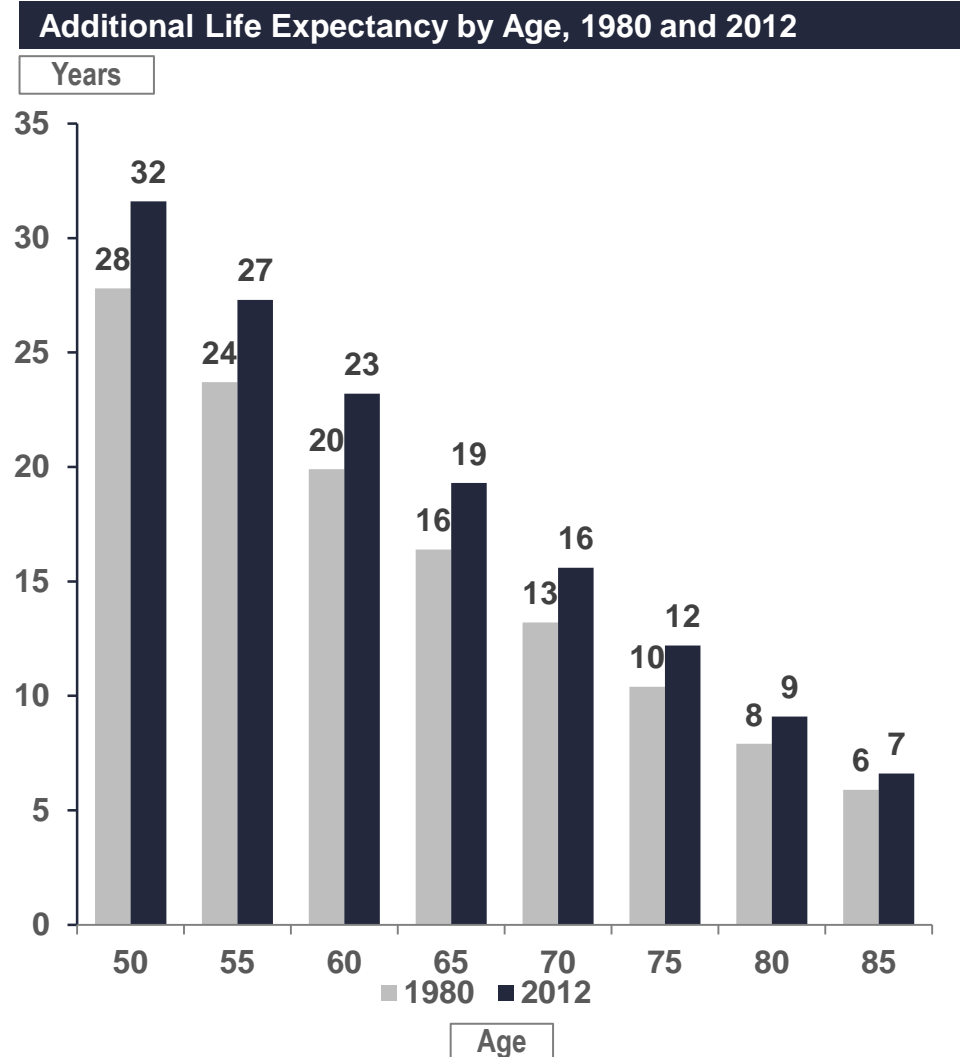
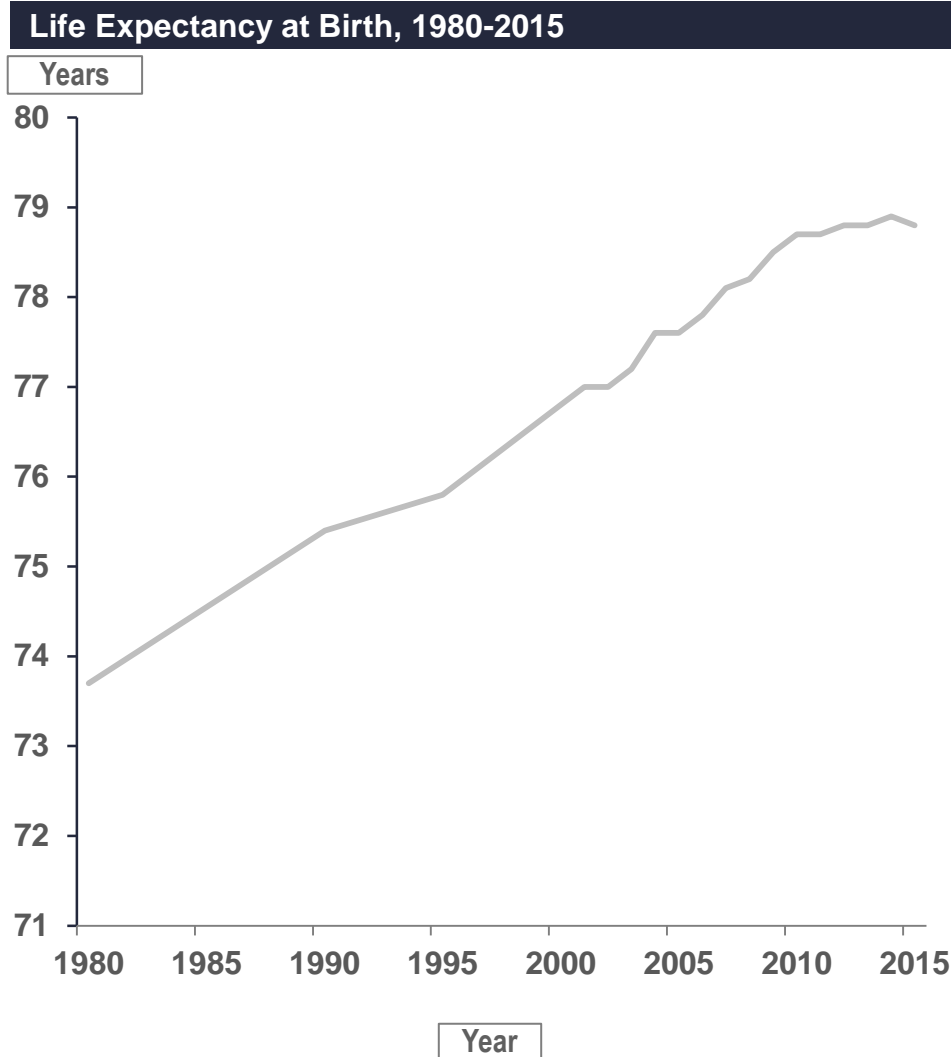


