhat less, that is not especially well prepared to sustain their living standard in retirement. Well what do you do about that, facing a longer life span after retirement? One way, to build up more retirement assets is to work longer, and that gives you, in some sense, a double benefit because as later speakers will explain, by working longer you shrink the retirement span, okay? There's a tantalizing possibility out there with some research that suggests that perhaps working longer may actually be a little life-span enhancing for some people. But I'm going to leave that to the side.

But if you just think, your life span is what it is, working longer is going to shrink your retirement period. It's also going to ramp up the number of years you have to work, which means you can contribute more and save more in preparation for retirement.

So that's the sense in which working longer can be protective of your retirement security at the individual level. So for that group which may not be adequately prepared, the working longer becomes a very important possibility.

Now very important question to think about, not everybody can work longer, right? This is a place where frankly, you know, calling on the academic community to assess the prospects of working longer is, with no offense to the organizers, distinctly the wrong thing to recognize, right? I mean you have to remember in the employment world I live in everybody wants to work lots longer, the challenge is to get my colleagues to retire when they get into their mid-70s, not to see if we can encourage them to work longer, right? So we may not be the right group to be drawing on to understand this issue.

But we do have to recognize that there is heterogeneity in the population, and who can and desires to work longer. And that needs to filter into our thinking about the possibilities of using working longer as a retirement security device. But for those who can and want to work longer, the notion that one might work longer as a way of providing for one's retirement seems to be a very powerful device because it has this two-edged aspect that is particularly attractive.

I do want to flag one thing in recognizing this, and it's quite different. It's a capital markets issue, not a labor market issue. And it's the declining rate of return that's available to savers today versus what their predecessors had. And basically when returns are low, saving is not as powerful because of the reduced impact of compounding it at low rates of return versus high rates of return. And this is, you know, for anyone who's on an investment, who talks to an investment committee of an endowment or a pension fund, this is a real challenge going forward.

I'll just show you one simple chart. This is the real interest rate, the 30 year TIPS yield. Over the last 20 years basically TIPS Bonds were yielding about three and a half percent at the turn of the millennium. They are today yielding something on the order of one percent. And essentially being in a world where the interest rates, one versus three or three and a half, is dramatically different if you're a long-term saver.

So one of the things that it implies, and I've done some calculations, I'll just kind of roughly summarize for you. Behind the simple chart there is a lot of machinery which is the assumption that you're saving every year while you work, you're building up a corpus of assets and then you're annuitizing it when you get to retirement. But to summarize it all, if you asked "How much would I have to save every year in order to replace 50 percent of my final earnings, assuming my earnings are pretty much flat over my life cycle, with an annuity stream if I'm saving for 40 years?" Right? In a three percent return world I can do that by saving about 11 percent of my salary each year. Okay? That is actually within the realm of possibility for many households I suspect. You reduce the rate of return to one percent and you have to be saving 23 percent of your salary. That's pretty high. Okay? You reduce the working life to 30 years instead of 40 years over which you're saving, that number jumps to 30 percent. And I think that's really getting up there in terms of what you can do. Right?

So I just want to flag this because I think that the issues that we are talking about today, even if the demography had not changed, even if the birth rate had not change, even if people had looked like they were well prepared for retirement 15 years ago, the decline in rates of return that the younger generations face in terms of accumulation would make the issue of working longer important. Okay? We need to be thinking about this. But that's not part of the usual dialogue on these topics. So I think that's important to think about. All right?

So let me now come back to, you know, if you asked your grandparents, "What would you do if you discovered that you were going to live longer when you were older? No fancy economic analysis, right, but what would you do?" I think you'd get answers very much like what the standard of life cycle model tells you to do if you discover you're going to live longer. Right? You might say "Well, you know, I'm 65, I've just discovered I'm going to live longer, I guess I'll have to consume a bit less while I'm retired, I'll have to ramp down my consumption." Right? And that is certainly one reaction to a longer life span.

Of course that translates into, in the language of today's discussion, less retirement security, less retirement preparedness, and presumably, you know, lower well-being on the part of the elderly population. Okay? If you learned about this earlier, I told you at age 45 you were going to live an extra five years when you were retired, you could of course increase your saving while working. And that's all got to do with the tilt of your consumption profile and when you're going to do your saving, you could work longer. And of course that's where we are today in terms of talking about changing retirement period versus the saving period.

You could do something if we were doing this in the context of a financial markets conference, we'd be talking about reaching for yield, maybe, you know, you'd invest in a merging market securities instead of in Treasury Bonds and hope that you were going to earn more. And that's certainly something that we observe in some parts of the financial sector where these kind of long dated liabilities like a retirement liability are on the balance sheet and you're trying to figure out how do you fund them.

And then finally, I put here in very broad terms "Collect transfers from working cohorts." And that of course could mean if you're an individual you might think that your children in some way or another, might provide for you, right? We go back to before Social Security in the 1930s, right? US household structure looked very different than it does today. The elderly tend to live with their children. There were implicit transfers that were taking place within households. One of the first things that happened after Social

Security provided more retirement security was the household structure split apart. And whether that was the kids didn't want the parents or the parents didn't want the kids, we don't exactly know. But we know that they decided that they preferred to live independently at that point. And of course this can be done at the family level or it can be done at the social level and at the society level it's the notion of using intergenerational transfers through something like a Social Security system that you would think about.

And precisely the reason that we're convening this discussion, of course, is because if this is taking place within the fiscal structure and we're using something like intergenerational transfers within Social Security to provide for the retirement security of the elderly, you marry that insight with what I showed you at the beginning about changing demographic structure, and you then realize that it becomes much more financially burdensome on the younger cohorts to provide for the same level of transfers in a society that looks like the US in 2060 than in one that looks like the US in 1960. And therefore asking, are there some levers we can pull which might involve changing work lives in some cases, becomes a very natural question to think about.

All right. So once I've shown you the patterns of this demography and rates of return, the natural question is "Well, you know, what have households been doing? Do we see any kind of changes?" And this is a chart which shows you, it's taken from some of the work that the Center for Retirement Research, that shows you the age at which the labor force participation rate hits 50 percent in the US population. The grey line is men. You see that it was a little bit over 65 in 1962, it fell gradually into the low 60s, about '62, by the late 1980s. And it has risen since then. It's now about 63.9. For women the trend is generally up, although that reflects a combination of factors which have a lot to do with women's labor force participation earlier in the life cycle and not just women's labor force participation activities in retirement. So there's a little bit of an increase but certainly nothing like a five year increase in the age of retirement, matching some of the numbers we've seen in the demographics.

A more striking chart is this one that shows the labor force participation rate of men and women in their late 60s. Now these are numbers which are below 50 percent, so that's how they marry with the previous chart. But we just see is, you know, when I remember first thinking about economics of retirement it was in the part where that men's labor force participation rate was dropping sharply, right? It was when we were down to under 25 percent and had dropped by almost 20 percentage points in the previous two decades. Many forecasts at that point said this was just going to continue and we were not going to see much labor force activity of older workers in the US economy. And then this changed around, and it ramped back up.

And I know, just to give you a family version of this story. My dad was fortunate to live to 97 and a half. He retired at 62, and I remember describing to my son that grandpa has been retired for over 30 years. And he looked back at me incredulously and said "No way." Well, my dad retired near the bottom of this but it was not at all uncommon for people to be doing that. And of course my son is thinking about extrapolating this red line out for a few more decades and thinking about what this might look like in the future.

So I think this chart is actually very important because it sets up the possibility that there are in fact, there is the possibility of adjustment on this margin of labor supply at older ages is not immutable and can be influenced by a number of factors that we'll of course talk about some of them today.

So I think at this point I want to begin to ask, you know, how do we think about the capacity of older workers to work. And of course there's an enormous volume of research on this topic. I'll show you a little bit of work which emerged from a major research project that David Wise, my NBER colleague, in this case Courtney Coil and Kevin Milligan have done. And they've done the following interesting calculation.

We know that mortality rates at older ages have fallen on an age-specific basis. So that the likelihood that the mortality rate for a 63 year old in 2010, for example, is significantly lower than it was 20, 30, 40 years ago, right. So do the following thought experiment. As the question, look at the employment rate for a 63 year old in 2010. Okay? And this is looking for men, and that number was about 54 percent. Okay. Ask the question "In 1977 for people who had the same mortality rate as a 2010 63 year old did, what was the labor market activity rate for those workers?" Okay? And this is using the mortality rate as kind of a summary statistic to say "How capable were you of working or, you know, what was your ability to work?" It's a summary measure of physical health and willingness to work and whatever.

The answer to that question is no, this is a period where we're looking back, you know, 33 years, and at the same mortality rate the employment rate was about 82 percent, right? So a difference of 18 percentage points in the employment rate. And what you see is that for people, men in their 50s and early 60s, the general pattern was about an 18 percent gap in the employment activity, conditional on mortality rate.

You move to older ages, right, and part of what's happened here is since the mortality rates in the late 60s have declined significantly, you find that that gap is even larger, on the order of 40 percent. And I put this up because I think it motivates the concept that many people have embraced, which is there's at least some capacity for additional work at older ages. And exactly how much, hard to know. Many people could critique this methodology but it kind of gets you thinking about what's the possibility here in doing this?

So in the last couple of minutes, I just want to say, you know, heterogeneity is the critical element when we start to think about this, right? Everything I've done so far talks about life expectancy as a single number. Mortality rates as a single number at these different ages. But there is a lot of heterogeneity in the health status, the financial status, and the policy status of older individuals in the US economy. And I think that is a really important consideration to keep in mind in thinking about the capacity of working longer to address retirement security issues.

So for example, you know, a thing that we should be focusing on is are the folks that need more retirement security, right, think back to my micro motivation. Are they the folks who can work longer? Right? Or is there a disconnect between these two groups in a way that's not going to make this a powerful tool for the micro problems I discussed.

The macro issues are quite different. The macro-issues are just can we generate more output, can we manage to produce more resources in the economy, and consequently reduce the burden on the younger population? And there, even if the population that can work longer is relatively financially well off, right, it may be attractive to provide, you know, increased incentives for labor supply there. But I think that the policy design in this area needs to recognize the sort of heterogeneity in a very important way.

So let me show you just a couple of things that illustrate this heterogeneity. The first is health status. This is just some data on the number of chronic conditions that people have in advanced age. And what we're looking at is, you know, the first row is zero. So what you find is that at age 65 to 69, about a quarter of the male population has no chronic health condition to speak of. These are self-reported, but, you know. Another 20 percent is basically in the one condition category. Only about 15 percent have four or more chronic conditions. So, you know, I'm hardly a doctor to speak about this, but that's kind of getting into a population where you might think there's some issues around trying to work a lot longer.

You run that forward into the early 70s and you see that the group with the zeros and ones are starting to melt away. The group with multiple conditions is rising. By the time you're at 75 to 79 we've basically flipped, and the group that has four or more is now looking the size of the group that had zero when we were at 65. But just recognizing that there's variation here is important. This is manifest in link back to my discussion of life expectancy at the beginning. Okay?

The differences in life expectancy by income status or something like that in the US population in the last few decades are striking. This is a chart taken from a National Academy's Report that Peter Orszag, a friend of many people here, co-chaired a couple of years ago. It looks basically at the change -- and these are projections, so this is not actual historical data, but it's a projection of mortality improvement. If life expectancy at age 50 for men in the 1930 cohort, birth cohort. These are the green folks, so, you know, these are folks who basically today would be in their late 80s. And the 1960 cohort, all right, these are folks who today would be in their late 50s. And it's looking at life expectancy at age 50 for these different groups ranked by lifetime income quintile.

On the far left you see that there is very little change for the bottom 40 percent of the population. And there is dramatic change for the top 20 percent of the population. And the top 40 percent of the population's pretty good. So we're seeing changes on the order of seven to eight years of life expectancy at age 50 for the top 40 percent and, you know, numbers, like one year at the bottom.

Why is that important? Well, it suggests if the mortality rates are indicative of health status in various ways and capacity to work potentially, it suggests that there may be less expansion of that at the lower strata than there is at the top. Now some very interesting work at the Center for Retirement Research actually looked at this question a couple of years ago and concluded that even for the bottom groups there was probably some expansion of life expectancy and some improvement in health status. But a lot of this action is basically at the top end.

So that's got to feature somehow in what we're thinking about in designing these policies and asking how this is all going to work. That also matters for thinking about the net lifetime benefits of various social programs, particularly Social Security and Medicare, if you compare the taxes versus the transfers in these programs. But this is a very important feature I think to recognize as we think about it.

What about the financial side? And let me show you a couple slides that just indicate what the heterogeneity finance looks like for people coming into their older ages. This is data that Steve Venti of Dartmouth, and David Wise and I have put together. Looks at the health and retirement study, a very important research tool funded by the National Association of Aging. These are people who are 65 to 69 households in 2014.

And I want you to look, for example, at the middle column which is non-retirement financial wealth. I mean this is always a number that absolutely stuns me, right? This is money outside your IRAs, your 401Ks, you know, it's the bank balance, it's your mutual fund, it's whatever else you're holding. The median household in this age group has $12,000 in that category. So one very important take away is that there are lots of households in the US, even on the eve of retirement or early years of retirement, with very little non-retirement, non-housing financial assets to speak of. So that's telling you something about the potential resilience of these household to financial shocks and what not.

You then work your way up and, you know, the 90th percentile, that number is a sort of $330,000, but the bottom, you know, is basically zero.

Next column over is IRAs and defined contribution pension plans. And what you see there is that again at the median, this is very low. It's $29,000, and the median is just about where these plans start to kick in on a household basis.

