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THE RETIREMENT CHALLENGE:
WHAT'S WRONG WITH AMERICA'S SYSTEM AND A SENSIBLE WAY TO FIX IT

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WILLIAM G. GALE: Afternoon. I'm Bill Gale, a senior fellow here at the Brookings Institution. Like to welcome everyone to today's events, both the people here and the people on online. Our topic today is a new book authored by Martin Baily and Ben Harris. The book is entitled The Retirement Challenge What's Wrong with the American System and a Sensible Way to Fix It. And that's a pretty good description of both the challenge and the opportunity that we have to deal with retirement issues and public policy. I don't want to steal any thunder from the book's authors about the insights, so I'll just say this is the right book at the right time. This is the key moment in the evolution of the retirement system and retirement policy, and we, I won't say desperately, but we could definitely use sensible answers to these issues that have festered for decades.

So it's my honor to introduce the authors. Martin Baily is a senior fellow emeritus here in Economic Studies. He's had a long and distinguished career in economics. I remember his reading his articles in the 1980s when I was in grad school. Most notably, he was chair of the Council of Economic Advisers from 1991 to 2001. After that, he served as a senior fellow at the Peterson Institute from 01 to 07. And then in the few years that I was a VP here, one of the best things I did was hire Martin back to join Economic Studies in 2007. Since then, he's focused on financial issues, productivity issues, and the role of business in the economy, as well as obviously, retirement issues. I have always thought of him as one of my wisest and most thoughtful colleagues, and I look forward to his comments this afternoon.

Ben Harris has had an amazingly diverse and productive career. In government, he recently served as assistant secretary for economic policy and chief economist at the Treasury, where he received the Alexander Hamilton Award, which is the highest honor that they bestow on their employees. He also served as a senior advisor to the 2020 Biden campaign, where The New York Times called him and this is a quote, the quiet architect of Biden's plan to rescue the economy, unquote. If there's ever a short quote about what we're all trying to do here as economists and analysts, that that is, that one takes the cake. He's served in senior council - senior economist at the Council of Economic Advisors and his long time association with Joe Biden, serving in many roles for him. He's also worked on the House Budget Committee, and that's just for the government service. In the think tank world, where I’m honored to say that I hired Ben in 1999, fresh out of college. He has done extensive work here on tax policy, retirement issues and other issues. And in academia, he served as the executive director of the Kellogg School of Management at Northwestern's Initiative on Public-Private issues. He's also taught at Maryland and Georgetown. And that's that's a very succinct summary of his bio. So I say he's done a lot already. I mean it, Ben has been full of energy and good ideas. I think you will hear many of them this afternoon. Our moderator, Peggy Collins, she is the U.S. economy managing editor for Bloomberg News. She has covered in the past, she's covered investing, retirement, saving, tax policy and other issues. She has a master's in journalism from Northwestern University. So let me turn it over to the panel. I think we're in for a great talk and let's hear what the authors have to say. Thank you.

PEGGY COLLINS: Hello there. Welcome, everyone. Thanks to all of you who are joining in the room and to those of you who are joining virtually. I wanted to start off by reading you one line from the book that really stood out to me at Bloomberg, where we really love data and figures. And in your book, you write Today, retirement affects virtually all Americans directly or indirectly. More than 46 million workers are retired and tens of millions more are about to be roughly a third of today's nearly 7 trillion federal budget is devoted to supporting Americans who are older than 65, and that share will grow to roughly half by 2051. Those are some big numbers and some big scopes. You also say in the book that you wrote it to reset the policy conversation around retirement savings in America. So, Ben and Martin, maybe I'll start with you, Martin, since you're right to my left here. What are one or two of the key takeaways that you found in writing this book when you think about how we need to reset that conversation?

MARTIN NEIL BAILY: Well, it's worth noting, first of all, that we've had kind of a revolution in retirement. It used to be that sort of goal. We didn't necessarily achieve the goal, but the goal was kind of a pension for as many people as possible and then Social Security and Medicare. And that would sort of complete the together with private saving would complete the so-called three legged stool of supporting retirement for everyone. And we sort of pulled one of those legs out. We are saying that all companies are saying we're not going to provide old fashioned pensions anymore. So we have really a sort of new world in which people have to take much more responsibility for their own own retirement. And I think that's probably the biggest change that led us to to want to write this book. So what should we what should we do about it? Well, we obviously that's a big a big thing. But let me mention, since you asked me what what stands out. I think one thing is to make sure that everyone who is in a position to save is able to save. Only about a half of workers have access to a 401K plan. And so many workers do not. And we suggest that this gap be covered both by employers stepping up government, providing incentives to employers to provide access to a 401K type plan. And then, of course, households, families have to decide to save to actually contribute to that. So that's that's a big deal. I think the second part that I'll mention, which is a big part of the book that we're taking away from this, is we need to do more to improve insurance markets. So even if you save and you think, oh, I'm pretty much ready for retirement, I've got a decent nest egg here, but how are you going to withdraw those funds? How are you going to decide? You don't know when you're going to die, how long you're going to live, how are you going to manage that degree of uncertainty, The uncertainty in markets which we've seen the last few years of markets going up and down a lot. How are you going to handle that, that kind of uncertainty and manage your your retirement, your retirement funds and potentially there might be a health problem. You might have to go into a nursing home or something like that. So the uncertainty that's faced by people as they retire. So I'll pull those two out and then I'm sure would like to add a couple more.

