OECD FORUM 2007
Innovation,Growth and Equity
14-15 May 2007, Paris

Globalisation and Equity

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Long-term Financial and Health Security for All Generations in the U.S.

Thank you for inviting me here today. This is the fourth year AARP has participated in the OECD Forum, and we are always eager to exchange thoughts and ideas with such a distinguished gathering of experts and leaders.

AARP is a 38-million-member nonpartisan, nongovernmental organization for people age 50+. Our mission is to enhance the quality of life for all as we age. We believe people age 50+ should have independence, choice and control in their lives in ways that are affordable for them, for their families, and for society as a whole. Through AARP International, we facilitate understanding and dialogue by working with governments, businesses, NGOs, and others to share ideas and best practices for addressing the important issues associated with our aging populations worldwide.

In the United States, the combination of an aging population and global competition is putting pressure on employers to shift more of the cost of long-term financial and health security onto individuals. That's making retirement more complicated for many people than it used to be.

[Social Security and Private Pensions]

The foundation for long-term financial security is still our government-run pension program, Social Security. But Social Security replaces only about 40% of pre-retirement income on average. The average monthly benefit for an individual is $1,044, currently; for a couple, $1,713.

Many financial advisors recommend at least 70% income replacement to maintain an adequate standard of living in retirement. Where is the other 30% supposed to come from? Private pensions and savings, which, for those fortunate enough to have them, are often one and the same.

Private pensions have long been the primary retirement saving vehicle in the U.S. The problem is, only half of American workers have private pensions, and the kind of pensions most have has changed dramatically.

Twenty-five years ago, most pensions were "defined benefit" plans, funded entirely by employers, which provided a steady income stream in retirement for covered employees based on salary and years of service. Now most are "defined contribution" plans, funded by employee payroll deductions, with, in some cases, matching contributions from employers. Participation in these plans is voluntary; they are subject to market risk and volatility; and a disciplined saving habit, along with active management, is essential to make them adequate.

Even where an account is employer-sponsored, about a third of workers do not participate in their company plan. Job mobility is at least partly to blame – it tends to engender a short-term perspective. Again, overall, only half of families have any kind of retirement account, and for those who do, the mean balance is only about $35,000.

In the U.S. – this is hardly a surprise – consumption trumps thrift. As a nation, our personal saving rate dropped below zero in 2005 and has remained there. Many find it extremely difficult to save – as hard as quitting smoking or losing weight. Two-thirds say they simply can't afford to save.

So, we've shifted the risk of long-term financial security onto individuals, and far too many can't handle it. The result – an entire generation at risk.

[Health Care]

The same has been happening with health care. In the U.S., we have an employer-based health insurance system, so most people who have health insurance receive it as a company benefit, with varying degrees of cost-sharing.

But the costs of health care are soaring. We poured two trillion dollars into health care last year – that's 16% of GDP – well over $6,000 for every man, woman and child. Annual premiums for employer-sponsored family coverage averaged $11,500. Costs have been going up much faster than inflation and wages for years. Predictions are that the average Fortune 500 Company in the U.S. will spend as much on health care as it makes in profits by 2008.

Predictably, employers are dropping coverage. Only 60% of employers offer it now. Many large firms used to offer retiree health coverage, but only a third do now. Having to compete in global markets against competitors in countries with lower costs and tax-financed health care is often cited as a direct cause.

What does this mean for people? Well, for an older person, or someone with a medical problem or limited funds, buying your own health insurance is often out of the question. You can be denied coverage if you have a health condition that an insurer considers to be a bad risk, or the price may just be too high.

The result is, 45 million Americans have no health insurance. That's over 15% of our population, and over 80% are in working families. Another 16 million have insufficient coverage, which leaves them exposed to high costs. These numbers have been rising steadily in recent years.

Even for those on Medicare, our government-provided health insurance program for people 65+ or people with disabilities, costs are taking a toll. Beneficiaries are spending 23% of their incomes on out-of-pocket health care costs on average; those with lower incomes are spending over a third.

As for long-term care, in the U.S. individuals face a patchwork when it comes to obtaining and paying for needed services and supports. Because we finance long-term care primarily through Medicaid, a welfare-based program, you become eligible for assistance only when you have exhausted your resources. Private long-term care insurance is an option for some, but it is expensive and complicated, and individuals with preexisting conditions are often ineligible.

The financial strain on individuals and businesses is mirrored in our publicly funded health insurance programs. There is tremendous fiscal pressure on Medicare, and on our patchwork government-financed programs for the poor and for children of low-income families, due to the high costs of health care.

The upshot is, in the U.S., health care reform is coming to be seen as the great domestic policy challenge of our time. Globalization is pushing businesses into favoring changes they wouldn't support a decade ago. The public now ranks health reform as the number one domestic issue that it wants our leaders to address.

[Intergenerational Support]

AARP believes everyone should have access to affordable, quality health care. We believe everyone should have peace of mind about their future long-term financial security. We also believe the cost of achieving these things should not be left to future generations.

There is a dangerous idea that some have that as a result of global aging the generations are forced into a competition for limited resources, and that one can only gain at the expense of another. This is a notion that we emphatically reject.

I realize that the United States is in a better position than many other OECD countries – both structurally and demographically – with respect to many challenges of population aging. But we still have serious adjustments we must make to prepare for the future, and it is critical that younger people understand and support necessary changes and see clearly how they will benefit from them.

