



# reimagining america

AARP'S BLUEPRINT FOR THE FUTURE



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AARP is a nonprofit, nonpartisan membership organization that helps people 50+ have independence, choice and control in ways that are beneficial and affordable to them and society as a whole. We produce *AARP The Magazine*, published bimonthly; *AARP Bulletin*, our monthly newspaper; *AARP Segunda Juventud*, our bimonthly magazine in Spanish and English; *NRTA Live & Learn*, our quarterly newsletter for 50+ educators; and our Web site, [www.aarp.org](http://www.aarp.org). AARP Foundation is our affiliated charity that provides security, protection, and empowerment to older persons in need with support from thousands of volunteers, donors, and sponsors. We have staffed offices in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

## Introduction

**C**an America afford to grow older? And can we do so with inter-generational fairness—that is, without burdening our children and grandchildren with the bills? How do we help older Americans maintain their quality of life while preserving the integrity of the public and private programs that contribute to that quality? How do we achieve these objectives without seriously damaging our economy? These questions are not new, but they are becoming more pressing as we look toward the year 2008, when the first baby boomers become eligible for Social Security, and the year 2011, when they are covered by Medicare. There is no question that there are serious challenges. In fact, determining how best to adapt to an aging society is one of the most important issues of our time.

AARP believes we can balance longer lives with the pressures the aging of the boomers and increased longevity put on our social systems. While this is often described as a confounding problem of demographics, it is actually driven primarily by the fragmented and disorganized delivery of health care, which costs too much and delivers too little. Solutions must come from collaboration among government, private organizations, and individuals.

**AARP believes that as a nation, we can balance longer lives with the pressures the aging of the boomers and increased longevity put on our social systems.**

*Reimagining America: AARP's Blueprint for the Future* recognizes that the aging of the boomers and the increased longevity of Americans present real financial and social challenges to all sectors of society—government, private employers, the nonprofit sector, and to individual citizens as well. It lays out an ambitious but realistic agenda for social change that will protect the viability of vital public programs, protect the independence and choice of people as they get older, and remain fair to all generations.

The purpose of *Reimagining America* is not to balance the budget of the federal government 25, 50, or 75 years from now. Such long-term projections have proven to be volatile and highly sensitive to the assumptions on which they are based. Debating their accuracy and using them as a basis for policy decisions today does little to help define a course for the future. While the fiscal challenges must be addressed, especially

as they pertain to entitlement programs that add to the quality of life, the challenges of adapting to an aging society are much broader and far-reaching.

AARP's goal is for people age 50+ to have independence, choice, and control in ways that are affordable for them and for society. Achieving that goal requires not only addressing the fiscal challenges of entitlement programs, but also promoting economic growth, making structural changes in certain aspects of the economy (e.g., rethinking approaches to work and retirement), creating livable communities, and most important, transforming the health care system. *Reimagining America* presents AARP's views on how best to accomplish these objectives. The changes proposed are wide-ranging and comprehensive. They are also a shared responsibility of government, the private sector, and individuals.

Can we afford to grow older without economic “train wrecks,” without pitting the needs of the old against the young, and without leaving future generations to clean up the mess? Of course we can—as individuals and as a nation. America is the richest nation in the world and the best equipped in virtually every way to reinvent our systems and programs. But doing so requires change. By following the direction laid out in *Reimagining America* we can balance longer lives with the pressures that the aging of the boomers and increased longevity put on our social systems, and build a stronger nation in the process.