BEN HARRIS: No, no, that's I mean, the only thing I'll add here is that when we were taking when we're writing this book, we try to take a very pragmatic approach and say, look, intellectually, it's very interesting to talk about a return to a DB like system. It's just not going to happen for one case. And defined contribution plans are the primary way that people accumulate wealth for retirement. The second thing is to say we're not we don't have the political will right now to have some sort of massive expansion in Social Security or, you know, it's sort of this revolution in the way that that retirement works. We want to take the current system basically as given and then offer a bunch of pragmatic, incremental solutions. But when we came to the conclusion at the end was the cumulative impact of all of these incremental solutions, including both on the saving side and importantly, as Martin said, on the on the insurance side, you get you get this very different, different retirement paradigm. You have one where people can accumulate wealth better throughout their working lives and they have much better avenues for turning all of that wealth into security. And security is sort of synonymous in this book with a stream of income. And so we actually I think it's a pretty novel seeing private insurance markets as a big part of the solution. And right here. And we focus on long term care markets, we focus on annuities and we focus on reverse mortgages. And we're happy to talk more about why we're calling those insurance markets. But I think the key takeaway here is we don't need to blow up the whole system to get to a system which is more equitable, more robust, and just works better for American families.

PEGGY COLLINS: So we are going to get to some of those issues that you just talked about, like long term care insurance, reverse mortgages and annuities more generally. But when you think about the retirement system, as you talked about, Martin, the shift from defined benefit pensions to for one key plans in many people's minds, they see that as part of the reason why the system in some people's eyes is broken. But at the same time, you write in the book that there's a lot of people who have benefited from the current structure, particularly if they've been able to benefit from rides up in the stock market or they work for employers that have company matches. So what do you see as the biggest challenge to the system in terms of going forward if we're going to keep it in this vein but move forward from here?

MARTIN NEIL BAILY: Well, there certainly are People who are living paycheck to paycheck, don't make much money, and those folks are going to have a great deal of difficulty saving for retirement. So I think we do want to make sure that Social Security and Medicare are put on a good footing so that we have that backstop that will keep people away from poverty. And those programs have been great successes. Let's say the rate of poverty among the elderly is quite low and lower than it is among kids, for example. So in a way, we have a bigger problem with kids than we do with all people, with with in terms of poverty. But we, I think, need to do more there. We don't want people at age 85 to suddenly find that they have to choose between, you know, getting their prescriptions filled or going to the grocery store. So I think there has to be a firm backstop in place of Social Security and Medicare that everyone can rely on. And that means doing something about the financing for those for those programs. But then turning to sort of the the somewhat more affluent families, and they can they can do that. The for one case I I've lost the thread of your question which was okay what what.

PEGGY COLLINS: One of the biggest challenges but.

MARTIN NEIL BAILY: One of the biggest challenges facing those folks. Well, I would say probably the biggest challenge is that it's hard to save. We live in a society that values consumption, you know, and we are bombarded with advertisements all the time. The next car, you know, the next thing we'd like to buy, there's just all those temptations. Harvard economist said, Well, in a way, we need to tie people to the mast. You know, the famous Greek mythology. We have to make sure that people don't give up on saving just because they get tempted not to save. So I think, well, we're not going to tie people to the mask. I think we do want to make sure that we nudge people in the direction of saving so that we have automatic enrollment by employers and that employers have for one case and that people get the opportunity to use them. And if there's not a401k, I think we feel there is a case and 12 states and Seattle already have programs which are actually government run programs for one K, the equivalent for a1k. There may be a case to even have a federal government system of sort of 401k if your employer doesn't have one, maybe you put it into that system and we need to be careful. We don't want the government deciding how companies are going to run. So it would have to be at arm's length, arm's length from the government. But anyway, the thing that has to be the focus is making sure that everyone gets access to that program and that they are able to save on a regular basis and don't sort of yield to the short run temptation or don't withdraw funds from those those accounts. And it can be very difficult. Divorce, for example, makes a big financial hole for a lot of people and then they end up losing their savings. And then by the time they get to retirement, it's more, more difficult.

PEGGY COLLINS: Ben, do you see a situation in the U.S. going forward where we do actually tie people to mass, as Martin is saying, and require them to save a certain amount like some countries like Australia do, or?

MARTIN NEIL BAILY: And I didn't say that where we would require people.

PEGGY COLLINS: Exactly.

BEN HARRIS: I think the policymakers and you see this in the secure 2.0 act have come to understand the behavioral economic side of saving, which is you have to make it much easier for people to save. There is the temptation of not saving, but also the mechanics of saving is. Really, really hard. I mean, I have a piece in economics. I feel like I'm pretty well situated. I've focused on retirement policy, you know, virtually all of my career. And I still struggle with certain aspects. I mean, it's not easy to always roll over, for example, money from one account to another. I understand the benefit of doing that, but the mechanics of filling out the forms can be very complicated. I sometimes give an example. When I was at Brookings maybe ten years ago, working for the Hamilton Project, and I had all these research assistants knock on my on my office door. And these are people who are going to go to the best programs in the country or in the world. And they wanted to save for retirement. They understand compound interest. They understood the tax benefits of doing so. They understood all of the theoretical benefits. They just didn't know how to set up an Ameritrade account. And so that's a big barrier to saving. The other thing about full on and I think there's a subtle shift, but maybe, you know, isn't there yet, which is so the foreign K system was set up by accident and like a lot of systems, it was set up by accident. It's not perfectly designed and for a long time, and I think a lot of people still think this way, that when you think about the $250 billion a year that the tax code gives out in saving incentives for for one case and IRAs and other defined contribution plans, those really aren't incentives. So we we've studied these. We said, look, given these tax breaks, does it encourage people to save more? It encourages people to save more in retirement accounts, but it doesn't really encourage people to save more overall, or does it shift their savings from outside of retirement accounts to inside retirement accounts? And in fact, it's pretty good research showing that for about every $100 in tax breaks for retirement saving, it only boosts saving by $1. So if we start thinking about four one K's as incentives for saving and think of it more as a wealth accumulation program, almost like a transfer program, then you say, okay, well, is it going to the households we want to go to? And 70% of that to $50 billion annually given in tax breaks goes to the top quintile. The top fifth of taxpayers, 90% goes to the top 40%. So if you started from scratch and you said let's design a program to boost savings or at least to get more money in retirement accounts, how do you think the distributions should look? No one would ever say, Oh yeah, let's give 90% to the wealthiest fifth of taxpayers. So I think we need to start. I'm a big fan of for in case I think they're portable. They are well-situated for the current economy or people switch jobs or have multiple jobs. They're very flexible to individual circumstances. The problem is they're just not equitable enough. And we need to rethink their think about foreign KS as incentives for saving and think of it more is almost like a transfer program for retirement.