INEQUALITY AND RETIREMENT

**Peter R. Orszag**  
**Vice Chairman of Investment Banking**  
**Lazard**

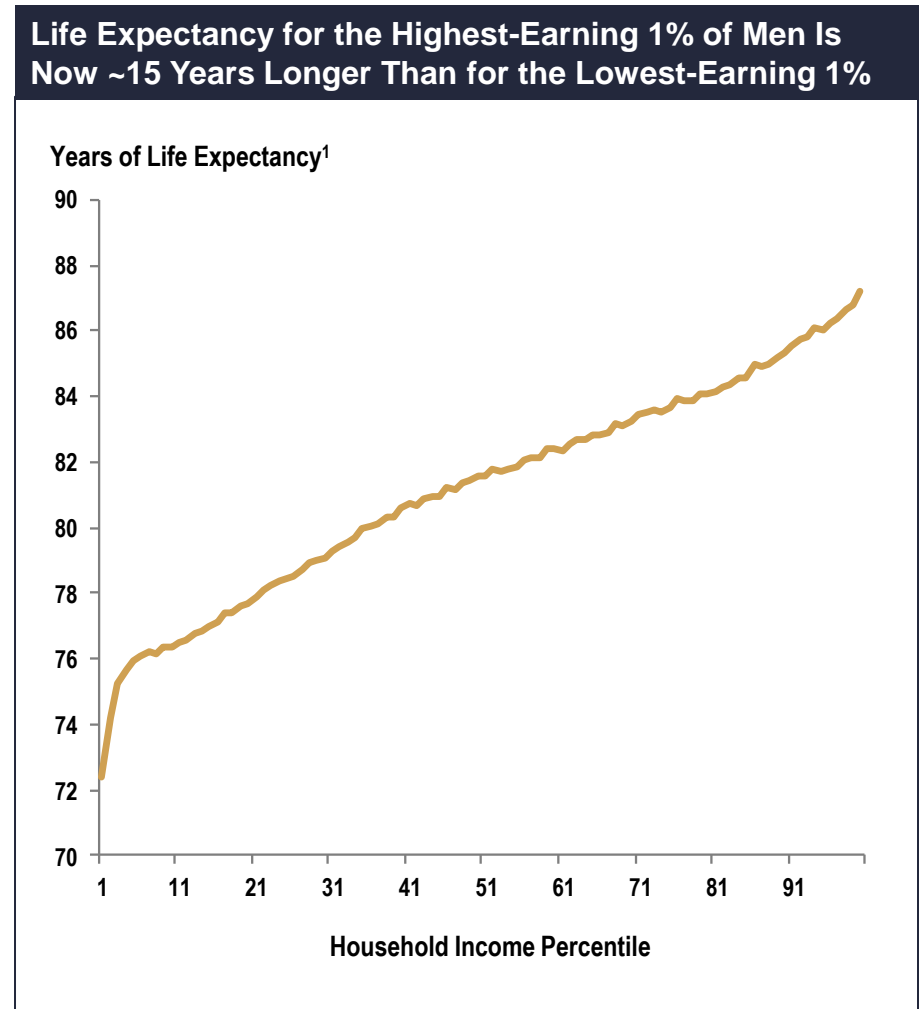
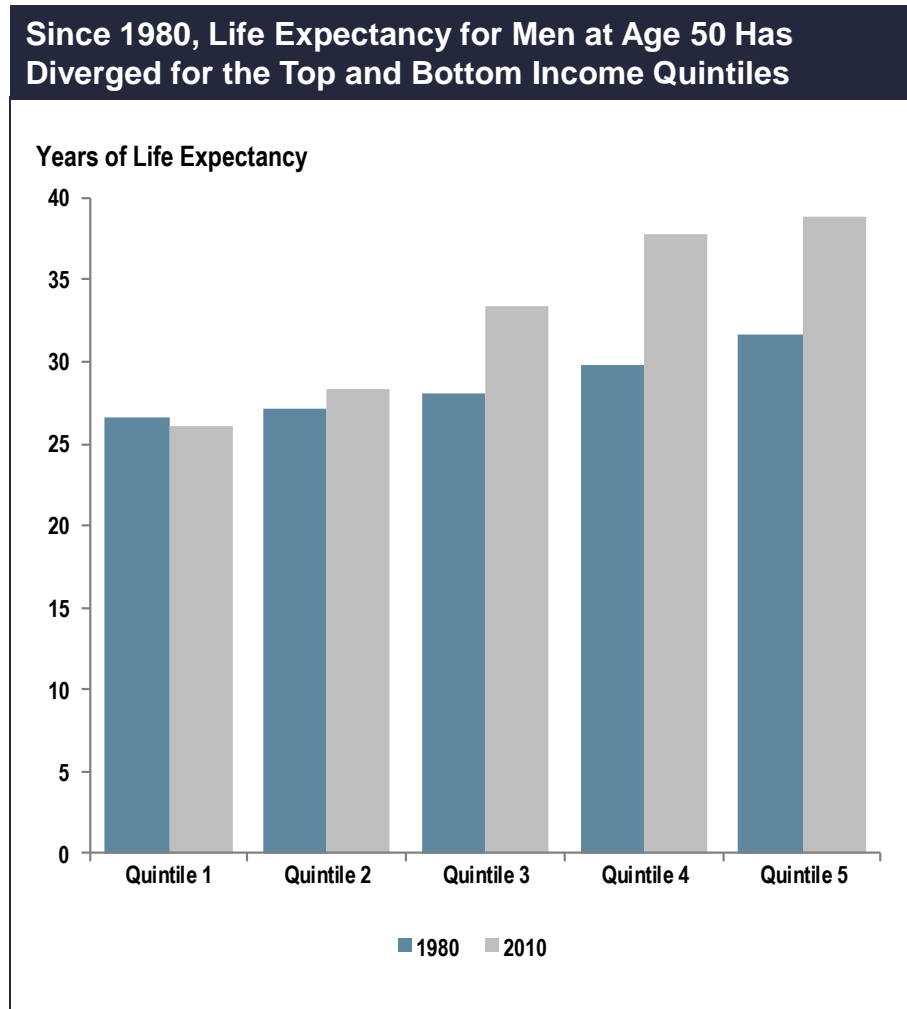
**OECD**  
**April 2018**