**Although the future costs of entitlement programs should not be underestimated, we must first recognize the beneficial impact such programs have on the quality of life for older Americans, including better health and reduced poverty.**

## Redefining the Challenge

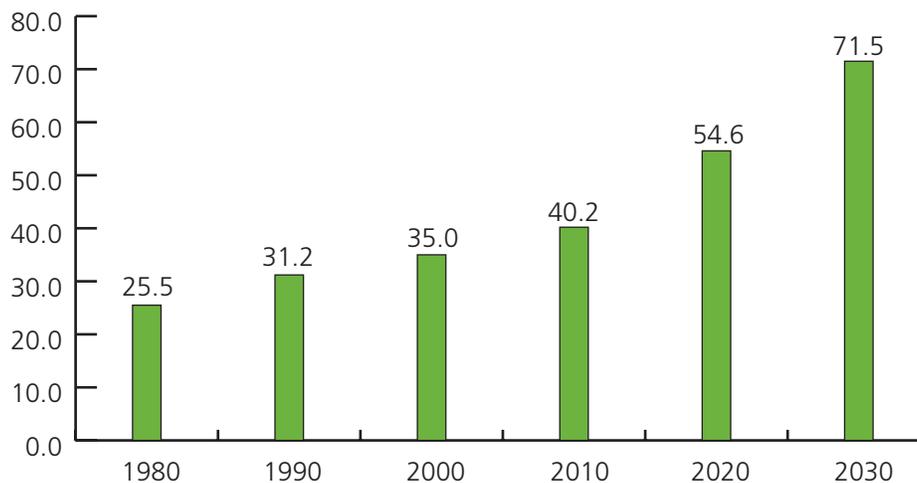
**T**he fact that America is aging is well established, although its consequences are often exaggerated. The view that unfavorable demographics will lead inevitably to a fiscal disaster later in this century, while it has gained currency in some policy circles, is overly simplistic. It is not a given that entitlements will constitute an unaffordable burden on American taxpayers. The Congressional Budget Office (CBO) has projected scenarios in which entitlement growth is manageable without severe economic consequences.<sup>1</sup>

Although the future costs of entitlement programs should not be underestimated, we must first recognize the beneficial impact such programs have on the quality of life for older Americans, including reduced poverty and better health. Moreover, these programs convey benefits to family members who otherwise would be obliged to provide more of their own resources to assist older relatives.

The controversy over entitlement spending and its effect on the economy has focused almost exclusively on projected costs with little attention given to the profound beneficial impact these programs have had over decades or the importance of sustaining them. While the question often asked is “are entitlements affordable?,” the question really ought to be how can we afford not to sustain the monumental contributions these programs have made to the health and well-being of America’s aged population? Social Security, Medicare, and Medicaid have truly forged a revolution in the quality of life of America’s older adults.

Despite the important and beneficial changes made possible by the key social insurance entitlement programs, there is no denying that future projections, especially for health care spending, are daunting and cannot be ignored. America is growing older. The life expectancy of a child born in 2000 is about 30 years longer than that of one born a century ago. Between 2002 and 2030, the older population will more than double, from 35.6 million to 71.5 million, and almost one in five people will be 65 or older.<sup>2</sup> Today, the average person in the United States who reaches age 65 can expect to live for an additional 18 years, or six years longer than people age 65 in 1940.<sup>3</sup>