PEGGY COLLINS: So. Martin, as you were saying, there's almost two buckets that we're talking about, at least when we talk about the retirement system, the 41k system, but also the entitlement program, Social Security, Medicare. And we've seen just this year at the State of the Union or the lead up to the debt ceiling talks, that talking about reforming Social Security, Medicare, the entitlement programs is a very heated topic in in America right now. We've seen France raise the retirement age and also encounter a lot of issues with that 82.

MARTIN NEIL BAILY: To 64 and not nothing at all.

PEGGY COLLINS: Yeah, exactly. So do you think just raising the retirement age is enough to fix the system on that on that part of it?

MARTIN NEIL BAILY: I'm actually not a big fan of raising the retirement age. I think if we do manage to put Social Security, Social Security on a stronger footing, it probably is part of the package that we'll go through. So I you know, I'd like to see Social Security on a sound footing. So if it if it involves some increase in the retirement age, we have to live with that. It's not my favorite for the following reason. I mean, I think what the Greenspan Commission did was essentially raise the retirement age or you could still retire at 62. You just don't get as much money then. So basically what you're doing is cutting the benefits. And disproportionately that's going to affect some of the lower income people. So I would I would rather see maybe some modest adjustment of of benefits. By the way, in the book, I mean, we do talk about fixing these programs. We don't go into a lot of detail. There's some excellent stuff written. That was a Brookings book by Peter Diamond and Peter Orszag a few years back, but talks about saving Social Security. So there's plenty of stuff written about how to do it. We think We think it can be done. You could be you could cut maybe the benefits that go to the most affluent a bit. And, you know, you can get as much as 4000 a month if you if you pay it in a long time, maybe a bit more than that now, I think and maybe you don't have to give quite that much to people who probably have a lot of money. Already. But. But cutting the benefits for the people at the bottom I'm less enthusiastic about. I think at the end of the day, we are going to have to do something on the revenue side either a little bit in terms of, you know, the like a tax. No one likes paying the final tax, but we may have to kick that up a little bit. Or maybe there's a ceiling on the fact tax. Maybe we raise the ceiling a little bit. I think there have to be some kind of political compromise, probably will involve raising the retirement age a little bit. And people are living longer, although not everybody is living longer. So that's a bit disproportionate, too, but maybe a little bit of raising the retirement age, maybe a little bit of adjustment of benefits, making sure that the people who are in the eighties who really aren't getting much money, often those are the widows whose husbands worked and they're not getting very much money. We have to make sure those people are okay. We could maybe shave a little bit from my folks at the top. I think there are solutions to Social Security. It's not actually that bad. Medicare is actually a tougher problem from a from a budgetary point of view because health care is so expensive in the U.S. for all of us. And so that's actually a bigger a bigger stretch. But Social Security, I think, can be solved.

PEGGY COLLINS: Well, that's something you talk about in the book, too, that the people have been experiencing higher costs, particularly for medical costs, but also debt overall. Ben, do you see the entitlement programs needing to be reformed and how so?

BEN HARRIS: They clearly need to be reformed. You know, sort of backing a step, take a step back. Martin, I took the view in this book that it's really not a retirement crisis. It's a very serious problem. But this this general framework that we have works pretty well for a lot of people that will stop if we see any sort of major cuts to Social Security, Medicare. I mean, the absolute a bedrock. The American retirement looks very scary If either one of these programs are threatened in 2031, Social Security, as the trust fund is projected to be exhausted, at which point the only enough revenue coming in to pay 77% of benefits for Medicare. The exhaustion date is 2033. That point will only have enough revenue coming in to pay 89% of benefits. I guess you could take the view that Congress will just make everyone whole and we'll have transfers from the general fund. We don't really need to reform Social Security or Medicare, but then our long term fiscal outlook starts looking really bleak. So, yes, I do think that they need reform, but I also share Martin's optimism that this is not it's I mean, Martin used a perfect word, which was political compromise. We don't need some sort of new idea. We have the options in 2015. CBO put out a list of 36 different options to reform Social Security. You could make Social Security solvent for the next 75 years by doing the following two reforms. One, you could subject 90% of all wages to the to the payroll tax rate. Now it's around 81 or so. 82, when Social Security was first implemented was supposed to be 90%. So raise the cap a bit and you can raise the full retirement age to 70. And those two reforms alone are enough to make Social Security solvent for the next 75 years for the whole window. Now, I'm not saying those are the two we should do, but I'm using those as an illustrative example about how fairly common sense approaches. Can I get the exhaustion date by by quite a bit. On Medicare, the Biden administration put out a plan to make Medicare solvent for the next 25 years. That involved basically targeting prescription drug negotiations and raising the payroll tax rate by 1.2 percentage point on Medicare. These are not huge revolutions that we need to implement or to make these programs solvent for a long period of time. These are incremental solutions that, if done now, can eventually put them on a long term solid footing.