The generations are interconnected and interdependent. AARP members, I can tell you, are deeply concerned about the legacy they will leave their children and grandchildren. It is part of what we all strive for, that the next generation will be better off as a result of the work we do today. A commitment to intergenerational support informs everything we do.

[Toward a Sustainable Future]

Government, business, labor unions, NGOs, individuals of all ages – we all share responsibility for creating a sustainable future. In the U.S., we can see the outline of what needs to be done:

Social Security. As I said earlier, Social Security is the foundation for long-term financial security in the U.S. It is essential that we maintain a fiscally sound Social Security program for the benefit of future generations.

Social Security is funded on a pay-as-you-go basis by current workers. We have a surplus now but it will decline over time as our population ages and the ratio between the number of workers and the number of retired people falls. Everyone recognizes we have to take steps to shore up the program if we are to maintain its long-term solvency. There are politics – and ideology – involved, of course, but the fact is, we already know how to fix Social Security with a few well-targeted changes. We can adjust the payroll tax base back to the level of 25 years ago; we can enroll state and local government employees who are outside the system now; we can invest a portion of trust funds in equities … there are a number of good options, and the American public is ahead of our politicians in supporting needed changes.

Private Pensions. We can reverse the negative trend in personal saving just by adapting to the realities of human behavior. By that I mean, enrolling workers in defined-contribution pension plans unless they “opt out,” rather than requiring that they “opt in.” Companies who have already done this are achieving much higher enrollment – over 90% in some cases, up from less than half. We can also provide for automatic contribution increases to keep up with increases in wages, and for automatic adjustments of asset mix to maintain a balanced investment portfolio.

At the same time, we can and should create a nationally mandated automatic savings vehicle for the 70 million workers who don’t have access to a company plan. We should also establish a refundable tax-credit for low-income workers to function like an employer match.

Health Care. Health care reform is tougher, but even more essential. Cost, quality, coverage, and health status are all interconnected and must be addressed in a comprehensive way if we are to prevent the cost of health care from overwhelming both public and private budgets and our national economy.

The U.S. lags well behind other developed countries in broad measures of performance, like life expectancy and infant mortality, which suggests considerable inefficiency and waste. Reform proposals have begun to multiply in the states – the latest, in California, could really advance the debate. Most of our OECD partners have the advantage over us here. We have much to learn from you with regard to both health insurance coverage and community supports and services to maintain independence for those who can no longer live without help. This is a rich subject, for another time.

Longer Work Lives. There is, of course, one last critical element for long-term security: work. People are living longer; for a sustainable future – and to maintain a reasonable balance between working years and retirement years – we all realize we will have to work longer as well.

The OECD’s watershed study *Live Longer, Work Longer* makes a powerful case for the need for longer working lives to keep pace with increasing longevity and to help make up for declining fertility rates. I understand how critical the problem of youth unemployment is for many countries, and that some believe that more jobs for older workers must mean fewer jobs for younger workers. The report does a real service in dispelling that myth, demonstrating instead a strong positive correlation between increased employment for older and younger workers across OECD countries.

In the U.S., for many years, the trend was toward early retirement. In 1950, the average retirement age was 68. The equivalent today, adjusted for life expectancy, is 74. But 62 is the retirement threshold for most.

However, we have been seeing a positive trend in the opposite direction in recent years. The labor force participation rate of workers age 55+, which declined markedly from the mid-1960s to the early-90s, has been increasing steadily since. From just over 30% in 1994, participation rose to over 36% in 2004 and is projected to increase to over 41% in 2014, when over 21% of the workforce is expected to be 55+. Participation by workers 65+ is expected to go to almost 20% in 2014. When you consider it was 11.1% in 1984, that's impressive.

The fact is, a strong work ethic is still very much part of the fabric of life in the U.S. We find a widespread expectation or desire on the part of workers age 50+ to work well into their so-called retirement years.

But one obstacle has been employers – they need to be convinced that hiring and retaining older workers contributes to the bottom line. AARP has been working with employers who are getting ahead of the demographic curve in their hiring practices in a program called "Best Employers for Workers Over 50." Our groundbreaking study, *The Business Case for Workers Age 50+*, which was prepared by the global consulting firm Towers Perrin, helps us make the case.

A key finding of the study was that the small comparative cost differential of hiring or retaining 50+ workers was balanced – if not outweighed – by other factors, including the high degree of motivation, knowledge and experience older workers bring to the workplace.

We are at work now on a follow-up study, again conducted by Towers Perrin, that analyzes these issues with respect to the workforce in G7 countries. The report will gauge attitudes toward older workers and highlight model business practices and public policies aimed at increasing work opportunities. It's scheduled for release in September at our annual Best Employers for Workers 50+ conference, which will convene international employers and stakeholders for strategic discussions.

[A More Prosperous and Equitable Future for All]

AARP is committed to lead in addressing these issues. There are some hard choices ahead for all of us across the OECD landscape and the world if we are to achieve long-term financial and health security for our populations. Aspirations are important. I firmly believe – and AARP believes – that if we set our sights, as the OECD has done, on a more prosperous and equitable future for all – a future that includes positive roles for older people – we will make the choices we need to get there.