**Figure 1.** Number of Persons Aged 65+, 1980-2030  
(in millions)

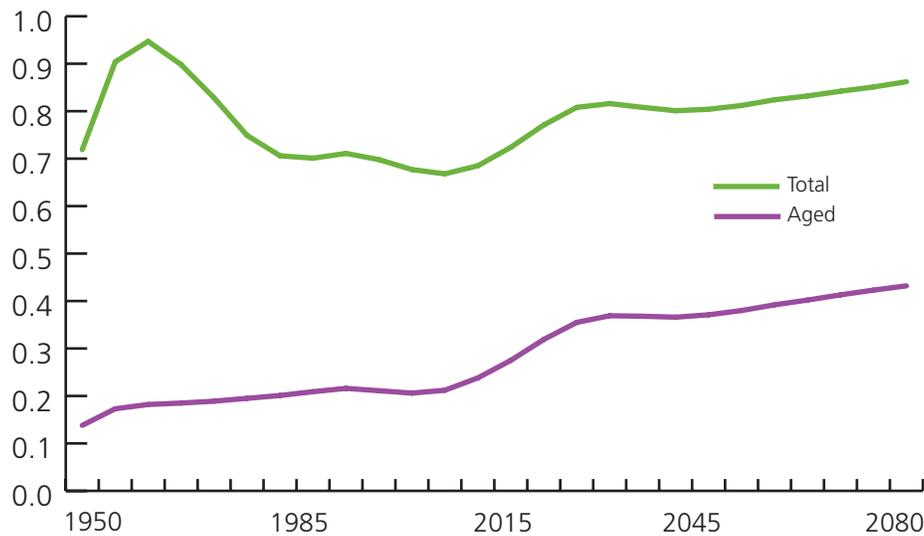


Source: Federal Interagency Forum on Aging Related Statistics, *Older Americans 2004: Key Indicators of Well-Being*. Washington, DC: U.S. Government Printing Office, November 2004.

There is no reason to assume, however, that the aging of society will lead to an economic train wreck. Declining fertility rates, longer life expectancy, and aging of the baby boomers are among the factors that contribute to the long-term aging of the population. The margin of error in demographic projections, although sometimes ignored, is in reality substantial. Furthermore, there are important disagreements about future fertility and mortality rates and population projections, as well as disagreement on what the statistics really mean for our society, especially when it comes to their effect on the affordability of our entitlement programs.

The pessimistic projections often cited to warn of impending doom brought on by the aging of the boomers typically examine the old-age dependency ratio to show the declining numbers of workers available to support the retired population in the years to come. Less frequently noted is the fact that total dependency ratios today are lower than they were in 1950, and are headed still lower until 2010.<sup>4</sup> When they do rise again by 2080, they will still be below the ratio reached in 1965 (see Figure 2).

In 2004, Federal Reserve Board Chairman Alan Greenspan, warning that entitlement costs will soar as the boomers begin to reach retirement age, told Congress that it might have to reduce Social Security and Medicare benefits or at least stabilize the ratio between the years spent in retirement with the years spent working.<sup>5</sup>

**Figure 2.** Aged and Total Dependency Ratios, 1950-2080

Source: 2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Table V.A.2.; J. Gist and S. Verma, "Entitlement Spending and the Economy: Past Trends and Future Projections," Issue Paper 2002-13, AARP Public Policy Institute, September, 2002.

David M. Walker, Comptroller General of the Government Accountability Office (GAO), appearing before the U.S. Senate Special Committee on Aging said, "As the share of the population 65 and over climbs, federal spending on the elderly will absorb a larger and ultimately unsustainable share of the federal budget and economic resources."<sup>6</sup> Walker expanded on his views in a subsequent speech at the National Press Club: "The United States faces a long-term deficit that will only increase as the baby boomers retire. The resulting fiscal imbalance will test the nation's spending and tax policies," he predicted. "Particularly troubling are the many big-ticket items that taxpayers will eventually have to reckon with, including Social Security, Medicare, Medicaid, civilian and military retirement and health care benefits, and veterans' medical care." According to Walker, "the long-term projected [fiscal] gap is now so large that we will not be able simply to grow our way out of the problem. Difficult choices are inevitable."<sup>7</sup>

While these and other experts have generally lumped the "big three entitlements" together as sources of budgetary pressure, Social Security and other retirement programs represent rather minor fiscal problems compared to the health programs. Social Security and pension entitlements have been quite stable for the past two decades as a percentage of Gross Domestic Product (GDP), whereas Medicare and Medicaid combined have had a steep upward climb relative to GDP since their creation. At the same time, it is important to recognize that the chal-

allenges Medicare and Medicaid face are not unique—they are merely part of a national system of health care whose costs have proven difficult to contain.

Increases in the cost of health care and, in particular, prescription drugs are arguably the biggest problems the country faces with regard to managing the cost of entitlement programs. The U.S. health care system needs to be transformed to ensure access to more affordable, higher quality care. This should be America's highest priority.