PEGGY COLLINS: So you're talking about how you look in the book at the private insurance market and they let you group a few things in there. Let's start first with annuities. So when I first started at Bloomberg as a reporter, I was a personal finance reporter and wrote about four on K plans, but also about annuities and learned pretty quickly that there are a lot of Americans who are not big fans of annuities. They're they're seen as not so flexible, hard to add into for a one case system. But also people often talk about them being expensive or what if you die early and you can't really benefit from them. So. Martin. Why do you think annuities should really be a part of.

MARTIN NEIL BAILY: I'm going to pass that to Ben, because he's really the.

PEGGY COLLINS: The annuity man.

MARTIN NEIL BAILY: Two of us, and I'll take the next one after that, if that's okay.

PEGGY COLLINS: That sounds great.

BEN HARRIS: So. I'm so optimistic about annuities that when I talk about them, I feel like I need to say I'm not being paid by the industry in any way, shape or form. But the biggest.

PEGGY COLLINS: He really is an annuity man.

MARTIN NEIL BAILY: He has been doing.

BEN HARRIS: Well for some people and some. Circumstances. Let me explain. So the biggest source of uncertainty in retirement is longevity. And most Americans or most people know if there's a chance. I was a little morbid, but if you if you're going to die in the next year or two, but you really don't know if at age 60, if going to live to be 80 or 90 or 95 or maybe 67. And so the average 60 year old American woman, well, the median American woman will live to be age 85. This is these are these are numbers from 2017. And so pre-COVID, but there's also a 10% chance that she'll live to be 95 or older and also a 10% chance that she'll still pass away by her 70th birthday. That is such a fantastic and central source of uncertainty. It makes retirement planning almost impossible. I mean, if you think that there's a 10% chance you're going to live for another 35 years, the rational thing to do is hold on to your money to protect against being 95 and unable to return to the labor market. But that's a terrible paradigm which is saving save like hell for your whole working life and then hope you don't live too long. So. So annuities annuities are the one product perfectly designed to address unknown lifespan. And the type of annuities that I happen to like are deferred annuities where you purchase them, say, at age 60 or 65, you it's a one time expenditure and then they start coming in around age 80 or 85. Now the advice from many economic models is don't take your whole nest egg and put an annuity. It's take around ten or 12% of your liquid assets and put it in annuity that pays off in 20 years. So now that six year old problem is not account for maybe living the next 30 or 40 years with no incoming source of income. It's get yourself to age 80, at which point your deferred annuity kicks in. And so, in short, the answer for why a lot of economists and sometimes annuities are described as a product that economists love and no one else likes is that it's the one product really well designed to deal with unknown lifespan, which I think is just just really difficult when it comes to retirement planning.

PEGGY COLLINS: So. Martin. What about housing equity? So that's something that so many people do have the privilege of building up through their lifetime. But it's very difficult to tap.

MARTIN NEIL BAILY: It is. And so a reverse mortgage, that's a mortgage note. Everyone sort of knows what they are. But if you take out a reverse mortgage, you get money in and then you don't necessarily have to pay it back. But when you die or when you leave the property, the house is sold and then the bank gets paid off the reverse mortgage. It was a program that was actually sort of pushed or encouraged by the government, and that was because people saw there were a lot of older people. I mentioned it before, particularly widows, because women tend to live a bit longer than men. And that sort of back in the days when there were pensions, sometimes the husband would have a pension and the wife would not. So there would be women in the eighties that didn't have any money, but they did have a house. And so what can we do to help them? Well, one solution to that was to provide this kind of reverse mortgage. So you give them money out of the house and then when they die, that money is paid off from the sale of that house. Now, that got us into various kinds of trouble. There were people who went into the business of providing reverse mortgages that were not as straight as they should have been. There were problems with the fact that people didn't necessarily realize they had to continue paying their property taxes. They had to sort of maintain the house. And if they didn't do that, then maybe there was they were in default. So the default rates became quite high. It also was a problem, which I still is a bit of a problem, which is the people that today take out reverse mortgages. Actually, many of them then go ahead and sell the house anyway just a few years later. And that's not a good strategy because there are expenses and costs associated with taking out a reverse mortgage. So there's this idea, which in principle is a very good idea, hasn't always worked out so well. So what did we propose? And we got some experts in to to look at that in the events that we had prior to writing this book. And I think probably the one that was I probably should mention one other thing, and that is that during the housing crisis, when housing prices fell, the government had provided insurance to the banks so that if the price of the house fell so much that it could no longer cover the amount of mortgage that was taken out. Then the government would follow the difference. It would make up the difference. And so we actually started taxpayers started losing money on that. So that was a. Another problem that that surfaced and that led to a lot of regulation and adjustments of interest rates and the so-called crossover point where there's not enough money to pay for the pay for the mortgage. So what do we think would be a good option for those reverse mortgages? I think probably there maybe a couple of cases. But the one I think that really jumped out was maybe actually to take out a fairly small reverse mortgage, not a large amount of money in the first place. You can't people may think, oh, I have a $500,000 house, but they can't pull $500,000 out. Actually, even the maximum amount they get is much smaller than that because of these risks and the interest and all of that. So maybe the best way to use a reverse mortgage is to pay off debts. Quite a lot of people who go into retirement go into retirement still carrying debts. Sometimes they carry student loans maybe for their children. They've absorbed student loans to help their kids go to college. Maybe some of them have credit card debt going into retirement, paying interest, you know, 18, 20% on their credit cards. So those folks, if they can take out a reverse mortgage and get rid of those kind of debts, I think potentially it could serve a very useful purpose. So reverse mortgages, we conclude it's not going to be something for everyone, but it's a very useful tool to kind of have in the arsenal that fits with some people. And there are regulations now which make a much safer and which means that people do have to get advice. They are required to get advice as to whether this is a good idea for them or not. So, you know, another another tool in the arsenal.