## Average Life Expectancy Has Been Increasing...



## ...But Almost Entirely Because of Gains to Higher Earners

The gradient in life expectancy by income and education has grown much steeper over the past few decades

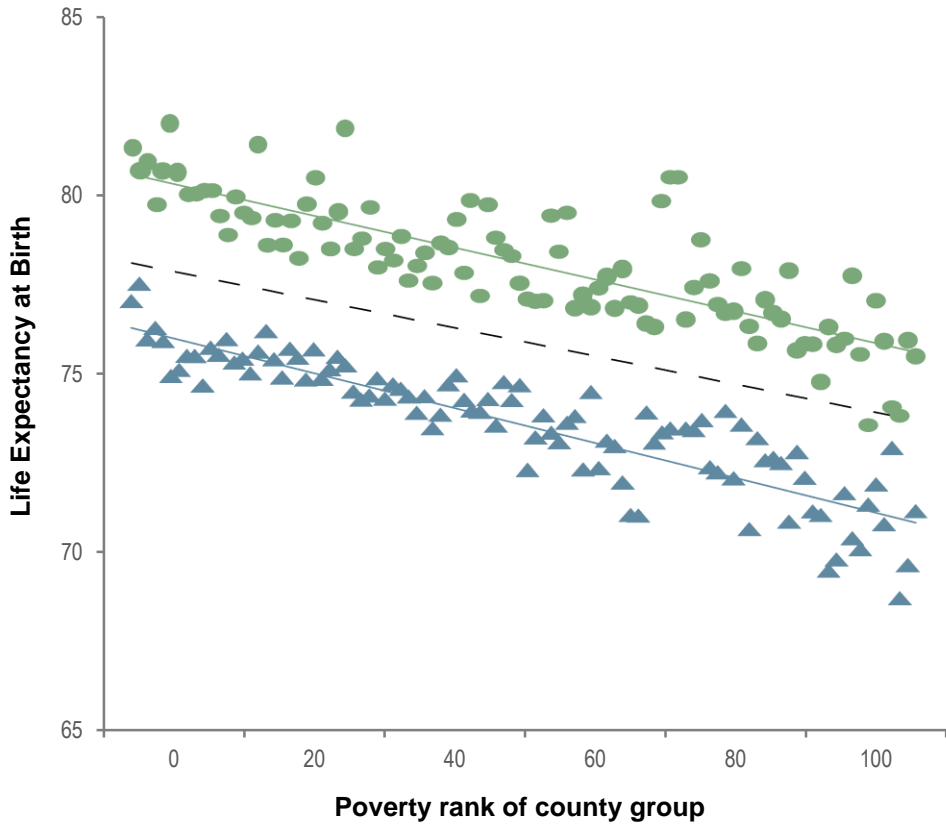


## As a Result, Our Entitlement Programs Are Becoming Less Progressive on a Lifetime Basis...

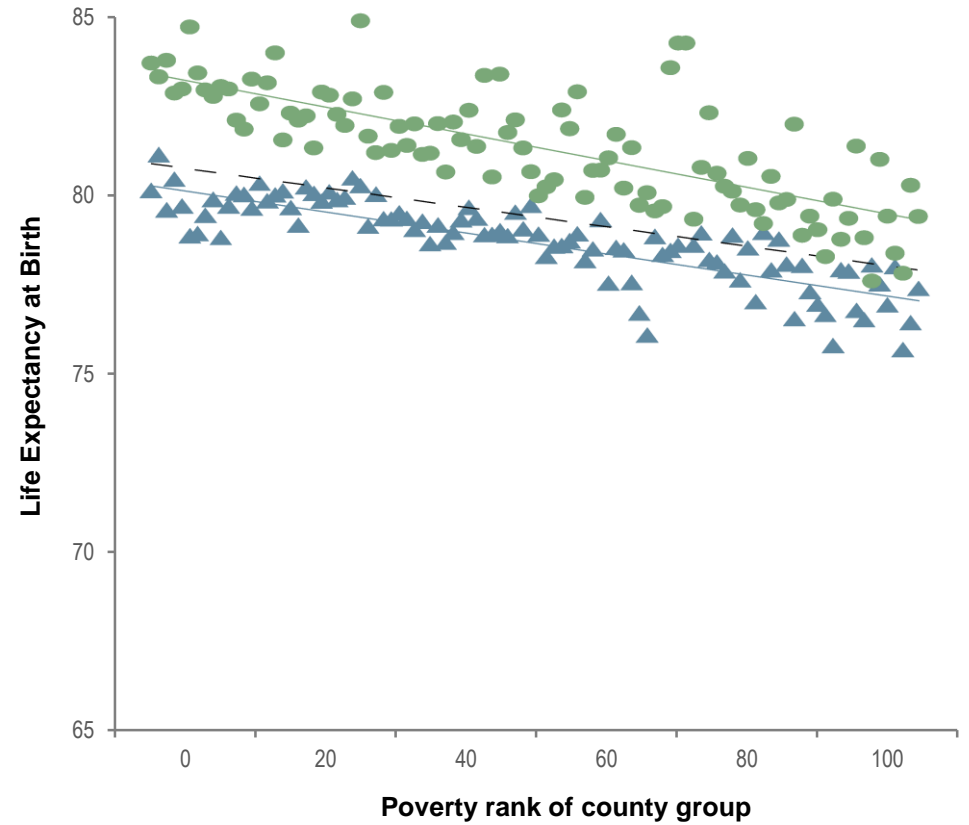
Earnings Quintile	Present Value of Entitlement Benefits <sup>1</sup> at Age 50	
	Born in 1930	Born in 1960
<b>Males</b>		
Lowest	\$402,000	\$391,000
2	347,000	366,000
3	344,000	432,000
4	364,000	499,000
Highest	402,000	522,000
<i>Gap, High-Low</i>	\$0	\$132,000
<i>Ratio, High/Low</i>	1.00	1.34
<b>Females</b>		
Lowest	\$539,000	\$452,000
2	405,000	373,000
3	394,000	386,000
4	373,000	357,000
Highest	410,000	480,000
<i>Gap, High-Low</i>	(\$129,000)	(\$28,000)
<i>Ratio, High/Low</i>	0.76	1.06