Top end, you know, $225,000 for the 75th percentile, $705,000 for the 90th percentile. There is a group at the top for whom these defined contribution plans have offered them the opportunity to build significant wealth for retirement. But there's a lot of folks at the bottom, either because they didn't participate when offered, or more likely they were never offered plans, who did not use this system in a way which is built very much in the way of financial assets.

Social Security wealth, which is over on the far left here, shows you of course the much more even distribution across the society, which is showing you that -- and, you know, this is a crude attempt to think about the present discounted value of Social Security wealth for these households. The median is about $226,000, top end is about twice that. But when you put all this together, and notice by the way defined benefit plans are that second column over, again they are tilted toward the top end. When you look at the net worth for a median household is around $600,000, net worth at the 90th percentile is a number like $2.2 million. So the spread here is very large.

I want to contrast this with what we saw a minute ago on health status and life expectancy, right? A key issue is what's the correlation between these two pieces, right? If the folks who have the capacity to work longer are in the bottom couple of rows, then the challenge of course is going to be can we use this as a device to help them?

Let me offer you a little bit of evidence on that point. This is data taken from the 2016 Survey of Consumer Finances. It shows you the financial assets of those who are near retirement. This is 60 to 64, 65 to 69. Of those who are still working and those who are not. Now I'm not going to surprise anybody by telling you that those who are still working are by in large in better financial straits than those who are not. Right? So the working 60 to 64 households have financial assets at the median of about $200,000, the ones who are not working at all 34,000. Similarly up and down the distribution, what you see.

So the challenge here is going to be to figure out how one thinks about putting together the financial status and the work capacity in a way which is helpful going forward.

I'll close with one thought, no more slides. If you look across countries, there is substantial heterogeneity in work rates at older ages. Age 60 to 64 particularly, even age 65 to 69. There's much less variation in health status and other things. Which leads me to conclude that the policy environment matters for work life length, it matters for labor supply to older ages. I think it's a great motivation for what we're going to hear over the course of the morning, which is thinking about how different policy tools might be used to alter the incentives to alter the work environment and potentially to change what the labor force participation rates look at these older ages.

So thank you very much, and I look forward to talking with Martin about some of these.

MR. BAILEY: Thanks, Jim, that was very helpful. So it has to be green, not red. You know I'm getting to an age where my cognitive ability is sort of declining.

Operating microphones is a difficult task.

So let me ask you a broad question first of all. You've described a picture where for some segment of the population, retirement is sort of, you know, they've got plenty of money, they're working longer already, things are pretty good. But for a good segment of the population, certainly the median and below, things look pretty tough. And we also know that defined benefit plans, the traditional pensions which, you know, it wasn't that everybody had them but a lot of people, about half the people, had them. Those are gradually disappearing, at least in the private sector.

So do we have a crisis that we need to make really quite substantial changes in either policy or how people behave? Or is it something where, you know, everything is sort of okay but we just need to tweak things a little bit? Would you say we have a retirement crisis?

MR. POTERBA: I'm going to give you a somewhat unsatisfying answer. Which is to say it's complicated. Because I think there are actually three different groups that I would try to distinguish in all of this.

There's the group that under the defined contribution system that we operate with today, you know, that top, maybe it's 25 percent, has actually accumulated a fair amount of resources, and as they enter the retirement years will be able to draw down those balances. That group also, even in the private sector, has been much more likely to be covered by a defined benefit plan. So they are probably reasonably well prepared for their retirement years. So that's kind of a top group.

And I'm thinking about the kind of calculation that, you know, the National Retirement Readiness Index that the Center for Retirement Research prepares, or other attempts to use some replacement rate type measure of what these folks look like.

There's a second group at the lower end, and this is again maybe a quarter of the population, maybe a little bit more, for whom the progressivity of Social Security means that their replacement rate, while, you know, not fabulous, is pretty good, right? And the broader social discussion about what we want the bottom quarter of our society to look like. But unfortunately, you know, this is a population that has not earned a lot in many cases, as they made their way through the labor market over their career, and for whom the workings of Social Security and other transfer programs will put them in a position that's not dramatically different from where they were when they were working. So, you know, whether that's a retirement issue or that's just a social redistribution issue, I think is hard.

Then there's this middle group. And it's actually the middle group where I think the challenges are greatest. And, you know, the halcyon dates of defined benefit plans in the private sector were not quite as good as the retrospective somehow makes them seem. There were lots of folks who did not have coverage and the nature of these plans meant that some people reached retirement without coverage. But there were certainly a significant group that did.

The move away from defined benefit plans, which were expensive for employers but did give a generous benefit to retirees in many cases, and the replacement of those with 401K type structures where it relies a lot more on individuals doing their own contributing, doing their own investing, this is really a part of that population which has not managed to put enough away to be able to prepare for retirement.

And that's the group that I think is going to be challenged. That, hopefully, is a group that may have the capacity to use some of the working longer device as a way of trying to improve their retirement security. And I think we're in a period where, while I alluded at the beginning to the fact that these demographic changes are, you know, they're kind of glacial, they move through slowly.

But we're actually in a period where there's a bit of an inflection coming through because as the baby boomers are moving into retirement, even between the older boomers and the younger boomers, there are differences in the extent to which they worked under the defined benefit system in the private sector. So as DB plans were kind of ramping down in the 1980s, into the early 90s, or workers who were joining jobs were finding they were not covered by DB plans any longer, that's changed the nature of what the retirement arrangements of these folks will be. So we may be seeing people who are turning 65 in 2025 or 2030 looking quite different in this regard than those who turned 65 in 2015.

MR. BAILEY: So let me ask you about the group that's sort of maybe the bottom third or below the median.

So Social Security becomes extremely important, as you said, for that group. Now one of the contributions that John Shoven and his colleagues have made at Stanford is assessing the fact that if you work longer and you wait before collecting Social Security, you get a significantly rate higher Social Security benefit from that. And that really sort of changes quite a bit how much benefit that group will have as they retire.

But that's the group that's sort of been waiting tables for 30 years or humping boxes for a package delivery service. And we're sort of saying to them "Hey, you've got to work anther five or 10 years and wait until you can collect Social Security." Moreover, you know, Social Security is not in the greatest shape after all, and you pointed out that the dependency ratio is going to go up a lot. People are talking about the need to cut entitlements but, you know, with rising dependency rate, that's going to be tough.

So this adds to my sense that there is a bit of a crisis there because the people that are depending on Social Security, it's a struggle for them to get past the point of collecting at 62 and putting it off until 65 or 67 or 70, and the status of the program. Does that need a sort of emergency surgery as well in terms of Social Security?

MR. POTERBA: I think it's a great question. I think it's important to distinguish two different things as we think about the Social Security. I think in thinking about the Social Security claiming age issue it's important to distinguish two things. One is working longer has a way to defer your Social Security claim date, and the other is waiting to claim because you have other assets that enable you to defer that decision.

And here, you know, I think there's a nice complementary between say the DC system and the issues around Social Security. So it's important to remember that working, work is negative leisure. If you go back to your econ 101, right, there was a labor/leisure choice, you worked, you took leisure, leisure was good. Right. And working longer means you're giving up the leisure. So I don't think anybody listening to this discussion today it should be lost on you that if we're thinking about people working longer, and that's basically hard, they're giving up the benefits of leisure that they otherwise would have had. Okay?

That's a distinct question from if you have money squirreled away in your 401K or your IRA and you're thinking about your work life has stopped at age 65, should you claim Social Security benefits at 65 or should you defer, given the way in which your Social Security benefits will be recalculated. And of course the work that John and his coauthors have done, you know, shows you -- yes, I mean all our panelists have done very important calculations of how to think about the rate of return that someone earns by deferring their Social Security.

I think the key question is if we're thinking about working longer as opposed to claiming later, then what part of the population can work longer. Now this is where, you know, I think that some of the work that Alicia and her collaborators have done shows that the fraction of jobs which involve the kind of, you know, construction, brick laying, things like that, in the US economy is declining. So while I don't think anyone should ignore the fact there's a group that really probably is, you know, they're either borderline disabled or they're facing real limitations on work by the time they get to age 60, age 62, we need to be thinking how to protect and help that group as they get to this age.

But there may be a substantial group for whom the capacity to work longer is greater. And I think for that group the key is to kind of remove the rocks from the road. To not have there

be, you know, artificial disincentives to work or incentives which pull them out of the labor force when they might in fact be quite comfortable working longer and contributing and, of course, you know, addressing my macro challenge, which is what's the societal output that enables you to basically sustain this retirement group.

But I think the, you know, I call it heterogeneity, you may call it, you know, our folks beaten down by their work lives, I think it's a really important aspect of thinking about this. And we have to move below the top line, you know, what is the life expectancy into a more nuanced what is the fraction of the population that is able to basically continue in the labor force to older ages.

MR. BAILEY: We're sort of running out of time, but I want to give the audience a chance. So there's a question over there. Please state who you are and ask a question and don't make a speech. Thank you.

MR. KNUTSEN: I'm not color blind, by the way, in my old age. Jim, I'm Ted Knutson, I'm a part contributor. The conventional wisdom is there's a difference between those who can work longer and those who can't is basically white collar/blue collar. Is conventional wisdom right?

MR. POTERBA: To be honest, I'm not an expert on the labor market data here. But I think to first approximation it's the kind of manual job which is more, there's not a lot of manual white collar stuff out there. The question is are there some blue collar jobs which are not particularly physically demanding and where you could in fact continue on or where there may be opportunities to do something that is perhaps not the initial lifetime job but gives you a way to continue with some labor market activity.

I think one of the things that my labor economics colleagues have demonstrated over the years is that retirement is not as discrete an event as the simple stylized economics model would suggest. It's not you hit age 63 and then you're done. But in many cases it's a second job, it's a part-time job, particularly when you do this at the household level. With, you know, an average age differential between the husband and the wife of about three years of those reaching retirement age today. You know, it may be that one spouse is retired, the other is still working. So there's a number of ways that households can actually continue to have labor income as they look into these advanced ages, which are relative to think about.

But I think, you know, your roughest dichotomy of white/blue collar is probably not a terrible way to start down this path. Yeah.

MR. BAILEY: Okay. I think we only have one more question. At the back there. Yes.

MS. WHITE: My name is Elizabeth White, and I'm the author of *55 Under Employed and Faking Normal*. And a couple of weeks ago ProPublica, an urban institute, there was a study that they did that showed over half of 50-year-old workers are pushed out of the job market in their 50s, and that those that get a job again, only 10 percent get a job that's commensurate with the job that they left. So there's an element I'm hearing of choice to work, when I think it actually may not be there.

MR. POTERBA: You know, I think that question in many ways tees up a really important broad issue, which is how we do lifetime education, skill retraining. You know, as you think about a career which might last 40 or 45 years, the notion that the existing model, which in many cases we operate with, which is acquire some skills at the beginning of your career and then use them for the remaining length of your career, doesn't quite feel like it's the way to operate, right? And I'm not the right person to tell you whether the clock speed with which technological change and labor market change is taking place has gone up, but I kind of have a sense it has.

You know, that all puts an emphasis I think on trying to find ways to facilitate retraining, skill acquisition for workers who are in their 50s or maybe their early 60s. That may be a very important part of thinking about how do you succeed by enabling workers to stay in the labor force longer. And I think we are just at the beginning of asking those questions.

The kind of data that you're, you know, describing, I think I've certainly seen statistics along the lines of what you are characterizing. And, you know, whether that is the result of sectorial changes, you know, the decline of some parts of the US manufacturing base and things like that, with these workers no longer being employed with jobs they previously had, which might have been a transitional event in the US economy, or whether this is a generic part of what the life cycle experience looks like, which would of course suggest we need to work much more attentively to this. I think it is very important to think about as part of this discussion. Yeah.

MR. BAILEY: I'd like you to thank Jim Poterba for his fantastic speech and answer to questions.

We have a great session coming up with Bob Clark and John Shoven, so stick around.

Thank you. Thank you, Jim.

MR. CLARK: Good morning. Thanks to Ben and Martin for putting this program together. John and I have been writing various papers on these kinds of topics for quite some time. And we tried to focus on the issue that we were requested to do and that was, are there ways to think about providing increased incentives for older workers to remain in the labor force. And somebody took the clicker but I can do it here.

I just want to start with some premises that Jim laid out to begin with. So, Jim has already laid out a lot of the information on this but what we know is that the population is aging. That the ratio of retirees to workers is rising and that creates a variety of problems both at the individual and at the national level. People are living longer so for individuals as they approach retirement, there is a longer period to provide for. No matter how you calculate it, you need more money to have the same level of income in retirement years if you're going to live longer.

People are healthy in general and as Jim has said, heterogeneity across all these issues is a big issue. Basically, topics that Jim has covered and this bottom line is one that he hammered home, it's one that we've talked about and most of us here talked about in a lot of different ways. If you need more money per year to have the same amount of income per more money wealth accumulation and have the same income per year into retirement, you've got to start with a bigger stock. There are various ways that you could have that bigger stock, either through personal savings or other types of activities.

So, we were sort of asked to think about this issue from the following standpoint. What are the impediments to people continuing to work? As we think about impediments, we look at the programs that can provide substantial disincentives to work. That includes the social security system and some of the characteristics that we're going to talk about. It also would include Medicare and how that has been changed over time.

And so, what we're thinking about here is that for most of the people 65 and over payroll taxes are a pure tax. They're not really getting anything extra for continued work and continual tax payments. If you are faced with a tax, higher tax, put all those things together, depending on how you think of the incidents of the employer tax, you're talking about approximately 15 percent lower income per year because you're paying these taxes and getting nothing for it going forward.