PEGGY COLLINS: So you see that as an important tool. Ben, One of the questions we actually got ahead of this event today from people who signed up online to watch virtually was the question about when we look ahead in terms of housing equity for the younger generations. We've been doing we've been seeing that some of them are having a harder time owning a home. How might that affect this proposal if we don't have as many people who are homeowners in the future?

BEN HARRIS: Yeah, it's a great question. So Martin had his great idea in writing the book to put together this this plot. So we plotted on the vertical axis was people's housing equity. And on the horizontal axis was liquid wealth. So money for an A or a checking account or in stocks. And there's a lot of people who have 2 to $400000 in housing and almost no liquid assets. And so it's Martin's point. I mean, what do you tell that person? Sell your house? But why do people love to age in place? So what is what is that look? What does a world look like where people the homeownership rate right now is around 64% or so. It grew by as high as 69% is higher as you get older, as people accumulate homes. But what is retirement look like? If we have, say, a situation where I don't know. I mean, you're seeing more private equity purchase homes and let's say 40 years from now, the homeownership rate is half of what it is. And I think it really depends as far as what do people do with that other with out of their money that they're not putting in. I mean, you can't use leverage to buy a home. I mentioned the $200 billion a year we give through the tax code to incent savings in foreign cars and defined contribution plans. There's also a lot of money that goes to saving to incenting home ownership. And so the combination of being able to access leverage at really low rates and get tax benefits for doing so makes homeownership a pretty good wealth accumulation tool if people don't replace that with other types of saving. And instead of seeing all these people with 2 to $400000 in home equity and very little liquid saving, we seem close to having zero and zero. I worry a lot. And so I think we start to see homeownership rates decline. That has a lot of implications for throughout the market, but there's got to be a backfill. And if we see if we start starting to see the homeownership rate start falling more and more, I think that only heightens the need for looking at other places around the retirement landscape, particularly for one case.

PEGGY COLLINS: Martin, earlier in the conversation, you mentioned that one of the things you really looked at was not only potentially government changing some of the ways that it supports retirement through tax benefits, but also that employers need to be involved in the future of the system. How do we get employers to do more not only for workers when they're at the company, but into retirement?

MARTIN NEIL BAILY: Well, that's a tough one. Yes. I think we do need to do that. And I think the the leverage that we have well, there is sort of the bully pulpit. So I think we need to talk to corporations and groups, corporate groups like the Business Roundtable need to set examples of how to go about this and do it in a sensible way. But I think there's also some potential for giving incentives to. Lawyers to provide make sure they provide for a one case, probably the most important. Make sure that they provide some kind of unbiased financial advice so that people who may not be all that financially literate feel a bit more comfortable with the strategy they're following. Do they want to buy an annuity? They comfortable with a 401 K. I think employers can obviously offer. Brookings does a very good job of providing a quite a large match, actually, not just a match you get you'll get a retirement contribution. And employers that do that I think that that builds up as well and is a is a very good tool to attract good employees. So I think that's something that that employers could do. I think it's it's worth sort of pointing out that a lot of companies have sort of abandoned their pensions. Okay. We mentioned that that was sort of part of the starting point of what's happened to the retirement landscape. And in the United States, we no longer are sort of pushing towards everyone having a pension. And employers have done that. I mean, they they made that change for they know they switched over to four or one K or maybe they just got rid of the pensions. And I think employers we need to impress on employers and provide incentives for them to respond to say you have an obligation to help your employees find the way in retirement. You have an obligation to maybe make some matches or provide some support on the saving side because it's an attack tax break, you have an obligation to not just sort of abandon your employees once they retire, but to make sure that they have you know, they've settled and gotten the advice they need and are using their retirement funds in an appropriate way. And and that would really make a big difference, I think, if employers did that. We know that that, you know, small employers of just a few people maybe are not going to do it. But an employer of any size, I think, has the obligation to say, all right, maybe you're not going to work for me for 30 years, but maybe you are and maybe you're going to work for ten or 15 years. And I want to help you down the road so that you are set up for retirement and that you've you've contributed and that we've contributed. And you know that what you're doing is is the safe thing. So it's not an easy task. And there'll always be some employers that that won't do anything. But I think they do have some understanding. I served for 11 years on the board of a company and we phased out our pension program. But, you know, I think we wanted to make sure that the people who were no longer receiving pensions were going to receive, you know, contributions for for a one case. And we're going to be reasonably well set up for retirement. But yeah, that's a tough challenge.

PEGGY COLLINS: Another question that we got from the virtual audience is about inequality. So, Ben, is it possible to fix the retirement system if we don't address income and wealth inequalities in the US? So essentially, is that the root of the problem, that if we solve income and wealth inequalities in the US, we wouldn't have to fix the retirement system?