# Life Expectancy at Birth Across Poverty Percentiles

Men

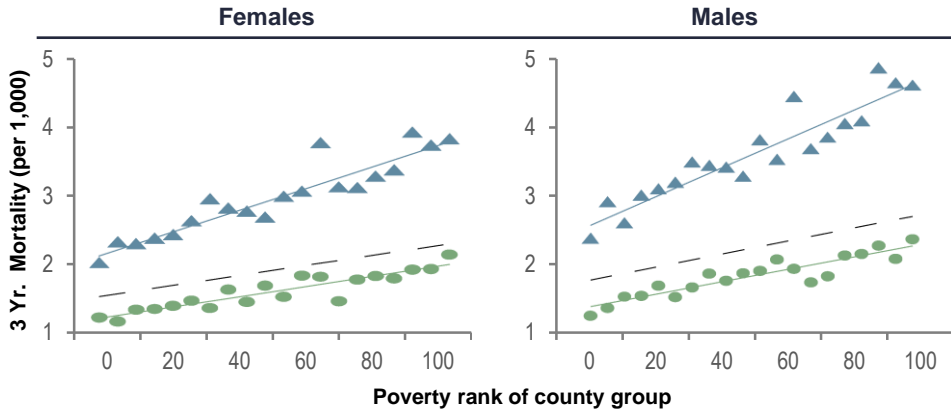


Women

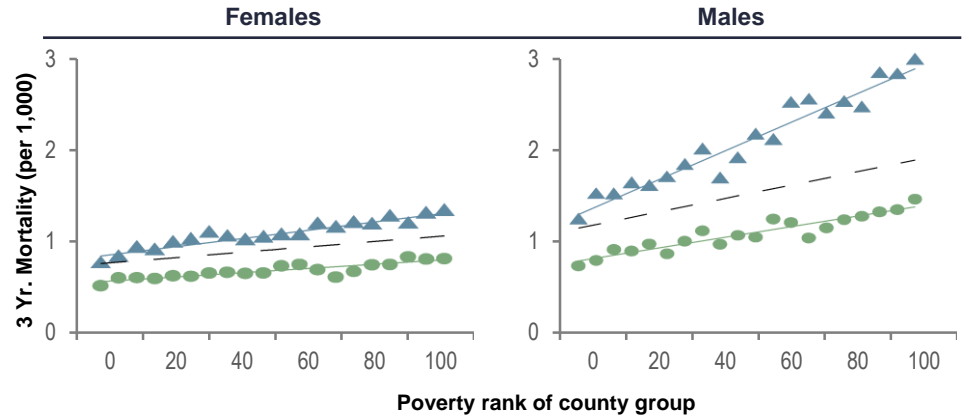


# 3-Year Mortality Rates Across Groups of Counties Ranked by Their Poverty Rate

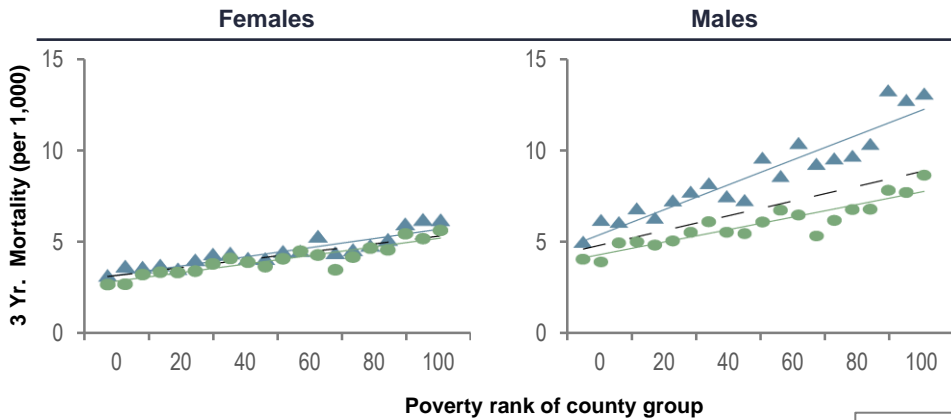
Age 0–4



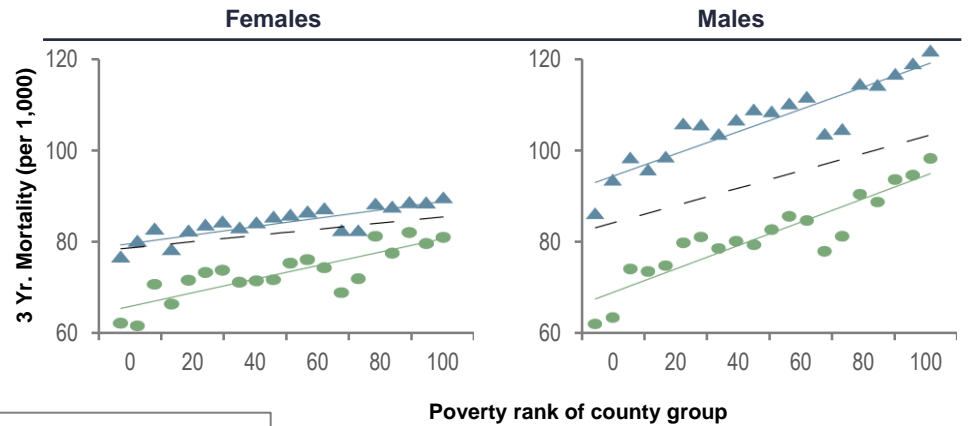
Age 5–19



Age 20–40

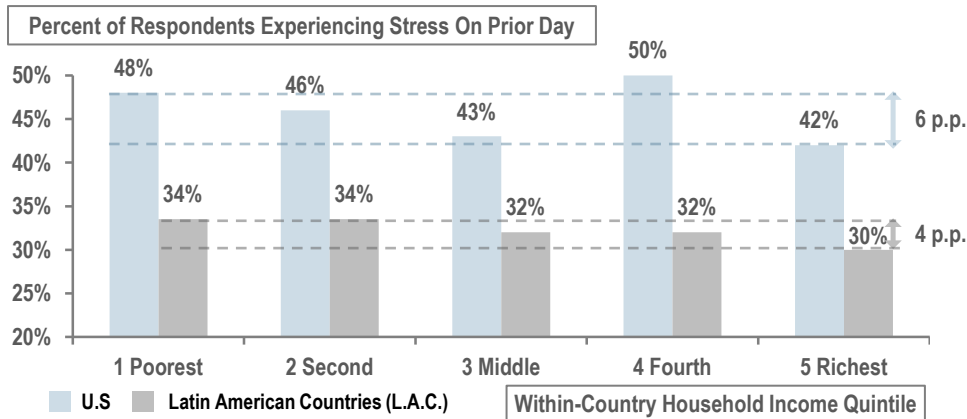


Age 50+

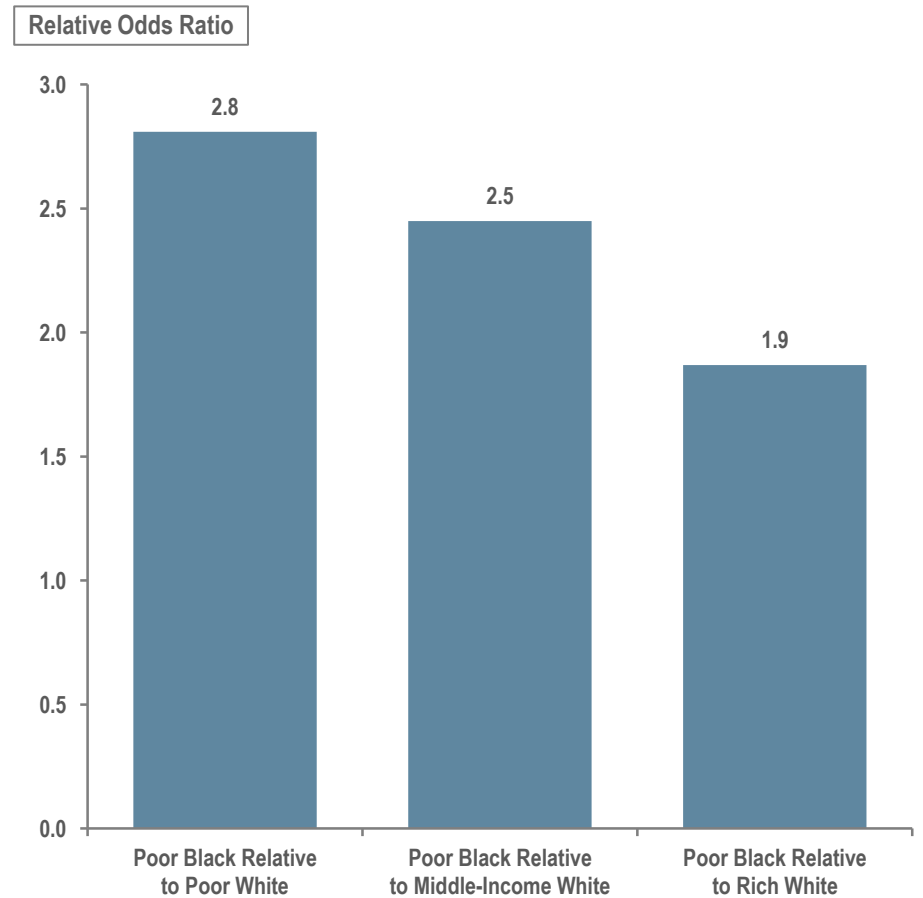


# Striking Differences in Stress and Optimism Across Demographic and Socioeconomic Groups Could Help Explain Differential Trends in Life Expectancy

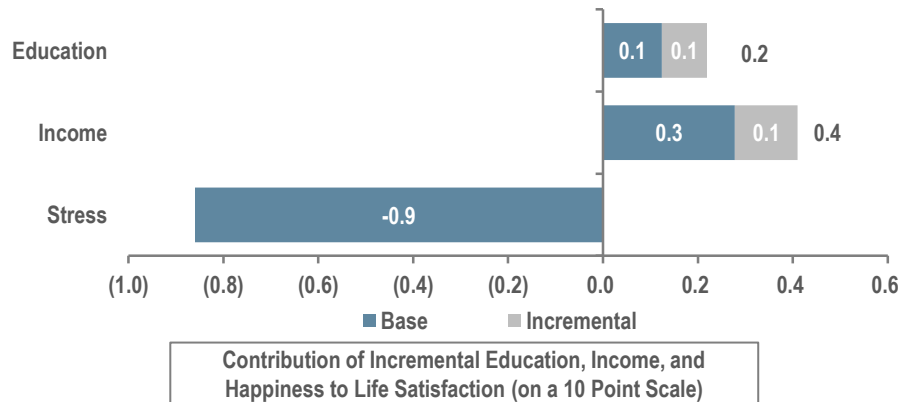
**Stress Inequality Across the Income Distribution in the US and LACs**



**Odds of Being on a Higher Level of Optimism, by Income and Race**



**Impact of Stress on Life Satisfaction Exceeds That of Money, School<sup>1</sup>**



<sup>1</sup> The bar charts depict the effects of stress, income, and education on the life satisfaction (measured on a 0-10 point scale) of the average individual, controlling for other socio-economic and demographic traits. The incremental bars are the additional positive effective that an incremental unit of income or education has for those individuals who report having experienced stress yesterday compared to those who do not.