So, we're looking at this as a standpoint of what can we do, what proposals can we make that would increase the incentive for older workers, older people to stay in the labor force. To start that, we rejected the idea that one way to keep people in the labor force is to cut their benefits and have them lower income and so they have to work more to have the same level of income at that point. So, we're rejecting that. So, we're trying to think about, what can we propose that would reduce these disincentives to work embedded in the current systems.

Okay so we're going to make three particular proposals. One is the complete elimination of the earnings test. I'm hopeful that everybody in this room will be agree. That would be a big hope but perhaps we can reach that level. Proposed to have a paid-up status for social security and a paid-up status for Medicare plus a return to Medicare being the primary payor for medical benefits for everybody over age 65 which is what is was for the first part of the history of Medicare.

So, the outline of the presentation, I'm going to give you a brief description of these proposals, talk a little bit more about the earnings tests and the others and then John is going to come in and work through our estimates associated with the impact of these breakdowns. Our main point that you can start to consider now is that we want you to think about the cost of these programs and the advantages of these programs in a more holistic setting that is considered not just social security but also consider the general budget of the federal government. So, we may have higher social security costs but we may get a savings because people are working more and they're paying more taxes and that ought to be considered not just looking at just the social security aspect of this.

Proposal number one. Complete elimination of the earnings test. If you go back and look through the history, there are lots of papers on the social security website under Steve Goss's office there about how this program has changed over time. And basically, if you look at it historically, when it was first started it was 100 percent tax on all earnings and the clear implication was, we want to get people out of the labor force. So, you put this tax on, it was a different time, different demographics, different economics and so you had a system that was explicitly trying to get people out of the labor force. We think that is wrong today.

And over time, what has happened is older beneficiaries have been excluded from the earnings tax. The thresholds have been changed, the level of the taxation has been changed. So, there is a long history of reducing the impact of this program. We're arguing that why not go ahead and completely eliminate it. There are some facts that most of you know. Earnings test, 50 percent on earnings above a certain limit applies only to those people below the full retirement age. We all know that the full retirement age is rising over time.

So, the question is how does that impact the decision of people to work. And, of course, this means do people understand what the earnings test is and how it results in future changes in benefits. It is our belief and, of course, many of you have friends or some of us are already in that ages where you might have hit the earnings test. Do you really know what happens when your benefit goes down, yes, you can see that. Do you really know that there is a future recalculation of benefits, yes, it's true but maybe you don't understand that. And, as a result, there is a lot of confusion about what this tax is.

I'm sure we all have stories. I once had a piece of property in the Blue Ridge Mountains and we put a little trailer up there and we dug a well and I needed a guy to come over and put the electricity up. And Condiff Mester came over out of the Blue Ridge Mountains and he was very happy to help me. When I said can I pay you, he said no, I'm on social security, I'll just lose it. So, he did it for nothing which was nice of Condiff.

So, if we look at these things in this way, people are thinking, we believe to a large extent, that this really is just a tax but it results in future benefits. So, in general, labor supply of older workers, we're going to mention this a number of times, we think it's fairly elastic which means I hire income from working leads to more work. This is a theme that we will come back to throughout the program.

So, the question is, does this earnings test save the social security system money. And Steve Goss has done a number of estimates of this and, in fact, according to Steve Goss right here in the front of the room, if you were to take the earnings test off, it increases the cost in the short term by a little bit. But it increases the cost in a few years by even more. And so, over the 75-year period, there's actually a cost saving to the elimination of the earnings test, not a lot but a little.

So, basically, here's a plan that confuses people, doesn't bring any income, probably reduces labor supply of older people, why do we keep this program. So, our proposal is just that the complete elimination of the earnings test. So, that's proposal number one. Everybody agree with that? Let's see the hands, come on, fess up. Wow, it's not 100 percent, I don't get this.

So, proposal number two is the paid-up status for social security. So again, people are working throughout their career. Right now, they continue to work and every extra year, quarter, paycheck, they pay more payroll tax. After you get to a certain age or 35 years and a little bit more, there is no extra gain in future benefits or if it is it's really small. So, every paycheck, you're still paying 6.2 percent of your pay and your employer is paying 6.2 percent of your pay for a program that doesn't add anything to your future social security benefit.

So, the question is what would happen if we eliminated that payroll tax for people at a particular age or years of service. And we're not wedded to a particular program here. In the paper, we talk about eliminating it at the full retirement age which is going to be 67 and who knows with another change or two it might go up. But right now, I would say you get to 67, almost everybody has got going forward will have little impact on their future benefits by paying this tax.

So, if they reach a paid-up status, that would mean they don't pay the payroll tax and their employer doesn't pay a payroll tax. You could say you would rather have a certain number of years of service, 45 years, 180 quarters and again, Steve has an estimate on his website that says if you do 45 years, 180 quarters, you're free, what's the impact of that. And there is a small, some people might argue large but some people would say small, impact on the cost of the long-term cost of the program looking just narrowly at social security.

So, we believe that if we increase and pose this paid-up status, people would get somewhere between a 6.2 and a 12.4 percent raise and that would lead them to work more. If they work more, their earnings go up, they pay income tax and that extra income tax should be considered into the cost and advantage of the program. So, we're proposing and John is going to give you some numbers here in a bit on that.

Our other proposal is that we would introduce a paid-up status for Medicare and in addition to that, return Medicare to a primary payor status. This would mean again, people would not pay the payroll tax and if Medicare is the primary payor, that means that an employer doesn't have to pay for health insurance for those people that are in the paid-up status. So, if you think about who bears the burden of employer contributions for employee benefits, a lot of people would say it's the employee in the form of lower wages. If you put that together with the two payroll taxes, John is going to tell you how big that number is and how much we think it will affect the overall cost of the program.

So, we want a bit of an evaluation of these programs. John is going to come up now and tell us about the paid-up status of the two programs. We're just acting as if you are all agreeing with us on the earnings test.

MR. SHOVEN: In evaluating our proposals, we believe that these proposals would raise the net wage that older workers would earn and because of that they would work more and they would have higher income but the IRS would also have additional revenues. We want to take into account, the IRS revenues in addition to the costs that would be incurred by social security and Medicare. By the way, state income tax revenues would also go up. We do not take those into account.

We now estimate some of these things. Before we do though, there aren't a lot of studies about the labor supply elasticity of older workers. There are a few and those that are available, suggest that older workers have much higher labor supply elasticities than prime age workers and I'll show you what those are. We're going to evaluate our proposals with elasticities of two and three and I'll show you that the key references are Eric French who was at Chicago when he did this. He's now at the University College London and Hudament Herd and Ro Waiter who has a very recent paper on this.

So, let me show you what French says are the elasticities at different ages. And notice at age 40, it's a pretty low elasticity. People are going to work at 40. If you tax them or don't tax them, they're going to work. But at age 65, the elasticity is eleven times higher. It's pretty elastic. And that's where we're reducing the taxes and getting the response. By the way, optimal tax theory would say that you want to tax the inelastic factors and not tax heavily the elastic factors. That's what we're doing.

So, I just pointed out that these are the results of Eric French and eleven times is the factor. They are consistent with a very recent paper by Herd and Ro Waiter and co-author. We simply asked people, do you think you'd be working at 70 and they give an answer. Then we said, well what if I told you that your wages would be 20 percent higher at 70 than they are now, would you be working? They calculate elasticity that way and they get results consistent with this.

Now here is just the evaluation of the paid-up proposal, but paid up for both social security and Medicare. Today, if you earned a $100, the third number on the first column, it costs your employer a $107.65 because they have to pay the payroll tax, you have to pay a payroll tax and if you're in the 12 percent bracket you have pay that as well. So, you only bring home $80.35 out of the $100 you just earned.

Under the paid-up, you would earn not $100 but $107.65. We think the employee is bearing both halves of the payroll tax. You would actually pay a little more tax but your take home pay would not be $80 but almost $95 for about an 18 percent increase. If you were in a higher income tax bracket and in today's law most middle and low-income people are either in a 12 percent bracket or a 22 percent bracket, we evaluate both. And notice that by just going paid-up, your take home pay goes from $70 to $84. So, that's almost a 20 percent increase. So, it came to a 19 percent increase simply by having the paid-up status on both social security and Medicare. So, that should bring some response.

But now let's go to our proposal three. Our proposal three is also to make Medicare the primary payor instead of the secondary payor. What that means is, the current law is if you're over 65 and you work for an employer with more than 20 employees, then your primary payor is your employer provided plan, it's not Medicare. That's not how it was before E-3 but that's how it is today. If you don't work you get Medicare if you do work you don't get Medicare. That's a big tax. So, let's go to that plan.

So, we estimate that about 20 percent of payroll for older workers is the value of the Medicare that they're not getting or the value of the health insurance that the employer is providing. So, now if you earn $100, the first column, it's costing the employer $127.65. $20 for the healthcare, $7.65 for the payroll tax, you're still bringing home $80. If you went to our plan three, you would have almost a 40 percent increase. Your $80 would go to $112. If you were in a higher bracket, your $70 goes to almost $100. These are about 40 percent increases in pay. If you combine that with Eric French's elasticities, you're going to get quite a significant response. So, take home pay would go up by roughly 40 percent under our plan three of paid-up plus changing Medicare status.

Now, let's go to an evaluation of how much this is going to cost. So, consider the current workers over 65 and how much is that going to cost Medicare and social security. Well, we think per $100 of their earnings, it's going to cost those two programs $35.30. Where do we get $35.30, well $15.30 is the payroll tax but they're no longer collecting. $20 is the Medicare that they're not paying now but they would under our plan. So, for existing workers with existing hours over 65, the programs, it would cost $35.30. That doesn't depend on elasticities, that doesn't depend on tax rates, that's why the $35.30 is there.

Now, if you go to our programs, your wage goes up quite a bit and so you pay more taxes. That's the numbers that start with 332, 608 and so forth. You pay more taxes on the existing hours. Now say new people start working over 65 or existing workers work more hours, what does that cost the program, social security or Medicare? The answer is nothing. Workers who are not currently working aren't paying social security taxes and when they start working, they're not paying social security taxes so that's nothing. People that are receiving Medicare start to work, they're still receiving Medicare, no change.

So, there is no change in cost for the extra work. Well how much -- here's the pay raises, the 39's and the 41's. Those are the pay raises that would result. This is the extra income that Eric French's numbers that elasticities of three infer. Notice that this is per $100 of current earnings. There would be another $100 of earnings if the elasticity is two and another $150 is the elasticity is three.

Now why is this existing $100 gets another $100. That sounds like an elasticity that is double for only a 40 percent increase, how come. Because these new hours are not being paid -- they're getting like a 35 percent raise because they're getting more. Even as the hours go up by 80 percent, the income goes up by 100 percent. So, then we just applied the taxes that people would pay and for this extra and we get the next cost. Notice these net numbers down here. They're low compared to $35.20. That $35.30 if the elasticity is two and the tax rate is 22, $6 per $100 of current earnings. About 1/6 of the sort of static cost is the dynamic cost.

What if you go to an elasticity of three? The $35, actually the government gets actually $41 extra. More than pays for itself. Now, we're not saying that these programs pay for themselves. We're saying under some elasticities they would. But we're saying that these would cost the government a lot less than they would cost social security and Medicare, a lot less under any scenario. This bottom row of numbers are the cost per existing $100, $9, $6, $13, -$6 versus the $35 that the programs are paying. So, if the IRS shares its -- its IRS pocket is getting stuffed. If they shared that back with the programs, these policies would not be nearly as costly as the static numbers would lead you to believe. So, we think in the case of the 22 percent tax bracket, the offset is between 83 percent and 116 percent, so a major, major deal.

I'm going to conclude. I think it's consistent with what Jim said and what Martin said. I will agree with Martin and I will say, I think there is a retirement crisis. I think the retirement crisis is that we're trying to do the impossible. The impossible thing we're trying to do is finance 30-year retirements with 40-year careers. If you take that 62 and 64-year-old median retirement age, say you were a couple, a 64-year-old and a 62-year-old and you retire. You want to know how long until the second to die for that couple. The chances of the second to die living 30 more years is about 40 percent. So, you have to be financially prepared to live 30 years but you've only worked about 40 years at that stage. So, I think we're trying to do the impossible and that creates a problem. It creates a problem for the states, the local governments, the employers, the social security, everybody. 401k savers, DB plans, that's a hard thing to do.

So, I think we just have to change the division of adult life between work and retirement. We can't do it for everybody. We have to figure out all about the heterogeneity that Jim talked about. But we have three ideas that we think are a good starting point. Will it make the earnings test, have a paid-up status and put Medicare back to where it was originally designed as the primary payor for people 65 and over. I think that's a good start and that's all I've got.

MS. MUNNELL: So, I'm delighted to be here. I'm Alicia Munnell. I'd like to thank Martin and Ben and Brookings and Kellogg for putting on this conference. I must say that Abby and I are a little jealous of Bob and John because they had a well-defined problem. They could go calculate disincentives to work in precise programs then come out with precise solutions. We're dealing with mushier stuff and the good news or the bad news is that Abby and I have spent the past year and a half dealing with mushier stuff. So, in some ways we're the right guys for the job.