BEN HARRIS: It's it's interesting. I mean, let's take a step back and ask what's the point of all of this? You know, what's the what's the point of having savings vehicles? What's the point of having Social Security? And I mean, the idea is, is that you kind of smooth your consumption over the course of your life. And economists use the life cycle model. But I think it's pretty intuitive, which is we have periods, our life when we're working in periods when we don't and we don't want to be really rich for 40 years and then be really poor for 30. And so the idea with retirement, what is retirement adequacy mean? There's different ways to define it. Retirement adequacy. There's no way to say is that being a little bit cool doesn't mean necessarily that you are not that you're not a low income household. Return on adequacy really means that you're able to live in a similar fashion in retirement as you lived during your working years and lower income people. Because Social Security and Medicare are so generous, tend to see their standard of living stay relatively constant across those years. Now, having people who work really hard make all the right decisions and have low income, that's maybe a separate problem. But we're talking about retirement. You're talking about smoothing consumption over the course of your life. And so they're intertwined. They're certainly intertwined. I mean, I see I guess what I'm saying is I see elderly poverty as a retirement issue. And we see this in the book because no one wants to value judgment. No one should work their whole lives and be poor at the end. But if you have people who were low income, who were low income workers for the whole crux of their career, they're out of poverty, but they're living similarly. They were 85 as they were 45. Is that is that a problem for retirement? The answer is really it's not. I mean, as long as they're able to smooth their consumption so it interacts in really tricky ways. I think a big way it interacts is with the tax benefits for saving. They're incredibly unequal and regressive. I think it interacts in questions on longevity. Martin mentioned that. I mean, I think you're seeing really differential longevity across across different states and different populations. Low income people don't live as long, and so that hurts some of the progressivity of Social Security. But ultimately they're not the same question. And there are reasons to there are lots of reasons to address income inequality that have nothing to do with retirement. And sometimes currently you look at retirement and say someone's lower income retirement. But from a retirement adequacy perspective, that isn't necessarily a huge crisis.

MARTIN NEIL BAILY: Can I chip in an additional comment? And I think Ben said it, but I just want to reinforce it. I mean, I think Social Security and Medicare have been programs that have helped deal with inequality in America. So I think those are part of the reason we support those programs. They really done a lot. They haven't solved the problem. We still have huge amounts of inequality, but they've gone very much in the right direction. And so as I said earlier, we don't want the elderly to be poor. But actually the poverty rate among all that is quite low. And so there they are working and we can strengthen them.

PEGGY COLLINS: Versus the kids, as you were saying earlier, Martin, that that's a bigger problem in some ways on the poverty scale. One more audience question and then I'll open it up to the floor. We you talked earlier, Ben, about long term care insurance. And this question is related to seniors. So seniors are not being properly housed or cared for. What's going to happen in five, ten, 15 years when there are a lack of caregivers?

BEN HARRIS: So this is. So sometimes we talk about retirement. When I talk about retirement and I worry a lot about relying on unpaid care, particularly for women, particularly for women who have lots of other responsibilities. So they're in their middle age. They're often working. Maybe they're taking care of children. And then asking this population to also take care of their parents or aunts and uncles.

MARTIN NEIL BAILY: Which is what's happening right now.

BEN HARRIS: It just happens. You're just as likely to give unpaid care if you're in the labor market, then if you're not, which is insane. I mean, this is such a burden. I mean, I don't want to take care of someone as a burden. But but from an economic perspective, from my perspective, it is a huge burden. And the unpaid care, if it was an industry, would be I mean, one of the it's when we when we were we cited something in the book that had it around $430 billion about ten years ago as far as the total value of unpaid care. So I see this is a real issue not just for the people who need care, and a lot of people need care. There is a I think if we say there's a 53% chance that a 60 year old would need long term care at some point in their lives. So it's not just about people receiving the care, it's just as much about people giving the care. The problem with long term care insurance is the market is just decimated. I mean, very few people buy it. It suffers from all the classical problems. And so this is an I really struggle with. I mean, for for like annuities. I feel like I have all the answers I can give you. Exactly. I think we should do long term care as much trickier. And maybe when you read the book, you say, look, maybe these guys don't have it figured out with a long term care, but no one has it figured out with long term care. I actually think that if you solved the annuity problem, if you make savings more equitable, if you offer reverse mortgages, you basically offer people more access to asses assets. That goes some of the way towards solving the long term care problem. I think part of it has to do with, as Martin said, having more of a group market for employers so people can use their assets they accumulated at the workplace to purchase long term care in advance, and a group market that will help make it more affordable and help ameliorate some of those problems we have with sort of classical insurance problems. But ultimately, I think that until we make caregiving a better profession and until we allow people to have better avenues for turning their wealth into income, for paying for long term care, we're going to continue doing we're doing, which is relying on unpaid caregivers to to solve this problem.

MARTIN NEIL BAILY: I know that some folks at the University of Michigan, some economists at the University of Michigan have examined the Vanguard data. Now, Vanguard data doesn't cover everybody. Obviously, that's more affluent than than than the low income people. But still, these are middle class and upper middle class. And one of the things they found is that quite a lot of those savers and are saving for retirement when they retire, they don't spend down their money in the way that you would expect them to with the life cycle model that we economists all believe in, they're sort of holding on to this money. So why are they holding on to it? Well, I don't think we know for sure, but I think I bet you the reason they're holding onto it is because they're scared they might have to go into a nursing home and they they worry about going into a medicaid nursing home, some of which are pretty good, some of which are terrible. So, you know, they want to have the option of maybe having someone come to their home to give them long term care. So that's that's a that's a very inefficient thing in a way, because it means rather than living in the kind of comfortable retirement that they could live by, you know, spreading their income over their lifetime, instead, they're holding on to a big chunk of it just because they're afraid of what might might happen to them. So if we could improve this market, maybe have again, I don't want to rely too much on government, but government is the only entity that's going to be able to do some of these things is it's in the interest actually to say, we want to encourage you to get long term care insurance, because if you don't, you may end up in a medicaid nursing home and that's very expensive for taxpayers. So, boy, maybe we'll say, you know, let's try to get this market rolling again. As Ben said, it's a market that's more or less collapsed. So get employers. I'm repeating. You bet. Get employers to do group policies and then maybe give some incentives to people to buy those policies so that they're not, you know, holding on thinking, oh, my God, what happens if I suddenly need full time care.