## Options for Addressing Growing Gradient Within Entitlement Programs

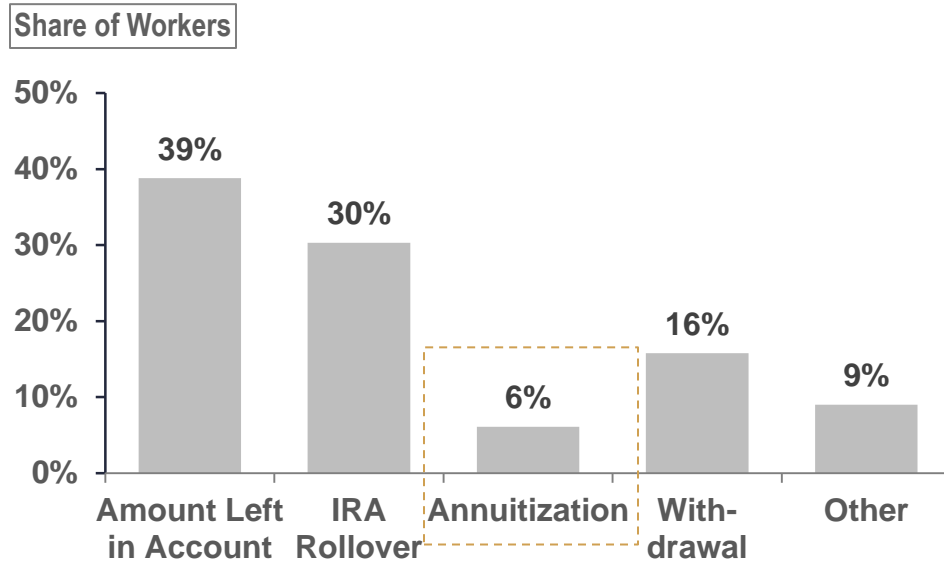
### Progressivity of Policy Options for Improving the Solvency of Social Security and Medicare: Effect on Present Value of Benefits Relative to Consumption for Top and Bottom Quintiles on Average Indexed Monthly Earnings

Policy Experiment	Impact on Progressivity	Impact on Present Value of Net Benefits Relative to Wealth for Bottom/Top Quintiles for Males	Impact on Solvency
Raise EEA from age 62 to 64	Somewhat less progressive	+0.1 +0.4	Small
Raise NRA to age 70	Somewhat more progressive	(4.8) (5.2)	Significant (23% reduction in present value benefits for males; 15% reduction for females)
Raise EEA and NRA as above	Somewhat more progressive	(4.8) (5.1)	Significant (22% reduction in present value benefits for males; 14% reduction for females)
COLA based on chained CPI	Somewhat more progressive	(0.4) (0.6)	Small (reduces benefits by less than 2%)
Marginal benefit 10% at top	Somewhat more progressive	(0.1) (0.3)	Small (reduces benefits by less than 1%)
Marginal benefit after median	Substantially more progressive	(1.1) (3.4)	Medium (11% reduction in benefits for males; 5% for females)
Raise Medicare eligibility to age 67	Less progressive	(1.4) (0.5)	Modest (in part because 65- and 66-year olds are much less expensive than older beneficiaries, and in part because some would qualify through disability insurance)