The cost of health care is staggering. In 1970, America (including the government, insurers, employers, and individuals) spent \$73 billion on health care. By 2003, the figure had topped \$1.6 trillion.<sup>8</sup> These costs continue to consume an increasing share of both national income and the economic resources of American families. From 2002 to 2003, costs rose at a rate that was almost three percentage points more than the rate of growth of GDP, and not surprisingly, represented an ever-larger piece of the GDP pie, up from 14.1 percent in 2001 to 14.9 percent in 2002 and to 15.3 percent in 2003.<sup>9</sup>

Individuals, private enterprise, and government at all levels are affected by these costs, and all are struggling to cope with them. For example, many employers are cutting their own contributions to health care costs and shifting them to employees and retirees—a trend that is likely to continue.

Likewise, nearly 45 million Americans reported being uninsured throughout 2003 and millions more lacked coverage for shorter time periods.<sup>10</sup> Moreover, eight out of ten uninsured people are members of working families. According to the Institute of Medicine (IOM), “The lack of insurance negatively affects not only the uninsured, but their families, the communities in which they live, and the country as a whole.”<sup>11</sup>

Our national challenge is to improve the quality of people's lives by finding ways to keep America's Social Security, pension, health and long-term care, and other entitlement programs viable and affordable. AARP believes we can respond to this challenge without compromising the integrity of these programs. But, it is essential to achieve some common understanding about the current situation. *Reimagining America* proposes strategies that will enable America to meet tomorrow's obligations to all its citizens and create a society in which everyone can age with independence, dignity, and purpose.

## The Problem is Overstated

**W**hile the aging of America is a well-established fact, what that fact means for the nation is subject to wide interpretation. In our view, to suggest that America's aging demographics precipitate a crisis overstates the problem and fails to consider several mitigating factors.

### The Fiscal Gap

The "fiscal gap" is a concept developed to characterize the shortfall in the federal budget over the very long term.<sup>12</sup> A consensus prevails among experts that the fiscal gap has grown larger in recent years, and some experts have estimated it to be as large as 7 percent of GDP. However, the fiscal gap concept, unless properly understood, can easily mislead because it is extremely sensitive to short-term economic and policy changes, and to the assumptions applied, while providing no sure guide to policy action.<sup>13</sup>

As an example of the extreme sensitivity to short-run fiscal changes, the CBO reported a decline in the fiscal gap from 5.4 percent of GDP in 1996 to only 0.5 percent in 1999 (thanks in part to higher-than-expected tax revenues).<sup>14</sup> Since GDP went from roughly \$7.8 trillion to \$9.3 trillion during that period, the change meant that the fiscal gap declined from about \$420 billion per year to under \$50 billion per year within a span of three short years. What caused that dramatic reversal? There were no major changes in tax policy during that time. Some savings resulted from Medicare legislation enacted in 1997, but the main reason for the turnaround was the strong economy and the boom in the stock market, which caused revenues, especially capital gains, to grow rapidly. Since 2000, however, revenue-reduction measures, along with more rapid growth in health care costs, have reopened a large fiscal gap. Reversing that trend will require a sounder fiscal policy, better uses of health care dollars (i.e., greater value for dollars spent), and a strong economy.

While economic changes and policy actions affect the fiscal gap, different assumptions produce different estimates. Recent projections by leading experts have the fiscal gap ranging from 4.6 percent of GDP to 10.5 percent of GDP, depending on the assumptions about future policy and the length of the protection period.<sup>15</sup> This is not to suggest that these estimates should not concern us, but that they are highly uncertain.

Finally, the fiscal gap is not an unequivocal guide to policy action. If the fiscal gap is 7 percent of GDP, as some estimates claim, what is the proper policy response? Will robust economic growth reduce the gap? Does it mean that entitlement programs, such as Medicare and Medicaid, are too costly, or just that the health care system of which they are a part is growing as a share of the economy? Does it mean that revenues are too low relative to commitments, requiring higher taxes? Or, does it mean that perhaps the economy is too weak, requiring policies that promote individual savings and increase growth? This is a matter for debate, but recent decisions have done little to advance any one of these approaches.