So, first of all, why are we here. I'm going to go quickly because everybody has said the same thing. The reason we have to think about working longer is that if things go on the way they are, today's working households are not going to be able to maintain their standard of living in retirement. Other people have said working longer is a powerful tool to combat that. If you claim your benefits at 70 instead of 62, they're at least 76 percent higher. It gives some time when you have 401k assets, for them to grow. And then this is the most wonderful thing. If you start at 22, retire at 62 you work for 40 years but you have to support yourself for 20 years, that's 2 to 1. If you switch over 8 years and put those in the work side, you change that whole ratio to 4 to 1 so it makes life look much easier.

People are working longer. The problem is they're not working long enough to keep the retirement span steady so something has to be done. Our assignment was to look for stuff outside of social security and Medicare that would encourage people to do it. So, we're experienced at doing that because in Massachusetts, the governor had a council to address aging in Massachusetts. I was a member and Abby participated. I was not only a member but I had the honor to be the chair of the work and saving sub-committee and I participated in the housing which we could talk about some other time. The goal of the work and saving sub-committee was to have people save more and work longer and how do you do that.

So, on the save side, it was pretty easy. We said, let's have an auto IRA program for Massachusetts. On the work side, you don't have a lot of tools and it was a bit harder. The thing we did have is we have one of the most popular governors in the United States, a Republican governor. So, everything we thought about was really in terms of his participation in this effort. So, the employee side we thought the governor could go out and say, people of Massachusetts, you need to work longer and people would believe him. On the employer side, he needed to say to the employers, employers there is a strong business case for hiring older workers, and people would believe him.

So, when you go to the national level, new options open up. You have more than sort of just the bully pulpit. So, the way our remarks are organized is that we have, what can you do to encourage the employee, what can you do to encourage the employer. We have sort of incentives and then this education stuff. I have never been a great fan of education stuff but when you don't have any other tools I go for education.

So, in the real incentive world, the most logical thing to look at is the earned income tax credit. Now, the earned income tax credit was introduced for low-income families with children. It wasn't until 1993 they even thought of having a credit for people who had no children. And even then, the whole program is limited to people 25 to 64. So, the benefit is only $500 maximum for a childless person compared to $3500 for a family with one child.

Now, people on both sides of the aisle have recognized that this is inadequate and there are lots of proposals for expanding it. You can see though by this chart that the expansion proposals are very modest compared to the benefit available to a household with one child. And beyond that, of all the proposals, only one, I think it was by

President Obama, extended the age upward and that was only to include 65 and 66. So, there is not a lot of exciting things that have happened here.

So, Abby and I, in our wisdom sitting in Boston, thought that credit of about $2000 for older, single workers might really help and extending that age from 65 to 70. We estimated, if there is anybody here from CBO, don't be afraid, your job is secure. We estimated that that would cost about $300 billion over ten years. It might really help because it would raise the wages for the people that we really care about. Bob and John are raising my compensation which, I think, is wonderful as a rich person but this would go to the other end of the scale.

Then the next thing was, clarify the benefits of working longer through a three-part campaign. Those are three things. Create a social norm of 70 as the retirement age in the United States. That does not mean increase the full retirement age to 70 which I think is an inequitable across the board benefit cut which is not what I'm talking about. But change to the conversation so that what we used to think of as 65 is now 70 to sort of fight against this notion of wealth illusions. People think they look at a big pile and they go, oh my that's so much money I don't need to work any longer, and then the third issue.

So, let's start with the first one which is anchoring is important. This chart may not be immediately obvious to you but what it is, it's from a study of the Netherlands that sort of said, whenever they said the start of 65 is the base and then you lose money if you retire early or gain money if you retire later. Everybody said they were going to retire at 65 and they started with 67 as the beginning of the discussion and then everybody retires at 67. So, anchoring is important. In the United States, 65 used to be our anchor but it has really disappeared. It was a very important age for defined benefit plans but the defined benefit plans in the private sector are rapidly disappearing. We used to have a mandatory retirement age at 65 but that has disappeared and government retirement ages are all over the place. 62 for early retirement under social security, 65 for Medicare, 66 and 6 months for the full retirement age and age 70 for the age at which you get your highest benefit, so who knows what we're doing.

So, we think that 70 should be the national retirement age. And that means that people in this room and politicians and everybody has to go out and say, 70 is our national retirement age. It is the age at which you get your highest benefit from social security. It is the age, interestingly, that keeps the ratio of working retirement years to working years constant over time which is sort of like what it was in the 1940's. And it makes very clear to people that if you're retiring before 70, you're doing something early and you're going to lose stuff. So, I think it will change the conversation but it requires people, a respect of people to shout it from the rooftops. But I think it is worth the effort.

We did a little exercise a few years ago with the National Retirement Risk Index to say at what age would your target and your projected replacement rate be equal. What it shows is that if people worked until age 70, 85 percent of people would be fine and not at risk. This brings up the heterogeneity issue. Of course, not everybody can do it. This is disability free life expectancy at 50. Clearly, there are some people who can't do this but I don't think that should be an argument for not telling everybody else to do it and then let's help the people who can't do it. So, that's the first issue, educational issue.

The second one is wealth illusion. So, you look at your piggy bank, it's got $100,000 in it. And actually, that's about what the typical household age 55 to 64 approaching retirement has in combined 401k IRA assets. So, they go my word, who has ever seen $100,000 before and so people feel rich and they feel like they can retire because they've got plenty of money. So, the important thing, I think, to drive home is that you can have $100,000 but when you're really looking at what that provides in monthly income, that's not very much. So, we support other people's efforts to get 401k balances reported in terms of income as well as piles of assets. The Department of Labor has been pioneering in this. I think provisions like this are include in MESA and other legislation on The Hill and I think it would make a difference.

Third. Provide materials to educate workers on the benefits of working longer. So, here is what Abby and I have been doing for the past year and a half. Because what do you do, you've got a taskforce, some group, a work group, you have to do something. So, we have an elevator speech. So, if you are ever caught with somebody and you need to explain quickly why they need to work longer, I will give this to you.

Then we have a PowerPoint that we think that employers can have seminars in saying, so you think you want to retire. The good news, you have a long life ahead. The bad news is you don't have enough money to support yourself. So, this is our work, we take some pride in it but we think that a professional could probably do an even better job on this and so this is our second piece of material.

Our third thing is an older pamphlet that we did for social security on the claiming age. It sort of goes into all the issues. I've always liked this. I think social security liked it but they found it a little zany for their culture. I think it could be part of these packages that we're handing out. So, these are three strategies to get the word out. We need everybody to get the word out. We were thinking Massachusetts so again, we had our governor. We haven't actually asked the governor to do this but we plan his life so we expect the governor, we hope, I'm sorry, we hope the governor would go out and actually talk about these issues, help get people interested and employers interested in educating their workers and moving the debate forward.

So, that's our stuff on the employee side. Now, on the employer side. Just take a deep breath and you'll be calmer about the next point. Our proposal here is to restore mandatory retirement. So, we realize that's a little bit controversial but I think it might be helpful to both employees and employers. Because we all know that older employees have a hard time finding a new job and I know employers don't like people with gray hair.

So, I think part of the fear is that if you hire somebody in their late 50's, that they're not going to have enough money in their 401k and they're going to stay. So, if there was some age limit that we could agree on, it might really help both sides. So, our notion, Abby actually isn't mad for this so don't take it out on her. But we thought that 70 would be a default mandatory age. And if the employer didn't want to participate, the employer could opt out. If the employer didn't opt out, then the employer would have to notify the employee six months before saying that 70 is the mandatory retirement age, the employee would have some right to petition to stay and the employer would have to do responsible things. So, I actually think it might be helpful.

The other issue is to make the business case for older workers. There is a lot of stuff around that people have. But it is all things like, Stella has been with the bakery for 40 years, people love it when they come in and see Stella behind the counter. So, that's good but it doesn't seem totally persuasive to us. So, we actually wrote something called the Business Case for older workers. And there wasn't anything else out there. If there was, I would have taken that. But when you actually look at it, lots of change. In the old days, older workers used to be a lot different than younger workers. But increasingly, older workers look very much like younger workers. They are just about as healthy. They are just about as well educated. They all have iPhones and iPads and computers. They make less severe errors. It's not like they don't make errors but when they do, they don't kill the patient and they are more likely to stay with you over the next two years.

So, there is a really strong case. We have a colorful pamphlet, again, we need a professional, that you could hand out to people. This requires the governor to call in the business leaders in Massachusetts, sit down with ten of them saying, I've read this, I think this makes a strong case. I think your benefit business would be better with older workers. And then they will go out and spread the word to ten other business leaders and that's basically all you can do. You could do it at sort of a more national level by getting the Department of Labor involved as partners in some states and then do some assessments or we could do the assessment seeing whether that type of activity improves the employment status of older workers.

Okay, so there are two things on our list that people might talk about in this sphere which we did not talk about. The first one is pretty easy. Increased job training for older workers. This is how interested the United States is in doing that. We just don't do it. So, it seemed like it was just sort of whistling in the wind. You can see that the United States is dead last. And then Abby found this wonderful chart from GAO of the stuff that we do, do only 11 percent has been evaluated. So, that just seemed like a non-starter for us. You can say the words but I don't think it's going to happen.

The second is a little more controversial which is phased retirement. I hate the idea of phased retirement. It seems like a diversion from this notion of working longer. Of course, economists think if you expand the choice set for individuals, they are better off. But it really hurts the attractiveness of older workers if you say, hire these people and they need all this special time. Because they have to go to the cardiologist on Thursdays and they have grandchildren and they like to take them to Florida for spring vacation. And they'd like to kind of phase out over time and like who would hire them.

Going back to our council, Abby worked with our caregivers' group. You cannot imagine what this group wanted for older workers. Extensive sort of respite care at work, just millions of things. So, I want older workers to look attractive. I think they're good. I think people will be happier to have them and if you have this whole list of special needs that they have, I worry that they're going to be less attractive.

Also, we did some study that people's happiness about retirement depends on whether they make the decision to retire not whether they retire fast or slow. But most importantly, and this is one of the worst charts we've ever had in our repertoire, you won't be able to understand it no matter how long you've worked.

So, this is from Gustman and Steinmeier, two guys who did a structural model. And they sort of said, let's say you allow for a phased retirement, what do you get. Well, there were some people who were going to work full time and wanted to slow down but they didn't have the option so they retired. You give them phased retirement and they're going to work more hours. But there were other guys that were working full time that were going to work full time for several more years. You give them phased retirement and now they are working less. So, they added up the pluses and the minuses and they found no increase in hours from phased retirement. So, those are the two issues that we sort of ignored.

So, I'm more of an evangelist than maybe not more than John but I really do think that this is a key component to not the only component, not the only thing that has to be done but working longer is one of the most powerful things that can be done to solve the crisis in retirement. And policy makers can encourage individuals to work longer by improving the earned income tax credit. Changing the culture and talking about 70 as our retirement age. Requiring 401k plans to require income as well as assets and providing educational materials for workers. Policy makers can encourage employers to hire retainable workers by restoring mandatory retirement and making a clear and compelling economic case for the value of older workers. I think that we don't need much more research in this area. I think we know the answer, we just have to go ahead and implement it. Thank you very much.

MR. BEN HARRIS: So let me just get started with a few comments while our panelists are coming up here. Alicia, this is the first time I think I have heard an economist say we don't need more research on this. (Laughter) That's novel.

Let me just start with a word of thanks. So on behalf of the Kellogg School of Management, I would like to thank Martin bailey and Brookings for being such generous partners in this and Anna Dawson and everyone else for help putting on this event.

Let me just say, I mean, with someone who has studied retirement for about 20 years now, I'm a little awestruck. This is a great group. I mean, we have got Alicia, we have got John Shoven, Bob Clark, you've got Seth and Steve and Abby, this is a great group. So I'm really excited about this event. And Jim Poterba giving a key note, you know, it doesn't get any better than this. So thank you everyone for joining us.

Let me just start with really quick introductions. Everyone has their, the bio's in the event material so I will be brief. To my left we have got Seth Harris, no relation, people sometimes make that mistake but so Seth was the Acting Labor Secretary and deputy labor secretary under President Obama. He is currently a visiting professor at the Cornell Institute for Public Affairs in addition to being a practicing lawyer.

Then we have Steve Goss. Steve is the Chief Actuary at the Social Security Administration where he has served since 2001 as the Chief Actuary and longer with SSA.

Then we have Abigail Walters. Abby is a research associate at the Center for Retirement Research at Boston College.

And then finally, we have Bob Clark. Bob is a professor at the Department of Economics at North Carolina State University and also an MBER research associate.

So we are going to give Seth and then Steve a few minutes to react to this and then we will hear from the authors, we will have a discussion and then we will open it up for questions. So let's just start with you, Seth. What do you think?

MR. SETH HARRIS: Well, first of all good morning, everybody and let me start by -- am I on? Can you hear me? Okay. I want to start by congratulating Martin on, Martin and Ben, not merely on today's event but on the larger retirement security project that they are working on. I am firmly convinced, I side with those who say we are in a retirement crisis, a retirement savings crisis as well as a retirement income crisis. So the search for answers, putting them into policy form that then is translatable into actual policy I think is really, really important.

So let me start with Bob and John's paper and the paper as you have heard offers three proposals and I agree with two and a half of them. You are going to hear, that's going to be a continuing theme throughout the, my comments. Let me start by adopting and agreeing with their methodological choice they made which is to look at costs and benefits beyond just the trust funds and to look at income tax and welfare costs and other things. To me that's the right methodological choice. We shouldn't let budget structures interfere with making good policy decisions and it's certainly consistent with the concept of a unified budget. Okay.