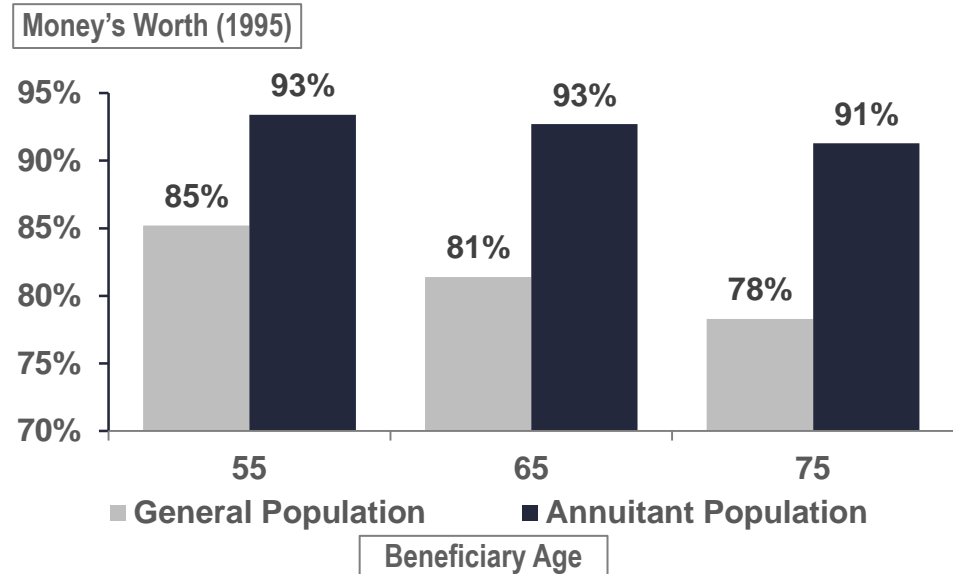


## Enrollment Dynamics and Selection Effects in Annuities

### Dispositions of DC Pensions by Retiring Workers



### After-Tax Money's Worth of U.S. Nominal Annuity Payouts



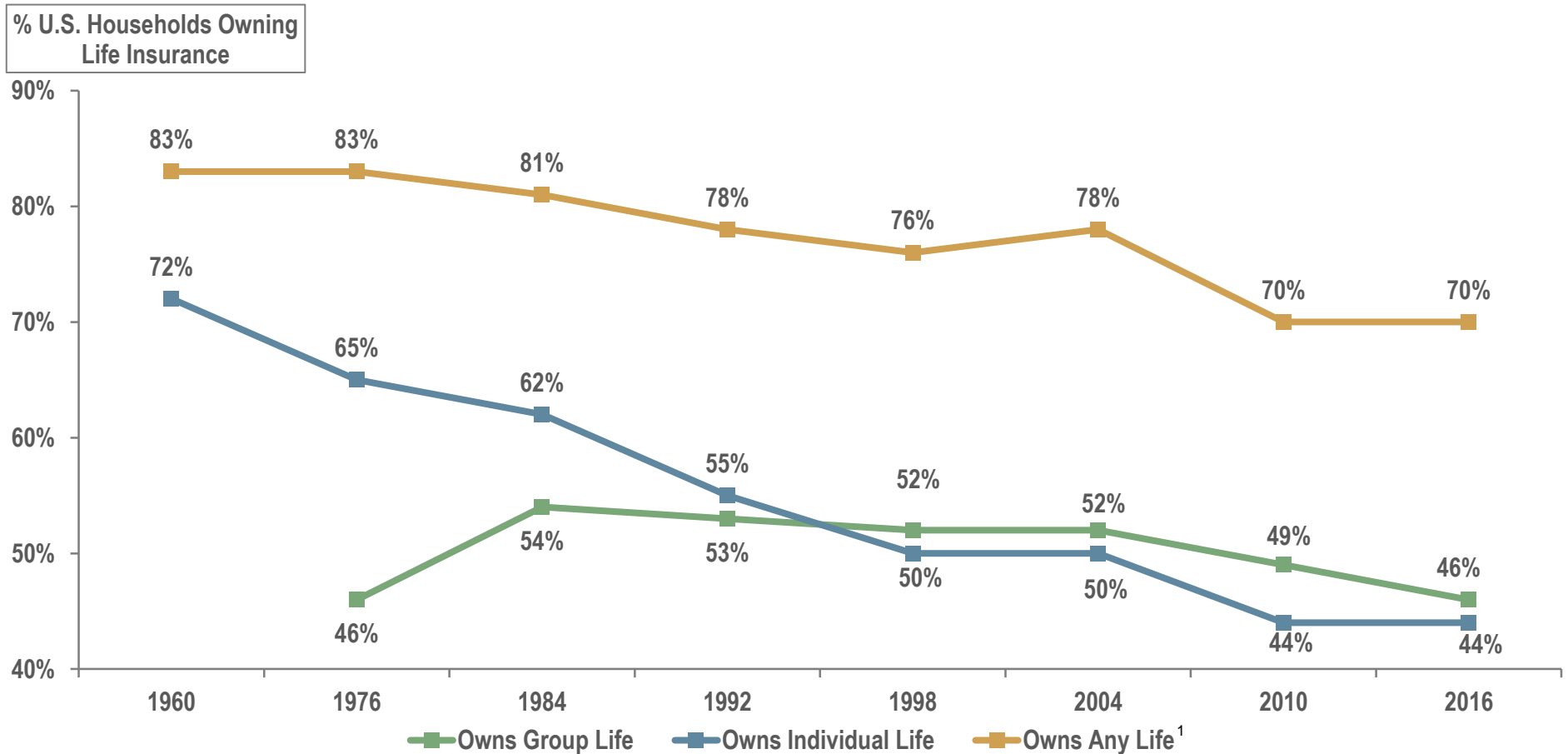
### Observations

- **Annuitization uptake has remained low, even as life expectancy continues to rise**
  - Average male Social Security beneficiary at age 65 has a nearly 20 percent chance of living until 90, up from ~15% a decade ago
  - Low annuity uptake has exposed workers to substantial longevity risk
- **Evidence from U.S. and U.K. annuities markets suggest that selection effects “price out” many workers**
  - Present value of annuities for the general population can be substantially below actuarially fair values
  - Adverse selection drives up the price of annuities, driving down general enrollment

## Long-Run, Secular Decline in Life Insurance Enrollment

Trends in life insurance uptake do not corroborate the bequest motive explanation of the “annuity puzzle”

### Trends in Life Insurance Ownership Rate, 1960-2016



## Decline in Life Insurance Exhibited Across Education and Income Strata

**Absolute Decrease in Life Insurance Enrollment Between 1989 and 2013, by Education Group**