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### A Healthier Old Age

It is true that older people spend more time, energy, and money on their health as they age. But that does not mean they are by and large unhealthy. In fact, considerable evidence suggests that the prevalence of disability and the need for long-term care for older people may be significantly less than previously projected. While some observers fear that longer lives will result in runaway Medicare costs, gains in longevity may have less impact on Medicare's budget than many expect. A substantial share of Medicare's budget (28 percent) each year pays for costs in the last year of life, especially in the last two months of life, a percentage that has remained steady over many years. According to recent research, past age 70 or 75, each additional year lived, on average, adds little to Medicare costs.<sup>16</sup>

Considerable evidence also suggests that the prevalence of disability among older Americans is declining<sup>17</sup> and at an accelerating pace.<sup>18</sup> A caveat to this generalization is that the decline in the prevalence of disability is occurring primarily among people with lower levels of disability. Even with this caveat, the lower prevalence of disability in later life is likely to mean that future costs of chronic health and nursing home care will be lower than in many current forecasts.<sup>19</sup> Again, conventional thinking seems to ignore these changing numbers. The CBO, for

example, continues to assume a much smaller decline in disability through 2040.

A number of other statistics give further reason for optimism in the future of entitlement programs, and more reason to question some official projections. For example, the total number of nursing home residents of any age declined 4.6 percent from 1998 to 2004.<sup>20</sup> Part of the reason may be the more rapid declines in mortality among older men than older women, which in turn reduces the rate of widowhood for older women, who tend to use nursing homes more. Having more surviving spouses increases the supply of family caregivers and decreases the use of nursing homes.<sup>21</sup> This decline suggests potentially significant savings in the Medicaid program as well.

Trends such as these have already rendered past projections obsolete and raise serious questions about current projections of need. For example, in 1991, the U.S. Senate Special Committee on Aging predicted that the older nursing home population would reach 2.1 million by 2005.<sup>22</sup> That projection has proved to be far off the mark. In 2004, the older nursing home population was just 1.4 million, and declining.<sup>23</sup> In other words, over little more than a decade, the Senate Committee's projection was about 50 percent too high. To the extent that projections fail to take into account a number of encouraging health trends such as these, they are likely to overestimate the future cost of nursing home and other expenditures.<sup>24</sup>

## The Problem Is Not Medicare and Medicaid— The Problem is Health Care

Uwe E. Reinhardt, a noted health economist at Princeton University, has concluded that, “although it is not a trivial matter, population is nowhere near the strongest driver of demand for health care in the United States.”<sup>25</sup>

Many of the factors that contribute to the growth in the costs of Medicare and Medicaid—growth in population and utilization, growth in costs of new technology and drugs, and inflation of medical prices—also drive up the cost of health care nationally, affecting all payers, both public and private, including individuals, employers, and both state and federal governments.

Medicaid is the nation's largest health insurance program, providing

necessary care for one in every six people. It is the safety net for children in poverty, for aging parents and grandparents needing long-term care, for those with disabilities, and for other vulnerable people. It helps pay the bills for two-thirds of the 1.4 million people in nursing homes.<sup>26</sup>

**Given that Medicare and Medicaid are not the driving factors behind health care costs, a focus on containing public sector health costs alone, as a public policy, will be ineffective.**

Medicaid spending grew by about a third between 2000 and 2003. Much of this growth, however, reflects a shift from private to public spending, not additional dollars being spent on health care overall.<sup>27</sup> As many employers drop health insurance—or it becomes too expensive for employees to pay—people turn to Medicaid as a last resort.