So on to the proposals. The elimination of the earnings task during the specified period to me seems like an obviously correct choice. I was surprised that every hand in the room didn't go up. Read the paper with the deferral of the reduced benefits to later years, the earnings test I think comes off as something like a pure behavioral device to get people to do the exact opposite of what we need them to do in a retirement crisis which is to work longer. So to me, eliminating that makes all the sense in the world.

I also agree with the paid up status for Social Security and I'm going to disagree though, with one economic assumption the authors used in their analysis. Let me just say it's very dangerous when a lawyer commits an act of economics, but here I go.

I do not agree that employees pay 100 percent of the, of any costs that are paid by an employer nominally like payroll taxes or benefits costs. To me that's an economic assumption drawn from theory, not drawn from a labor market where you've got lots and lots and lots of transaction costs, you have information failures, you have asymmetrical information, you have variations in workers bargaining power. My friend Ellen Krueger puts the number not at 100 percent but at 80 percent and I think even that is a little bit too aggressive.

Nonetheless, with respect to the Social Security paid up proposal, the authors assure us that even if you don't take the 100 percent assumption as being true, you still end up with essentially a revenue neutral outcome. So if you can increase older workers labor supply and therefore increase their earnings and you don't have a significant budget impact, I'm in. That to me was also a pretty easy one.

And I felt the same way about the Medicare paid up proposal for the same, for much the same reasons. Here is where my skepticism kicks in. I am skeptical about Medicare as the principal payer for employees of employer -- who are participating in employer provided health insurance plans. There is no question that that proposal would save money for employer plan sponsors and maybe their insurance companies but I don't think those savings would be passed along to older workers in the form of higher wages and therefore it would not increase the supply of labor in the way that the authors hope that it or think that it will or have analyzed that it will and here are my three reasons for coming to that conclusion.

One is my point before, I don't think employees pay 100 percent of the costs of the employer insurance premiums for health or anything else so reducing the premium doesn't trigger 100 percent pass through to the worker.

Second, I don't think workers have the necessary bargaining power to rest the money from employers. A good illustration of that point is employers saved the mint with the shift from defined benefit plans to defined contribution plans. I have seen no evidence that employees have shared in that, in those savings at all. In fact, I think the opposite is quite true.

Let me also say you could point to the Trump tax cut and the promise that workers would get $4,000 a piece on average. That didn't happen either. It ended up going to stock buy backs.

And the third point is that the authors talk about their base case being based on an assumption that employees pay for both ends of the health insurance premiums and that that therefore reduces their wages below marginal productivity. In work places where you have an internal labor market, that I don't think that is how it works. Now not all work places are internal labor markets. This building is an internal labor market but many other employers are not. And the internal labor market theory in their older years workers are paying, being paid above their marginal productivity because they were paid less in their training years early in their career. So I think it is worth taking another look at that half of the proposal, but thank you for putting it out there.

Let me talk about the Alicia and Abby's poly Gluck paper which I thought was terrific. Again I'm not going to be able to discuss because of the short time, I'm not going to be able to discuss everything but I want to highlight two and a half proposals of theirs that I agree with and a half that I have some questions about.

I completely agree with the idea of expanding EITC eligibility and making

ETIC more generous. It works. It works to increase people's labor supply in the populations that are currently served. Let’s try it on some new populations. We know it works, let’s try it more broadly.

Second, I also completely agree that every retirement saver should receive an income illustration based on their retirement savings. There is a lot of evidence that retirement savers don't understand how much money they are going to need in retirement in order to be able to support their lifestyles. Alicia referred to that in her presentation in chief. But everyone who has worked knows what income looks like because they're used to getting a paycheck. I mean, they’ve seen that. They understand it. So if you illustrate how much income Americans will get on a monthly basis or an annual basis, they will understand better how much money they need to save for retirement. And by the way, there is evidence that it shows that it changes savings behavior among particularly older workers but other workers as well.

Let me also say the value of those illustrations is that it will encourage discussions about not only retirement savings but retirement income and how retirement savers can get, can generate income that is protected and will last for the rest of their lives including products like annuities which are the only ones who provide truly projected lifetime income apart from DB pension and Social Security.

Third, I like the idea -- I’m with Alicia, I’m a skeptic about financial literacy training and education programs more generally, but I actually like the idea of employers engaging their workers in a discussion about working longer. Not only because it puts employers on the hook a little bit but also because it will encourage a discussion about how to maximize Social Security benefits and it will be part, hopefully part of a larger retirement planning discussion which I think employers can play a really constructive role in inspiring.

I share the view that unlike a lot of financial literacy training that that kind of advice can really change behavior because I think workers understand what working longer looks like. I think they, it's easy for them to relate to.

I'm a lot more skeptical about government making a business case to employers about who they should and shouldn't employ. I have a little bit of experience with this from my time in the Labor Department with respect to workers with disabilities. I just don't see a lot of evidence that employers think that government can persuade them to behave differently or that government knows something that they don't know about who they should employ. I just don't think it works.

I think employers are, they'll sit there and nod their heads, they'll join a committee, they'll take a piece of -- they'll take a lovely brochure, they would love to hear an academic talk about it and then they go back and do exactly what they were going to do anyway. I just don't think that that's especially persuasive to folks. So that's my reaction to -- so the score, the final score is five yes, one skeptical. (Laughter)

MR. BEN HARRIS: Thank you. Steve.

MR. GOSS: Can I go up there for my slides?

MR. BEN HARRIS: Sure.

MR. GOSS: Like Seth and all others I want to, you know, really thank Martin and Ben for, you know, putting this together and also for the opportunity to come and react a little bit to some of this and of course I have to say, you know, being a current federal employee that anything I'm saying here does not represent SSA or the administration or anything like that. It's just sort of some personal comments. And I guess what I really want to -- this is plus goes to --

QUESTIONER: Right. Oh, it's a different one.

MR. GOSS: Oh, okay. There we go. Have to go to the computer. All right. (Laughter) So there was no preplanning, I did not see Jim's slides before here and I don't think he saw the couple of slides and by the way, Ben said I could have one or two slides so I said fine, three. That's one or two. Okay. (Laughter). So, you know, add them together.

So the first slide I do want to show you is exactly what sort of, you know, we are sort of coming back on the circle here. One of the first things Jim was talking about was the age of dependency ratio which sounded a little bit different when we say hey, you know, you can start working at 20. So we have 20 to 64 in the denominator and 65 and older, sort of the classic age of benefits to ratio. A pure demographic to look at what is happening with our population.

And I guess what I would like to suggest here is really that what we are talking about here is this really does define as I think Jim really well described what our retirement challenges, call it a crisis if you want, but it's a challenge. We are going to have to make adjustments to make sure that we are going to have enough savings, enough work, enough money for people in retirement wherever that starts.

And one of the things here and Jim also alluded to this idea that there is the both the issue of people living longer but also the changing age distribution of our population. That's what this is all about, it's the age distribution. And you can see had the baby boom generation to the fertility rates stayed at where they were at like 3.3 kids per one on average or even been at about three instead of dropping down to about two. Our age to dependency ratio would look like those blue and pink lines and we wouldn't really be talking about a crisis or anything like the kind of challenge that we have now.

The real thing here, the big level shift that's happening over the next 20 years in this age and dependency ratio, why we have this enormous challenge now is because of the drop in the fertility rate. It's the classic, you know, if you got -- you used to have three kids working in the population for every retired couple and now we are going to have two kids in the working population for every retired couple. That just changes the dynamic dramatically. And that's what we are sort of facing onto the future.

And obviously just also this is so important, I think Jim also alluded to this and others, that this isn't just Social Security and Medicare, the pay as you go systems. I mean, I would contend a little bit pay as you go world. I mean, thinking about it. You've got all this wonderful, you know, money that you've saved up. You maybe not just tips, maybe you've also saved some in equities which by the way might give you a net return on your retirement portfolio of more than one percent. I mean, I guess we would hope so which most of our advisors tell us that.

So, you know, what are you going to get for those monies that you've saved up when you retire? Well, there's supply and demand here. If it turns out there are very relatively few people compared to past generations who are working at the time you retire who would be the buyers of your security when you want to sell them to live off of them. Maybe the value of those securities is not going to be as high as you had hoped or expected.

So I think we really have a challenge here and this does take us sort of the question of the working longer or I guess I would like to sort of maybe just suggest a little bit of an adaption of that, not that it's really different but working more because it's not just a matter of working longer. If we could go to the second slide here I would just want to share with you these are not labor force participation rates, they've been a little bit kind of weird lately because of, you know, measurement stuff perhaps. But this is just looking straight up at number of people employed in the population divided by the number of people in the population. And what you see here is look down at the bottom here, the 70 and over or the 65 to 69 or the 60 to 64. Not doing too bad. These things are going up. You know, this is like good stuff. And they have been going up for quite a while. They've been going up from a time starting well before 2000.

Remember, 2000 is when we eliminated the retirement earnings test above the normal retirement age which is 65 at the time. And also when we started raising the retirement age for Social Security which also was thought that should be encouraging. Well, we already had these things trending up before 2000. And they've continued to trend up, that's wonderful. It's not entirely clear that there is a whole lot of extra net worth in the economy that we can tell at these ages from these two kinds of approaches.

But if we look -- so that's great for 60 and over. But look at what's happening for 55 to 9 and 25 to 54. If we want people to be prepared for retirement, yes it is one way to do it to say hey, just keeping working till you drop. And I remember a while back a guy named Paul Samuelsson when he was once asked by (inaudible) some years ago what's your retirement plan? He says it's my human capital. I'm going to work till I drop. Well, not everybody can do that as has been much discussed. So if we really want people to be prepared, if we want them to be saving up in their 401k's and by the way like Seth, I love the idea that has been kicking around for a while and hopefully Alicia and Abby are going to sort of push this even more, to actually get people to understand the translation of a lump sum.

People are so awed with their lump sum in their 401K and don't understand what that actually translates into. And I would think if we did it on the basis of showing what it would look like as a replacement rate based on your accrued amount of money you have at this point. Don't talk in dollars, people get all kind of flummoxed with dollars. If we could put in a replacement rate based on what you have accrued and your accounts to date that would help people and hopefully it would help them to think I better not start drawing this out early and maybe I out to try to put more in. It could really be -- so regardless of what the work is, if people are willing to sort of shift their priorities in the younger working ages to put more aside for retirement that could really help.

Not to say that we don't want to see these curves at 60 and over keep going up and by the way, in our methodology and I think Jim alluded to this in some of his remarks, in our methodology for projecting labor force participation rates and employment rates into the future, we directly have a built in notion of what is going to happen to life expectancy at higher ages just about exactly what Jim was talking about. We look at the life expectancy at a given age and 10, 20 years out if we look for the younger age that would have had a similar life expectancy back in the day and then we take a portion of the increase in labor force. So our extrapolations in these numbers for the higher ages would be continuing on from what we have got here.

But I guess the point I'm really trying to make is we are seeing progress already under our current circumstances. I think our sense has been because people are living not only longer but at any given age they are living healthier than they are now and the nature of jobs that are available in our economy are allowing people, a lot of them, to work longer than they were. The blue collar, white collar kind of issue from before.

So at the higher ages, sure, lets encourage more, let's get people working even longer but I think we better pay a lot of attention to what is happening at the younger ages too because those periods where people have to be accruing or should be or we hope will be accruing the assets that will allow them to retire whenever they get around to that.

So let me go to now my final slide which is something that is a little bit different. This is -- now finally I am getting to something that is really sort of Social Security specific. These are and Alicia and I have talked for many years now about claim age. These are the age -- these are looking at the percentage of people who are insured to receive the Social Security retirement benefit and not already getting a disability benefit or some other kind of benefit only.

And the percentage of them at each age, 62 is the blue line and then moving on up, the percentage that have actually starred to receive their benefits at that point is sort of a prevalence thing. And you can see what we have got here for the males in the left and the females on the right, we can see that the percentage that are taking their benefit at 62 rose to a peak back, you know, around like 1990, 1995 but it has been dropping ever since. And note it has been dropping stating before we started to have the retirement earning tests eliminated about NRA and it started before we stated raising the retirement age.

So it's just things I think one of the things in, you know, (inaudible) hearing a lot of others talk about it. I mean, the baby boomers were all coming to the population, they were flooding the labor market so a lot of employers started offering early outs to people up in their 50's and 60's and that's probably a lot of why we had people, you know, dropping out of the labor market at that point. It was probably maybe sort of the leading cause. But so where are we going with this?

Well, we can see on this something really interst5ing. The retirement earnings test for people at 65 and over, now its 66 and change in over. By 2022 or so it’s going to be 67 and over above the NRA. No more retired earnings tests. Well, all of a sudden we see what happens. We didn’t see a dramatic jump in the number of people working from eliminating the earnings test but what we do see is a jump in claiming or starting benefits.

And so what this means is we have got a lot of people starting their benefits earlier than they might have which means they will get more reduction in their monthly benefits for the rest of their lives and for the rest of a potential surviving spouses life. And one thing that I can share with you, this isn’t like too much out of class, but back in 2000 when there was enacted the elimination of the earnings test above the so called normal or full retirement age there was serious consideration of lowering it to eliminating it above 62.

But the principal item that caused that not to happen was a recognition in modeling, not ours, but in a lot of peoples modeling that that would cause people to take the benefits earlier just exactly as you see here and it would be even earlier if we would allow people to work as much as you want and get your benefit on top of it at 62. That would cause a lower level of benefit for that worker for the rest of their life and for their surviving spouse. And the modeling indicated that we would have a significant jump in the number of elderly widows who would be in poverty as a result.