PEGGY COLLINS: Because of the uncertainty, which, as you were saying earlier, is baked into the system in many ways right now. I wanted to open up to the audience. I'm not. If someone has a microphone so that people on.

MARTIN NEIL BAILY: There are some microphones. So we go to the microphone. Now pick that pick someone who is going to ask the question and then bring the microphone to the person.

PEGGY COLLINS: Terrific. I saw your hand go up first here. Woman in the white shirt.

AUDIENCE MEMBER: My name is Caroline Poplin. I'm the widow of Martin Slate, who ran the executive director of the PBGC in the Clinton administration. Director of employee benefits at the IRS under Reagan and George Bush. He fought ten to fight tremendously to preserve defined benefit plans. That was his his rationale. I mean, that's what he did for his last six years of life. Then he died. He would be horrified to see what's going on. Have you? I mean, it's. 401 case are absurd. I mean, you're tinkering around the edges. I'm here because I'm living on the defined benefit plan. The best in the world. The federal government. CSRS. Have you calculated for, say, a family of three making $60,000 a year, how much they would have to save? I mean, this is a family living paycheck to paycheck. Basically how much they would have to save to have a decent amount to retire on.

MARTIN NEIL BAILY: Well, that they're not they're not rich now and they're not going to be rich in retirement. But I think they they could save a certain amount. And obviously, they need to rely heavily on Social Security as they as they retire. And that's one reason we want to strengthen that.

PEGGY COLLINS: Shouldn't we be also looking at a broader picture? Starting in 1980. It used to be that product as productivity increased, wages increased. Well, in starting in 1980, those those lines split and wages sort of went up very slowly, even as productivity increased much faster. So maybe you have to look at something like increasing the minimum wage or things like that so that so that people could have enough money to put away. I mean, allow giving them all kinds of advantages to put away a little bit of money isn't going to make any difference. Thank you. I'll go to left and right and then back to center.

MARTIN NEIL BAILY: You go.

AUDIENCE MEMBER: I'm Wendell Primus, former policy advisor to the speaker. And I agree with everything, basically what you're saying. I guess my pushback would be I think we also need more illegal immigration and Republicans are going to view your proposals as more acceptable because it involves tax cuts or tax savings, etc.. And CBO was saying the Social Security problem is twice what we faced in 1983. How do we make sure that we solve the Social Security problem, which you've alluded to and not automatically go to the solution and what you're advocating, which.

MARTIN NEIL BAILY: Makes a lot of sense, but questioning.

BEN HARRIS: So what your question is, how do we solve Social Security given the political economy right now?

AUDIENCE MEMBER: Nobody wants to raise taxes.

MARTIN NEIL BAILY: Right.

AUDIENCE MEMBER: No Republicans.

BEN HARRIS: So as Wendell knows as well as anyone. A lot of the big legislative bills that have made it through Congress have happened through reconciliation. And so reconciliation effectively allows the Congress to pass bills with only 50 votes in the Senate. So much of ACA was passed. The reconciliation, the tcja, the big Trump tax cut was passed. The reconciliation on Social Security reform cannot happen through reconciliation. So you need 60 votes in the Senate to do it. It is really hard to get 60 votes in the Senate these days. And so I don't I think that maybe if you set out some principles like, look, it's going to take some part tax cuts, some part benefit cuts, maybe that would be enough to get 60 votes in the Senate if you had Republicans unified in the Senate saying, look, we're not going to start tax increases. If you had Republicans in the Senate who say we are never going to come to the table, there's any sort of tax increase to fix Social Security, I don't see how that gets done. I just don't I mean, there's got to be the sort of principle that it comes from both sides from a political standpoint. And this is just be clear, this is a political problem. This is not intellectual problem. CBO, the work at Brookings from decades ago, we know what all the menu is. We know the menu for Social Security form. And so I don't know how we get we get around that. Maybe it's the threat as we get closer to 2031, the exhaustion date, the threat of seeing a really sharp deterioration in our nation's fiscal outlook. That brings some Republican senators to the table. But I don't know.

MARTIN NEIL BAILY: You might have thought we were already reaching that point. But yes, eventually we may get to the point.

PEGGY COLLINS: But I also to mention 2031 is sounding sooner and sooner.

BEN HARRIS: So far away.

PEGGY COLLINS: And you're like, oh, okay, it's less than ten years in presidential terms. I'm sorry. I said, right side next and then we'll come back to the middle.

AUDIENCE MEMBER: So on that point of 2031, you know, 2031, let's say in a world where Congress doesn't act, which. However, Unlikely Congress doesn't act, you know, you'll see beneficiaries reduce their benefits by up to 25%. What advice would you give people planning for retirement right now who are thinking about retiring Late 2020s. You know, 2031, who might be seeing that 25% cut? You know, how do they plan? You both talked about uncertainty in retirement planning. How do you plan for that uncertainty with a Congress that it's so hard to get 60 votes?