There are ways to make Medicaid more efficient and reduce costs, but simply cutting federal spending only shifts the burden to the states or increases the amount of uncompensated care among doctors, hospitals, and providers of other medical services. These costs would inevitably be shifted to employers and employees as higher premiums. The solution lies not in shifting costs, but in taking a long-range view and attacking the problem at its source: our health care system. After all, the growth in Medicaid spending is also a result of costs not unique to Medicaid, such as rising prescription drug and hospital costs.

Given that Medicare and Medicaid are not the driving factors behind rising health care costs, a focus on containing public-sector health costs alone, as a public policy, will be ineffective. Moreover, Medicare's successes in containing costs can be broadened to the health care system as a whole. But that, of course, requires a systemic approach that recognizes the need for comprehensive reform.

Overall rising health care costs pose a serious threat to individuals and private enterprise—both of which struggle to pay for health care—and to the nation's long-term fiscal status, including the sustainability of Medicare and Medicaid. However, CBO's projection that between 2004 and 2030, federal spending for Social Security, Medicare, and Medicaid will grow from 8 percent of GDP to between 12 and 17 percent of GDP, presents an incomplete picture.<sup>28</sup> Because Medicare and Medicaid are inextricably tied up with many of the same factors responsible for the growth in overall health care costs, it is necessary to address system-

wide issues in order to succeed in containing public-sector health care costs. Simply put, the problem is not Medicare and Medicaid—it is our entire health care system, which requires reform and our immediate attention.

## Working in Retirement is Increasingly an Expectation

Older retirees tend to experience their later years in more traditional fashion: living on Social Security, a pension (if they are fortunate), and savings. Many spend their time relaxing or traveling if they can—but very few hold down a full-time job or continue their careers. Younger retirees and baby boomers, on the other hand, are looking for something very different. Both these groups view retirement as a transition of lifestyles rather than the abrupt end of a job, a new opportunity rather than the conclusion of a career. Nor do they necessarily view any particular age as the end of an active life, including work. Indeed, nearly 70 percent of boomers report that they expect to continue working in their “retirement” years.<sup>29</sup>

Yet conventional thinking, not to mention much of the public discussion about entitlements, continues to see age 65 and retirement as virtually synonymous. Medicare still kicks in at that point, of course, and some employers cling to it as the “traditional” retirement age for workers. But otherwise, the evidence tells us that age 65 has lost much of its significance. For years, most people have been drawing benefits well under age 65. A 2004 CBO report showed that more than four million boomers have already left the labor force as a result of disability or retirement.<sup>30</sup> Now there is evidence of people working longer and perhaps postponing their retirement, even past age 65, although not necessarily postponing receipt of benefits. Social Security’s “normal” retirement age, the age at which one can claim full benefits, is rising. Anyone under 44 today will not qualify for full benefits until he or she reaches 67.

The fact that Americans are choosing to retire at such disparate ages creates a need to re-examine the various key components of retirement

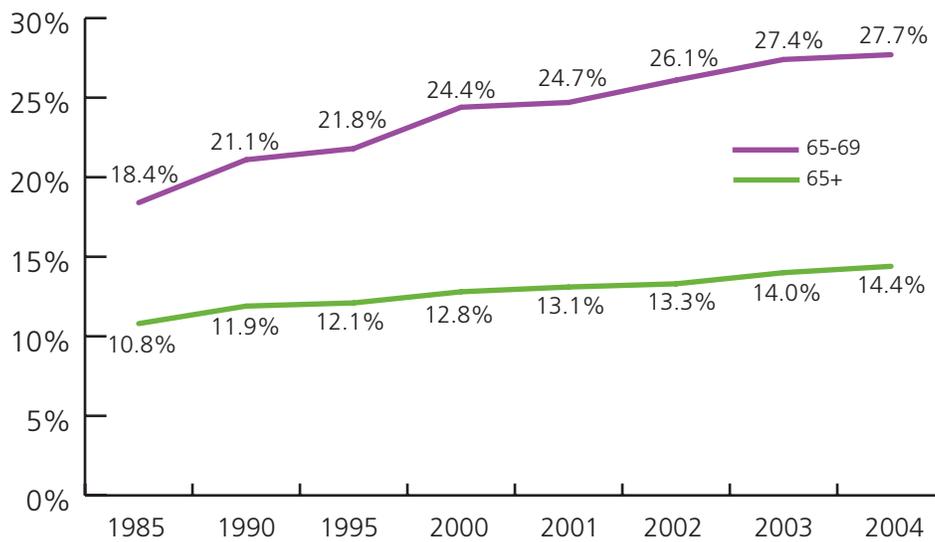
**True financial security demands what AARP sees as four pillars of economic security—Social Security, pensions and individual savings combined, continued earnings from employment, and health insurance coverage.**