So again, sure there might be some extra work as a result of this going on but what is going happen in terms of people actual adequacy of retirement income if it causes them to start their Social Security benefits earlier? So I’m, you know, so many other things to really, you know, sort of talk about in this and am I like out of time or past or? I can't read it at that angle but -- okay. Getting there. Okay.

So again I just want to reiterate the idea of the education aspect of getting people to understand this. I remember I was at a conference with Aspen Institute, a couple of the people in the room like Frank Todisco were there some time ago. And one of the things, there were a bunch of people there from a bunch of mutual funds and insurance companies talking about we cannot sell a life annuity. We just can't sell a life annuity. We sort of understood people were worried oh, what if I get run over by a truck tomorrow and all this kind of stuff.

But then the thing that sort of dawned on us at a point was oh, we are the victims of our own success. We have gotten people so enamored with seeing that $100,000 level, that $200,000 whatever, they're -- so should we be shocked that we have convinced them that it is so important to build that large nest egg and how beautiful that is that they don't want to give it up for buying a life annuity? Especially because we haven't even made a serious effort to try to convince them of the relationship between what annuity would be and I think it was it Jim, you had the annuity before.

Was that even an indexed annuity or was that a flat dollar annuity? It was a flat dollar annuity so if you have people want to go out and buy like a CPI or three percent or something like that indexed annuity, that starting level is going to be even lower than what Jim showed. And we are not telling people about this. And the key on this I would think is when people have like at age 40, 45, 50, they have a certain amount in their 401K and they say well, I'm feeling so wealthy I don't even have to save anymore. Or I could start, you know, buying the Lamborghini instead of the Ford now because I, you know, what the heck. I can go into debt slasher because I have these assets to balance it.

If people understood what this really meant for their retirement income, maybe it would make a difference. Now I don't have like any answers about how we could like encourage more work in general, but I do have a little bit of concern about the idea of having the paid up status and I guess I would ask from the French work and also from Bob and John, you might want to address at some point the business of you're assuming that if we do the paid up a-ha, we are going to have more income available to these elders and they might work a little bit more.

Would there be any displacement of younger workers? Because I think the way you have got it modeled here is its 100 percent extra work. If there's, now you might argue there is not going to be and I'm not talking about displacement by elasticity of desire to work, I'm talking about elasticity for demand of work. I mean, if an employer sees that they can keep an elder on working longer, and so maybe they don't have to hire as many younger people.

If anybody saw SNL this past weekend, they had a little skit up there about the young people all complaining about these boomers just hanging out at the jobs for too long. Now maybe there is not too much on that but there is one other aspect of it. If we did have paid up by either the Social Security or Medicare, if we are still going to pay out the same amount of Social Security benefits, if we are going to do that, then the elder is not going to be chipping in to their amount, somebody else is going to have pay it.

Maybe those extra money you're depositing that we are going to get up from income tax we can modify that, have it go over to Social Security. But if in fact that didn't happen, if we had some other uses for extra income tax, just to think about them for a bit and Social Security was less money, would that mean we would have to well, maybe raise the payroll tax rate for the people who are not over this age? Who are the younger people who on the margin we might think are not saving as much as they should. If we start taxing them more heavily are they going to have less ability or less desire to save money towards their retirement?

So, you know, in a zero sum game in trying to achieve retirement here I think here is a lot of things to consider. The final thing on the retirement age, thank you so much, Alicia, for saying that the intent here is not to encourage increasing the normal regiment age as it applies for Social Security. That's not your intent but sometimes in, you know, we in our office, Karen Gunn and I and others, we have done a lot of work on showing like equivalent retirement ages. We have seen a lot of proposals from a lot of places and most people when they talk about raising the retirement age, they really are talking about changing the retirement age of Social Security because we are underfunded now because of that first draft, because of the changing age of dependency ratio. And there has got to find a way to either lower the level of scheduled benefits or raise the amount of revenue. Not all that many people excited about raising revenue and getting more taxes. Some yes and some no and someday the political balance will work out on this.

But the idea of (inaudible) benefits is appealing to many and one way to do it is to continue into extend the increase in the retirement age. So I just said, you know, when you talk about having a national and I think in the paper at one point it said full retirement age that's something a lot of people will hook on to and say well, we should be doing that. And that’s fine. But again that just lowers the level of the actually the Social Security benefits. Now it does help in terms of providing enough money to be able to pay for the scheduled benefits.

You know, one way to provide -- to pay for the scheduled benefits if you don’t have enough money coming in to pay for your scheduled benefits well, lower the schedule and raising the retirement ages is one thing that could be done on that. So I understand you are not suggesting that --

QUESTIONER: (inaudible off mic) very clear.

MR. GOSS: You’re very, very clear but I think in talking about raising the full retirement age or the normal retirement age, a lot of people will interpret otherwise. So I’m actually just sort of doubling down on your point so that people are not misunderstanding that. And I guess with that I am probably over time.

MR. BEN HARRIS: So let's give Bob and Abby a chance to respond to these critiques. Abby, do you want to start? Do you have any comments?

MS. WALTERS: Sure. So I think on the point that changing employer's behavior is incredibly difficult and part of the idea with --

MR. BEN HARRIS: Give it a tap.

QUESTIONER: It’s on.

MS. WALTERS: Okay. So that it is incredibly difficult to change employer's behavior. Part of the idea was that it wasn't necessarily the state being the full front of it with all of its organizations but really the governor having these meetings and then encouraging these employers to then spread the word. So that really would create a ripple effect rather it being seen just as a lecture.

MR. BEN HARRIS: Bob, do you have any reactions to these critiques?

MR. CLARK: Yes. A number of things. So first I think just that the whole notion of population aging and individual aging, they're two different issues but they're both very important and we need to keep that in mind all the time.

The theme that has run through all of our discussion is the heterogeneity issue and that really led us to think about looking for incentives for people to work longer, not disincentives by cutting benefits to push them in that direction and I think we certainly ought to keep that in mind.

Our major point that once up about, you know, what is the real cost? What, you know, if we believe the estimate that you cited was 80 percent instead of 100 percent shifting, no big deal. I guess you were trying to argue that its zero even though you didn't have support for that but so just, yes one --

MR. BEN HARRIS: Couldn't argue it.

MR. CLARK: The assumption there is not really important to the argument that we are making and one could have a variant of what we proposed so that you don't even change the employer tax. It's just the employee tax.

But there's also this labor demand stuff that Steve was coming back to and so even if you don't believe the income has shifted forward, the lower cost should affect the demand for older workers there and it's certainly an issue. One issue that John and Jim and I have been thinking a lot about is employer concerns for people working longer.

So we have got several projects, we have been running some meetings trying to identify those and those concerns are real. So we have had conversations and surveys with senior HR managers, risk managers about what is it that they're worried about? And, you know, there’s a variety of things. It’s the high cost, it's the high employee benefits, it’s the productivity issue, all of those are real concerns and one of the concerns is blocking younger folks coming up. So all of those are real concerns that we have to take into account when we think about these issues.

But on balance, encourage people to work longer by removing disincentives to work I believe is a very positive position to take.

MR. BEN HARRIS: So let me just ask you a follow up question, Bob. So just, you know, let’s say you are sitting here and you are talking to a group of workers and they're saying look, this is -- you are calling us from the cheap seats. Like you're -- I am working 45, 48 years and your recommendation is to put in place all these different reforms that mean I have to actually work longer? Like you’re telling me that's going to make me better off? And so in the terms of economics, is this really welfare enhancing from the perspective of a worker?

MR. CLARK: Again, you sort of slid over the key assumption I was just making. It is not we are telling people that they have to work longer. We are not even saying that it's desirable for everybody. We are saying if you decide to work longer, here is an incentive to do that. If you’re thinking about at the margin do I stay working or do I retire, we are removing or we are making that a more advantageous choice to keep working. But we are in no way saying to everybody you ought to work longer. We are in no way saying boy you, you’re not being socially responsible unless you work 50 years instead of 45 or 40 or whatever it is.

MR. BEN HARRIS: Makes a lot of sense. Abby, your center releases its national retirement risk index which gets a lot of attention I think both by economists and by the media. Can you talk us through let’s say everyone -- let’s say that your plan is in place, right? And so, you know, we see people working longer. How does this change the share of people who are adequately prepared for retirement?

MS. WALTERS: Sure. So the National Risk Index, what it does it compares people's income as they're working age household and then looks at what their income needs to be in retirement to maintain that level of consumption. And what we see is that if people work towards age 70, over 85 percent of households would be able to maintain their current standard of living in retirement at age 70.

MR. BEN HARRIS: And so, Seth, you've been a member of a cabinet. Let's, you know, let's say that we go back in time, four or five years ago. President Obama --

MR. SETH HARRIS: Promise?

MR. BEN HARRIS: President Obama calls you in, and he says look, you say you like five out of six of these proposals. Let's say we put those in place, these address a supply and demand for older workers. Is this the magic bullet? Is this the thing that changes American retirement?

MR. SETH HARRIS: No, Mr. President with due respect, there is never I have never found a magic bullet in my life in public policy. You know, the retirement crisis is a big, complicated, multifaceted challenge. But I take the premise of this conference to be true and that is that you could helped to address a piece of that problem by addressing the challenge of workers who are leaving the labor market or stopping employment and stopping earnings earlier than maybe smart retirement planning would suggest that they should. Not that they should just sort of in an abstract moral sense but just because within a sound retirement plan it just doesn't, the math doesn't end up working out for them.

So I -- the reason I like these proposals is because it helps to address that problem. But there are -- we have to be honest about what the limits are and I would start sort of where Jim started and a number of people have come back to his. He used the phrased heterogeneity. There are a lot of people who just are not going to benefit from this proposal and let me say with the president we serve, would have been very concerned about those people as well.

So if you can't work due to disability, either because of the physical demands of the job or availability of jobs in your occupation, if you are transitioning to Social Security from SSDI, from workers compensation, a lot of people who are on unemployment insurance, older workers who are on unemployment insurance, if you're prematurely retired because your mind or your body or your skills don't happen to match up with the modern employment market, labor market, at least for your jobs in your occupation, this, these proposals probably are not going to help you very much.

And that's important not just because we don't want to oversell the effectiveness of the proposals but because particularly where there are positive costs and I take Steve's point about the positive costs. You have to make really clear eyed, cold hearted assessments about whether or not one, you are going to get a return on investment when you are spending money, but two, whether we are spending money on the right people. All right. And this is Alicia's point about the EITC is that you are spending money on the people who need the help most when you dramatically expand eligibility and the generosity of EITC.

The second point, and John made this point very passionately and I share his passion completely on this. The modern retirement system, it sets up an extraordinarily difficult challenge for the overwhelming majority of workers which is that we expect you to save a small percentage of your income for 35 or 40 years to fund a very large portion of your income for 25 or 30 or 35 years. And these proposals where what you are doing is you are just changing the two blocks of time shortening one and expanding the other, shortening retirement and expanding work, that makes the math better for some folks, particularly folks like Alicia and me who are upper income folks but for a lot of folks, the math still is not going to work even if they were to increase the amount that they worked and decrease their retirement time.

So I'm not a believer in making the perfect the enemy of the good. So if you are going to chip away at part of the problem with solutions like these and you are not going to take resources away as the revenue neutral proposals that Bob and John have made and I think the morally correct proposal that Alicia and Abby have made about EITC would do then I'm for it. Then I think should do it.

But when you start spending money and start making there is opposite costs to spending that money and we have to think a little bit more deeply about whether or not that's really the right way to go. That's sort of where I got off the boat with the Medicare primary payer. If I was going to spend Medicare dollars or if I was going to spend healthcare dollars, I don't think that's where I would spend very limited healthcare dollars.

MR. BEN HARRIS: Thank you. And so now let me just turn to Steve. Steve, you commented mostly on the Social Security proposals. If someone came to you and said look, we want to improve the landscape for older workers, we don't want to touch Social Security. What is your recommendation?

MR. GOSS: For older workers, without touching Social Security. Well, I think the one that struck me as being the most important is to try to get people to understand that value of their now DC's since DB's are pretty much gone, I mean, we worked with Dallas some years ago on what I lovingly call the ex-chart about how DB's were going away and DC's were taking over and the fact that people don't really understand and they have the ability to access to a great extent. Even in some DB's now I think Ford and GM a while back started giving a lump sum option. You know, if we could better, you know, infuse in people the importance of that.

But, you know, if I might speak also because Alicia was at least framing it as not being a Social Security issue, trying to put people for on the idea of looking at as aiming themselves towards a higher age for retirement or planning to stop working. The one thing that I think that we have had quite a bit of discussion about and Jim certainly was hitting this hard at the beginning is we are not all the same. I mean, everybody in this room is pretty much the same. Or probably -- any blue collar workers here been doing heavy manual labor lately? Probably not. So but there is the rest of the world out there that is very, very different from that.

And inevitably I think we all know that we are going to be looking towards increasing whether it be a mandatory age or whether it be increasing ages for Social Security. One of the things Social Security's normal retirement age has gone up by two years. How about the Medicare age? Should that be going up and would people favor that as well? It would save money for Medicare which might help counter balance a proposal to allow people to stop paying in taxes after a while conceivably.

But I guess the one point I would like to make about the inevitable proposals that we have been seeing and will see about raising the normal retirement age for Social Security is it's not really one size fits all and we do have one really nice example of a proposal we could point to. We have got a federal website, little advertising here. This is back in the Simpson Bowles commission. In the Simpson Bowles commission like many other entities recommended let's have a gradual ratcheting up of the normal retirement age and maybe even the earliest eligibility age, 62 as well to keep the sort of ratio of potential retirement years to potential working years about the same and basically insulate the cost of the program from increasing longevity. It doesn't insulate it from changing and fertility rate and the age distribution but it at least would insulate it from that aspect of it.