MARTIN NEIL BAILY: I don't I don't think they would see a 25% cut, maybe Pollyanna on my part, but I think the funding would be made up. I don't think anyone can get reelected if they cut Social Security benefits by 25%. So I don't think that's going to happen. It may be a stimulus to do something about putting Social Security on a sound footing, and it's no way to do government finance. But we've you know, we've crossed that Rubicon many times before. So I don't think actually we would see a 25% cut. But it's it's a threat to say, yeah, let's do something about it.

PEGGY COLLINS: In the green shirt.

AUDIENCE MEMBER: I mean, hi I'm Mike Golasch, I used to be the administrator of the Transit. Employees Retirement Plan here in D.C., which is the defined benefit plan. I mean, I think the story we have to tell people is that defined benefit plans are a form of deferred wages. However, as you work for a little bit less now, it's put into a pool and you avoid the longevity risk by having that defined benefit. And I don't see what's wrong with that approach. I don't see why we don't take more of an effort to get away from these for one case that this woman said and get into a system which actually works and has worked in the past. It's certainly worked for transit workers here in Washington. We have a 95% funded plan. You retire after 27 years, you get half your income for the rest of your life, a little bit less if you want a survivor's benefit for your wife. It works. And I don't understand why we're not making more of a commitment to do that.

BEN HARRIS: So let's.

MARTIN NEIL BAILY: Go ahead, Ben.

BEN HARRIS: So, so I agreed. Defined benefit plans worked really well for people who have them. There was a paper written using look at a sample of people born from 1931 to 1941 and sort of looking at the adequacy in 1992. And the paper found that only 15% of Americans had savings shortfalls. And those that did have savings shortfalls, it was only about $10,000 in today's dollars. So almost everyone was saving at at or above their targets because they don't have to save as much because they had this source of income coming in with defined benefit plans. And those that did have shortfalls, it was pretty it was pretty slight, so defined. But a lot of people did not have access to defined benefit plans. And for those that did not have access, the retirement system did not look as rosy. And I think the approach that I took with the book I don't want to be for Martin, was that employers outside the federal government do not want to offer defined benefit plans. And we know that because almost no one does. And so would it be better for workers to have a world in which there is sort of widespread access to defined benefit plans? Probably. But I think it's very, very unlikely you'll see employers find their place for them again.

MARTIN NEIL BAILY: And let me add to that, and again, I'm speaking for myself are not necessarily Ben, and that is that there were problems. There certainly were problems with the defined benefit program. I mean, I think for government workers it worked well because government workers very often stayed with that employer and for their entire career. Today, most workers do not stay with one employer for their entire career. And so then you've got the problem of, okay, you work for ten years here and ten years there and somewhere else. So that's much more difficult. Whereas I think while it's not easy, it's much easier with defined contribution plans than defined benefit plans. I think there were also quite a few employers who didn't treat their workers very well. So you you were supposed to work until you were 65, but then you would get to age 60 and they would fire you and all of a sudden you would lose your benefits that that happened. So there were problems with defined benefit programs as well.

PEGGY COLLINS: Regulation. We probably have time. Probably have time for maybe one, possibly two more questions. So, sir, here in the front.

AUDIENCE MEMBER: I'm Josh Hoffman and I'm a. Colleague of Martin's, and I ran the Pension Benefit Guaranty Corporation.

MARTIN NEIL BAILY: A pension expert.

PEGGY COLLINS: Jump in here.

AUDIENCE MEMBER: I'm not going to get into the debate about the collapse of defined benefit pensions, etc.. I wanted to make a point and ask a question. The point is that this is an important book because although no one will admit it, the best guesses are about 40% of Americans will run out of money in retirement. Now, if 40% of Americans lost. Access to Medicare. We would call it a four alarm fire and Congress would come back to session. But it's going to happen. And so I thought this book is useful and is going to turn out to be useful in that regard. My question is that you guys talk a lot. About. Encouraging employers to offer more for all in case through financial incentives. You talk about expanding the availability to of lifetime income within the defined contribution system, etc.. Congress has started on those things, as Ben knows really well, in secure 2.0. There are incentives for this, an incentive for that. So this. My question is, you all have a lot of prescriptions and you. Also have paid attention to what Congress does. What would you put on the agenda? For the next Congress. To. Pay attention to work on your problems.

PEGGY COLLINS: Pick one, Ben.

BEN HARRIS: So I agree. Secure 2.0 took a lot of steps towards that. We wrote this book for Security 2.0 and there is a lot of overlap. Fortunately, for example, automatic enrollment and new on K plans is a really good example. I would like to see more attention given to the saving side. I would like to see more equitable saving incentives that actually work for middle class and lower income workers. Now, you did see a bit of a tweak, maybe more than a tweak to the savers credit and secured 2.0. But that's that's I mean, it's, you know, just just barely nipping at the problem here. So I would like to see a focus more on wealth accumulation before we turn to some of these other things.

MARTIN NEIL BAILY: Well, the biggest priorities do something about putting Social Security on a sound footing, but we've already sort of talked about that. I think employers may be reluctant to support things like annuities because they think they're going to be on the hook. So I think there is some work that needs to be done so that employers can do group plans for long term care and for annuities without feeling that they themselves are going to be on the hook. And that would make them more willing to to offer those things.

PEGGY COLLINS: That was a great question to spin us forward because I think we're about out of time and I want to be respectful of everyone's time. And also thank Martin and Ben so much for their time and for sharing their insights.

MARTIN NEIL BAILY: Thank you Peggy.

PEGGY COLLINS: Thanks for having me. Thanks for coming.