And there was concern by some on that commission of because it is not one size fits all what can we do and they said can we start having different retirement ages for people in different occupations? Unfortunately our data sets don't really allow us to say, you know, if Seth and I are both working for Ryder Truck and he is in the front office and I'm out there changing these monster tires on these trucks, very different kind of work even thought our EIN's were from the same place. So they said how about if we focus it on people who are long career and low earnings levels and cut them a break.

And I think the deal was if you're average earnings throughout your career are less than two and a half times the poverty level we won't raise your retirement age at all. If it's four times or higher then we will raise it by the prescription and then have the sliding scale in between. So I think there are ways to sort of address this and again I need to double down. I know that Alicia is not recommending this but given the financial status of the Social Security especially if we, you know, were to start accepting, exempting more people from paying in the taxes, what we are going to have a challenge and retirement age recognition of increasing longevity is almost certainly something we are going to be seeing.

MR. BEN HARRIS: So let me ask another question and Bob, maybe you can take this, anyone else can jump in. One thing we didn’t hear about at all today, we heard about a lot of different struggles that older workers face. We didn’t hear about the rule of caregiving.

And so there was recently a paper, Steve and I both discussed and said (inaudible) by Barbara Tricia and Nadia Krimchiva from Urban and CBO and they showed a really high incidence of spousal care giving for people in their 60's and 70's. When you’re 50's, you know, there's some taking care of older parents. By the time you get to your 60's and 70's, I was shocked by the amount of spousal caregiving. How does this play into this whole discussion?

MR. CLARK: A very broad question outside of my main area but certainly the fact that if people are going to spend more time in the home taking care of spouses, and that’s historically has been primarily the role of the wife as opposed to the husband, that that leaves less time to work on the outside. So to the extent that people do need care, they have to pay for it one way or the other.

One way of paying for it is lower earnings of the spouse but also then you could buy it on the market, that requires even more money than you have and those prices are pretty high for quality care.

MR. BEN HARRIS: Makes sense. Any other thoughts on that?

MS. WALTERS: Well, I also think that paid family leave and the Family Medical Leave Act are really important when we talk about caregiving because it gives people job protection if they're having to take their spouse to doctors’ appointments and also

California has set up a paid family leave program and there has been a paper that shows that nursing home admissions have actually declined. So I think paid family leave also provides benefits to folks as well and for the state.

MR. GOSS: If I could just add one piece to that, I think that is an extraordinarily important point and I would add in the shall we say very serious challenges of the long term care industry have put even more burden on family caregiving as opposed to third party caregiving and even institutional caregiving. And until the LTCI market gets sorted out if it ever does get sorted out, the burden is going to remain very heavy on families to provide that kind of -- they are the long term care for the large percentage of Americans right now.

MR. SETH HARRIS: You had just commented. It is fascinating that paid leave kind of concept here it seems to have a lot of traction on shall we say sort of both sides of the aisle. One of the distinctions though seems to be and starting to talk about the cost and the paying for it kind of consideration here, how do you pay for it? In California and I think here is a Senate bill that's been around for a little while that would suggest having it done by like a little payroll tax or a payroll tax to help fund this and to finance this then as people need the benefits they get it.

There is also a bill by another Senator that we worked on and scored recently which would pay for family leave in a little bit different way. For every month of family leave that you take, you end up having your normal or early eligibility age for Social Security elevated for you by two months for every one month of paid family leave that you get. So, you know, bottom line is good things are good because they cost money and so we have to figure out how to pay for them.

MR. BEN HARRIS: Seth, let me ask you a question and then anyone else should feel free to jump in. So you've written and talked a lot about the role of the gig economy. Is this good news or bad news for those of us who think that people should be working longer? Is this an opportunity for older works or is this a hindrance?

MR. SETH HARRIS: Yes, so I think the best answer is that it’s really a mixed bag. The -- so when we talk about the gig economy we, the phrase that I try to use is the online platform economy so we are talking about Uber, Lyft, Task, Rabbit, Thumbtack, all of these platforms that -- I see some people on their phones right now probably getting their Ubers ready to go. (Laughter) All right. That is what we are talking about when we talk about the online platform economy.

So what is good about it from the workers perspective is that the worker gets to decide when, where, how long, whether they're going to work which is quite different from a traditional employment relationship. So for older workers who want flexibility but also want to make extra earnings, there are some opportunities created by these online platforms.

But I think the effects or the opportunity are really going to be quite limited and let me give you a few reasons. One is its still quite a small percentage of the American work force. It gets written about a lot because journalists drive around in Ubers but it’s really, according to the JP Morgan Chase Institute it's about 1.6 percent of the American work force and that includes all of the platforms, not merely the personal services companies that I just listed off but also ETSY and Airbnb, that’s everybody.

Now the rate of growth is really substantial and the platform, the number of platforms is proliferating but and so but still it’s quite small. It might get to be really important although we are seeing sort of a higher birth rate than death rate but we are still seeing a death rate among those companies.

Second, older workers are tend to be under represented in that part of the labor force so the numbers that I have is that -- this is again JP Morgan Chase. One percent, its 1.6 for all workers, it is one percent for workers 55 to 64. It is point five percent for workers 65 plus. So the stories we all hear about people my age or older driving around millennials after they have gotten drunk at a night partying, that’s really the exception rather than the rule I think in the gig economy.

And the third thing is most people work for the online platform economy only a few months out of the year. They don't do it full year. It accounts for maybe again JP Morgan Chase about 20 percent of their income throughout the course of the year. More in the month in which they are working which suggests that what they are doing is they are smoothing other income, they are not really relying on it as the principle source of their income.

And the last point that I would make about it is most of those workers or many of those workers, I don't think we know an exact number are independent contractors. And as a -- rather than employees. And as a consequence to that, they don't get minimum wage protection, they don't get overtime protection, they don't get unemployment insurance, they don't get workers compensation and most importantly they don't get included in an employer's retirement plan which as we know dramatically increase -- if you are in a work place where you have a plan available to you, it dramatically increases the likelihood that you will enroll in the plan and start saving for retirement.

These workers are largely excluded form that. The plat, some of the platform companies are trying to work on solving that through various ways but they still have not solved it. So a lot of those workers really are out of the retirement system in any meaningful way so it may mean that there are earnings available for some folks but for a large percentage of older workers it's just not an option and even if they get into it, it doesn't give them the kind of safety net of protection that they need to help them with retirement.

MR. BEN HARRIS: Does anyone else have any thoughts on the promise or peril of the gig economy?

MS. WALTERS: I think Seth touched on everything.

MR. BEN HARRIS: Okay, all right.

MR. GOSS: Yes, it's pretty (inaudible overtalking).

MR. BEN HARRIS: Let me just ask one more question which is that, you know, a lot of times when we talk about the potential for older workers, we separate it and we did this on this panel. We separate it between white collar and blue collar, basically being a proxy for those who are able to work and those who aren't. Is this the right way to think about it? Should we think instead about peoples' wages at older ages relative to their mid-career wages?

So for example, take two white collar works who can both work at -- both have the capability of working older but one whose wage profiles spikes in their 40's and 50's and another who has more constant wage profile. Should we treat those two workers differently even though they both can work at older ages? You know, so for people who are, you know, in an occupation where you can expect to make a ton of many in your 40's or 50's, maybe early 60's, but can still plausibly work in their 70's and 80's, should we be talking to them differently than someone who has more constant wages across their lifespan?

QUESTIONER: (off mic inaudible).

MR. BEN HARRIS: Well, so I'm sort of thinking in the context of the life cycle model. So life cycle model sort of gives you sort of gives some guidance about how to spread out your work effort and your consumption over the course of your life. Is it different for someone who is making a ton of money in your 40's and 50's? Should that person be working 100 hours a week and retire at 65? You know, versus someone how has more constant wages across their life? Should we be giving different advice to these people?

MR. CLARK: I think the people that are making a ton of money don't need our advice. (Laughter) And I think that that is probably a really small percentage of the population so I don't think that's an issue that we ought to worry too much about.

MR. BEN HARRIS: Okay.

MR. CLARK: But I think the issue of lifetime income and how that changes over time is an important issue but I wouldn't phrase it the way you did. It's just a matter of, you know, does it matter if people bunch their hours of work to have higher income at particular points in their life? Yes. And that's an individual choice in many cases.

And how they phase out or I guess I would have a slight argument, with Alicia it's always a problem if you do that because she's so good with her retorts (laughter) but I like phased retirement and I think it is an excellent program in lots of cases. In part, because she was putting in the context of companies hiring workers, that's not where phased retirement is. That's just the part time job.

Phased retirement is when you are on a career job and you are thinking about how are you going to exit? And if you believe what employees say, a lot of them say they would like to have reduced work hours and for whatever reason the company has not let them. So what do they do? They go to some other job that will give them reduced hours.

Wouldn't they be a lot better off if they could stay on their career job and even if it's at a reduced wage it's the, you know, they don't have to search and they're still probably going to get much higher wages with that company than if they go to be a greeter at Walmart.

So what is it about phased retirement? If you look at it, employee always -- if you survey older workers, they're always saying something like that. We would like to gradually reduce hours. If you go to companies they always say we don't want phased retirement and some of the reasons they give you in response to surveys is that it's hard to manage and employers seem to think that employees don't want it even though the employees tell us that they do want it.

So there is a lot going on there and it also depends on the structure of the company a lot. So some of us here worked at universities and did not know about Brookings, you probably just have the easy job all the time.

QUESTIONER: He's talking to you.

MR. CLARK: But at a university, phased retirement is very popular and it works really nicely because you can divide up work pretty simply. You work one semester, you don't work the next semester. Half time work for half time pay. If you want to encourage people to go to phased retirement you can say, give them 60 percent pay for 40 percent work or something like that but it’s in an environment where it works well. And a lot of universities have phased retirement programs and lot of people take phased retirement at universities.

That does not seem to translate very well to a manufacturing sector and other areas. And, you know, part of it may be that when you think about trying to reduce the persons compensation per hour is part of that that becomes really difficult whether that is because of age discrimination or other things. But, you know, one could imagine a phased retirement world that gets around a lot of the employer concerns where not only do you go from full time to half time, you step down from being the supervisor and you're back to, you know, being a more common worker. And there is an associated reduction in wages for that. And that would make the employer more likely to go to a program like that and it would still leave the worker better off than going to be a greater at Walmart.

QUESTIONER: In answer to your question or partial answer, the Japanese live longer than Americans. They retire shorter than Americans. They obviously work longer than Americans and those Japanese workers in their 60's and 70's make less than they did when they were in their primary career job. They typically change jobs to lower wage jobs and that downward flexibility in wages and roles works in Japan.

MR. CLARK: Yes. If you look at the Japanese data, you find that the transition occurs in lots of different ways. So some big companies move people down to their subsidiaries, and they get a higher wage -- lower wage relative to their career job but a higher wage than they can get anywhere else. Then there, you know, related companies and other things. So there is a nice progression in Japan.

But if you look at the data, the Japanese labor force participation rate for people, men, 65 and over is about 35 percent. If you look in Europe its seven percent. So there is something different in the world in Japan and the Japanese really want to work and the Japanese really think stopping work affects their health so that’s sort of another issue that we really haven’t, you know, spent much on.

MS. MUNNELL: So just on this topic that it's clear employers don't like --

QUESTIONER: Which speaks to your question actually.

MR. BEN HARRIS: Yes, yes.

MS. MUNNELL: So people don't like older workers. They don't. They avoid them, they try not to hire them. They have stereotypes in their minds. And so just one thing, Ben, is that either they're right and all older workers are dowdy and nobody should hire them and we should just forget this or if they're wrong, then we should try to educate it. Educate them on the facts. And somehow get the facts to -- I agree that having the government speak to you might not be the best way to do that but I don't know what, I don't know how else to do it.

I mean, there are community groups and things like that but there are also advocacy that you tend to disregard them. So that's one concern I have. I mean, if it's whatever the story, I think they're okay. I have to believe they're okay. But if they're okay then we have got to confidence other people that they're okay and I don't know how to do it.

In terms of this other nonsense about making them more needy than the rest of the kids, it just seems like a terrible idea. And, Bob, you can argue with me but you can't argue with Guzman and Steinmier because their point was it wouldn't increase work hours at all which just seems like a very reasonable conclusion.

MR. BEN HARRIS: So let, we are going to give Steve one minute and then we are going to open it up to questions.

MR. GOSS: Only one minute?

MR. BEN HARRIS: Yes.

MR. GOSS: Yes, if I could come back actually to Ben's actual question, which is for people of different kind of, you know, work trajectories during their careers, I think this maybe speaks a little bit to something like investment advisors probably talk about replacement rates. And for somebody who has a career where they start out of grad school, maybe they are not making much and they have much elevated earnings later in life. If we are going to look at just like the last five year of earnings for a placement rate and that's what old DB pensions used to be based on, that's a very different structure than somebody who starts out with basically about the wage level they are going to be throughout their career and maybe not live as long in terms of replacement rates.

Now maybe this is the plus of not being so much in the DB because it gets Social Security as you all know looks at a wage indexed average level of your earnings throughout your career which tends to sort of even that out a little bit but maybe even more so in the DC world, if we can encourage people at younger ages to actually start contributing and to contribute more and make it more attractive for them to do that.

Now just a, if I could just one little thing I would like to go back to about the idea of allowing people not to have to pay any payroll taxes into the systems later and that maybe putting pressure on the younger people. Another possibility just to throw this out there and, you know, we don't make proposals but just as a thought, a lot of people have talked about having the top six percent of the earnings people pay taxes on all their earnings instead of limiting it to 132,00 or whatever we are at, at this point for this year.

Another possibility on that sort of picking up on the EITC thing is what if we had some tax paid on the level above 132 but then allowed that to be offset by having a somewhat lower tax on earnings up to some lower level. Thereby for the people that we are most worried about having the ability to save towards their retirement, giving them a little bit lower tax rate. Not just elders but people of any age that have a tax burden. Lower their tax burden hoping that would encourage them to save more towards their eventual retirement. Just a thought.

MR. BEN HARRIS: So let's open it up. Let's start right here.

QUESTIONER: Perfect.

QUESTIONER: You've lost the microphone.

QUESTIONER: All right. Thank you. I'm David Benoits. I've been retired since 1989 and about 80 years ago, the U.S. went to a 40 hour work week. Since that time productivity has increased by well over a factor of five and contrary to some reports, the rate of productivity increase is actually increasing. Productivity is increasing faster than it has been and it is going to continue.

And my question is about 50 years ago economists were predicting that by now people would be working 24 hours a week which they could and the question is do we really want to be encouraging more jobs? I mean, do we really need them? Right now most workers are not creating wealth, they are either disturbing wealth or in many cases like lawyers they are dissipating wealth. (Laughter) And do we really want to be encouraging more employment.

MR. BEN HARRIS: Seth, do you want to take this?

MR. SETH HARRIS: Yes, the lawyer crack really hurt my feelings. (Laughter) I'm the only lawyer up here. Anyway so John Maynercain predicted in the 1930's that we would -- that people would be working I think he said 15 hours a week and that would be only because they couldn't resist working and that a combination of technology and what he called I think he called it the interest rate but really what he meant was sort of an investment return rates was going to make work completely unnecessary. Kind of hasn't worked out that way and I think the answer is we sort of have to deal with the world as we have it not as the world as we expect it to be.

I'm not sure I agree with your productivity numbers completely but even if I agreed what them, even if I agreed with them, we do have a very large number of people, a very, very, very sizable percentage of people in the United States who simply don't have enough money to be able to retire. So given that fact, right, or they can retire but they can't support themselves in a lifestyle that is even approaching the lifestyle that they have before they retire.

So the question is what do you do given that fact? So the approach that this forum takes and I think it is the right one, you have to sort of disaggregate the problems. So one piece of the problem is that people stop earning when they could continue earning. And how do you get them to be able to earn more so that they are taking more -- taking less money out of retirement and they're accumulating more money for retirement. So my answer to your question is yes. We should be encouraging some people to work more unless we are going to really dramatically transform this system that we have. We have transformed it but let me also say we have transformed it to favor more work, not to favor less work.

The DB system supported, right, retirement at an earlier age and people being able to support themselves for the rest of their lives. They had a guaranteed protected lifetime income that they could rely on, partially from Social Security, partially from a pension. That system is not entirely gone but it is largely gone and we have gone to a system instead where people are on their own, accumulating their own savings, figuring out how to decumulate those savings and how they're going to make it last for the rest of their lives. And so I would love to live in the world that you're positing but I just don't think that we are there right now.

MR. BEN HARRIS: Yes.

QUESTIONER: Hi, I'm Nora Super, I'm with the Center for the Future of Aging at the Milken Institute and I, this has been fascinating and I love it. I just had so many questions, I mean, comments. I'll try not to make a speech, just a question. Mainly abut Alicia and Abby's business case proposition. And I worked most of my career on the health side of the equation for aging people and that hasn't been discussed as much and I think what we are finding in the healthcare sector is, you know, it really is better for your health to work longer to. There is lot of new evidence showing outcomes and spending associated with aging are, you know, are better if you are engaged in your community, if you are doing things so people who go off to work even at a golf course they get depressed. They get more chronic conditions. They have all these things that are associated with it.

My question, I guess a couple things on your elevator speech is, you know, to also look at if you haven't already Laura Carsonson's work at Stanford Center on

Longevity that really talks about the benefits of older workers, you know, much further than them being a burden, actually that they will take a mentor roll, that they can better manage people that -- and then that the UK is way ahead of us on some of this stuff because they have the mandatory retirement age.

They've been looking and they do the business case they have done studies that show like at McDonalds having an older worker really increases your customer satisfaction rates and I think we can do some of those correlations to see where older workers really benefit the bottom line of employers.

On the consumer pitch, I would say we find much more people are concerned about brain health and getting dementia. That's their biggest fear. Bank of America did a whole client analysis and that's what they feared the most and so I think what we have been pitching more is what you do to keep your brain healthy so you don't end up in a nursing home, that you don't end up a burden to your children is more powerful than money actually. And that it encourages people to exercise, do things that lower their healthcare costs but also encourage them to work, be stimulated, do other things.

So, you know, I guess my question is because I don't, I can't believe Alicia said no more research. (Laugher) I would really ask if you would start looking at some of the health outcome aspects of working longer and those correlations I think could be really important to the literature.

MR. BEN HARRIS: So to our panel, what do you guys think about this correlation between health and work at older ages?

MR. SETH HARRIS: Correlation versus causation.

MR. BEN HARRIS: You tell me.

MR. SETH HARRIS: Which is the chicken, which is the egg? I mean, those are serious, you know, typically --

MS. MUNNELL: So, so, so, so. Somebody at the center used data from the Netherlands which they have every piece of information that you could possibly want and there was a change in policy that encouraged people to stay later and they could do a real, a study on causation and they looked at mortality. And mortality actually -- people died later when they worked longer. So I, I liked all your comments.

MR. SETH HARRIS: But, Alicia, wasn't that the ones who chose to work later the ones who chose -- there was an ability to make a decision. They lived longer. I mean, people who are healthy and are likely to live longer tend to --

MR. BEN HARRIS: So let me just jump in to play tag team with Alicia for a second because I think, I mean, it is extremely important that the vast majority of work of research which is pointed out that people who work longer tend to live longer is very difficult to evaluate because this is simultaneously determined, right. It's just a correlation.

I think you can count on just a couple of fingers the number of studies that really have something which is an honest to goodness experiment where different groups are exposed to a different set of retirement incentives. I was going to pick it's all Nordic stuff because there is great data and things but there is at least one case where I think it is in Sweden and it is where school teachers, the change is that the normal retirement age for school teachers went from 62 to 64 and you have to deal with exactly what Steve is raising which is you don't want to just look at people who voluntarily opted into something.

So the comparison is between, you know, Alicia was a school teacher, she was two years older than I am and she therefore faced a retirement age of 62. I'm two years, you know, behind and my retirement age was 64 and what all you do is you look at what was the longevity experience of people who were in one cohort versus the next. You don't look at whether they chose to work or not, you just say the retirement age that they faced was different. They could have done whatever they did and you just say what fraction of them are alive at age 70?

And what you discover is the ones for whom the retirement age was two years higher, a higher fraction were still alive when they got to age 70. So, I mean, that's the one study when I alluded this morning to this tantalizing evidence, that's the study I was thinking of. There are a couple of others that are in the same spirit but this is a really hard problem to crack because of the simultaneous determination but the good news is that there is the beginning of evidence which is doing it and it does suggest just as you suggest, you indicated that there may be some protective effects of working longer.

MR. GOSS: Yes.

QUESTIONER: Can I add one quick (inaudible off mic).

MR. BEN HARRIS: I just want to ask two more questions, I'm sorry. I don't mean to cut you off but I try to -- let's start, we will go with Pete in the back and then we will go Josh and then you can finish with a question, your third question. So Pete why don't you go ahead?

QUESTIONER: Yes. So this is for Bob and John and I was one of the people that didn't raise my hand when you asked but the -- I thought a really good, a while back I thought a really good proposal would be to allow partial claiming of Social Security and the reasoning I had was that very low income people may be resource constrained and they may need a little more resources that they currently have but we only give them the 01 and so why don't we allow them to partially claim but they won't, but let their other benefits go.

Then what I realized is we already have that policy. That essentially the earnings tests allows people to partially claim, that is if I worked it out perfectly I could get half my benefits and have delayed credits for half the years I have been working after I claimed and then I have it.

So the question is have you thought about linking the removal of the earnings test with a proposal for partial claiming? And the comment is I would raise my hand if you did that. (Laughter)

MR. CLARK: No is the answer to have we thought about it. And, you know, if you take benefits now that means you are going to have fewer in the future so I guess it depends on how much you think the tradeoff between low income today versus low income when you're lower income when you are 75 would be part of the issue.

QUESTIONER: Let me just say our beef with the earnings test, you obviously understand it really well and what you say is exactly right. Our beef with it is mass confusion. People don’t understand that. They think it's a tax and they behave accordingly. If everybody understood it, we wouldn't necessarily be against it because we would have exactly your point of view. But it seems like it is too complex for people to really figure out. It's been around since 1935 and they haven’t figured it out yet.

MR. GOSS: Could I just add that, I mean, could all economists agree from this day forward to stop using the word tax about the earnings test. I will admit that Social Security, Social Security has not done all it could, all it should about really educating people about this so, you know, we have done PSA's and stuff but people continue to think of it as being a tax. It is money that is lost forever and in fact given the nature of the reduction factors into later retirement credits, if you believe anything about the current interest rates, the longevity rates, it’s a heck of a deal. I mean, it is a great deal to -- it’s a forced savings plan to buy more of a CPI indexed life annuity, where else are you going to get that?

So, I mean, if it were better understood and if we could all agree, stop calling it a tax. Because part of the reason people are hearing it, they hear it in the popular press. They hear people like many in this room quote it as saying it’s a tax. Well, so the press doesn’t understand it as well as they should and maybe we could correct that. Maybe you all could correct that.

QUESTIONER: So you think people take their Social Security advice from economists?

MR. GOSS: Well, I think a lot of people in the press actually listen to economists and reiterate some of what they say when maybe they should listen to (inaudible).

MR. BEN HARRIS: Let’s go here and then there in the back. Josh.

QUESTIONER: Josh Coop, I’m Brookings. Seth mentioned explicitly, Alicia implicitly, that there is the question of unequal bargaining power between employees and employers. And I realized, Bob and John, that in one sense you don't care all that much if a benefit, if the incentive gets translated as higher wages to older workers or whether it gets taken by the employer who then uses discrimination in favor of older workers to pick up the rents in effect.

But my question is in practice, is there anything that you can do or see to keep your proposal which I think is wonderful from becoming an explicit incentive to in effect keep the rents and have and essentially have discrimination in favor of older employees rather than younger because the demand for labor is (inaudible).

MR. CLARK: Well, certainly one could just forget the employer part of the proposal and just say eliminate the employee tax. That's one thing. And depends in part on whether or not you think employers would in fact increase demand for the workers if they had the 100 percent, if they bore the entire part of the employer tax. And which case that would still be presumably good for older works if it increased the demand for older workers.

So you know, if that was the hold up in adopting the policy I, you know, one could say well, let's just do the employee part and in this city the people that vote on these things for some reason they believe the employer bears 100 percent of the tax anyway. And that's how they've behaved over 75 years or 80 years or whatever.

MR. BEN HARRIS: In the back please.

QUESTIONER: The business case. If the plus 50 segment spends about seven trillion dollars a year and we account for over 50 percent of the spend and some huge categories like trucks and cars and apparel, if I'm not working I can take my coffee in a thermos, I can keep my eight year old Chevy, I can shop in my closet. Why isn't the business case that part of it? This huge amount of money, we are huge drivers in the economy. I never hear that as part of the business case.

MS. WALTERS: So I have heard that point in terms of why companies should be strategizing and how they build their market for older worker and their products for older workers but I really haven't heard it in the terms you're framing of telling employers keep -- make sure I'm understanding this, to tell employers that they should keep older workers so that they can continue consuming.

QUESTIONER: That is part of the case. We are (inaudible off mic) part of why we should be in the work place, not that we -- not as a favor, it's not a favor. We directly impact their bottom line as millions of us are pushed out of the workplace, or have much lower incomes. And I never, the business case is always framed like please hire us, we really are, you know, can learn technology. We are a major part of their bottom line and that point has to be made as well.

MR. BEN HARRIS: Jim, you started off talking about the macro side. Do you want to --

MR. POTERBA: Yes, let me just say, I mean, I think the point for the macro economy that on a more active labor market presence for older workers would have some pro effects on the size of the economy, on aggregate demand is all well taken but I think from the standpoint of the business case, you have to convince a particular firm that they want to hire this particular worker. So I may think it is all fine for Alicia to hire these workers and they can buy my goods (laughter) but if --

MR. SETH HARRIS: Exactly.

MS. WALTERS: Yes, that's exactly it.

MR. POTERBA: If I don't think that they are producing value for my firm equal to what I have to pay them, I'm going to pass on hiring them, just sell to them. So I think the case is when you get down to the microeconomics of the firm, you have to make the case that it is the lower absenteeism, it is the more accurate production of whatever they're supposed to do. It is their transmission of knowledge, it's their mentoring. Those are the things which actually raise the value of marginal product of these workers within the firm and that's ultimately where you have to convince a manager that they are going to decide this is a good thing to do. So I think you have to distinguish two pieces. Yes.

MR. BEN HARRIS: All right. Okay. So we have been here for three hours. We haven't even given you guys a break. It's been a terrific session. There is no better way to end than with a comment from Jim Poterba. So thank you so much (laughter) for being part of this panel. (Applause) I really appreciate it.

* * * * *

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2020