security.<sup>31</sup> It is clear that the elements of the traditional “three-legged stool”—Social Security, pensions, and personal savings—are no longer sufficient. True financial security demands what AARP sees as four pillars of economic security—Social Security, pensions and individual savings combined, continued earnings from employment, and health insurance coverage.

According to Bureau of Labor Statistics (BLS) data, a growing number of older workers are remaining in the workforce. After decades of decline, the labor force participation rate for those over 65 leveled off in the mid-1980s and has since been increasing. Moreover, the participation rate for those at or just above the so-called “conventional” retirement age—ages 65 to 69—has also increased.<sup>32</sup>

This is not really surprising. The importance of earnings from a full-time or a part-time job is looming ever larger in the lives of Americans approaching or reaching the point when they retire from their jobs.<sup>33</sup> Of course, many retirees choose to continue working, perhaps as a way to phase themselves out of a full-time occupation into something less stressful or time-consuming. Others like what they do so much they

**Figure 3.** Labor Force Participation Rates of Persons Aged 65-69 and 65+, 1985-2004



Source: U.S. Bureau of Labor Statistics, Employment and Earnings, January 1986, 1991, 1996, 2001-2005

choose to keep working. Yet for other Americans, postponing retirement is necessary. Their savings, pensions, and Social Security fall short of what they need, or they would lose health insurance coverage if they left their job, and they cannot afford to replace it.

As a result, the nation's workforce is growing older. In 2000, workers aged 55 and older accounted for 13 percent of the workforce. BLS projects that figure will rise to 19 percent by the year 2012. Over that same time period, workers between 25 and 54 are expected to decline as a percentage of the workforce, from 71 percent in 2000 to 66 percent in 2012.<sup>34</sup>

## An Aging Society Does Not Necessarily Mean Steep Declines in Saving

The traditional lifecycle model predicts that people will save during their working years and then spend down their wealth gradually after retirement. But a RAND study conducted for AARP found just the opposite, namely, that people continue to save after retirement. The reasons include: reduced consumption, a desire to leave bequests, and an uncertain life expectancy that makes retirees wary of digging too deeply into their capital.

Researchers at the Urban Institute used a forecasting model to project that an aging U.S. population would actually result in increased savings decades from now.<sup>35</sup> This is partly because today's older workers, those aged 45 to 64, are more highly educated than their predecessors. With the higher earnings typically associated with higher levels of education, today's older Americans should be better equipped to save money.

This trend is encouraging, of course, and partly explains why old age is no longer as synonymous with low income as it once was. As important as educational attainment is in enhancing the economic security of older people, the main reason for the drop in poverty among older people is the expansion of retirement benefits, particularly Social Security.

For all this, older Americans as a whole are not uniformly prosperous or well-off. For while most Americans aged 50 and older have experienced rising income and asset levels over the past ten years, the disparities between the “haves” and the “have-nots” are highly evident.<sup>36</sup> The gap has become greater both in terms of income and wealth. Unfortunately, women, minorities, and people living alone are far more likely to be poor, regardless of their age. While the poverty rate for Americans over age 62 has declined remarkably, the probability of being poor in old age remains quite high. There is a four in ten chance that an American will be poor at some time in his or her life after the age of 60.<sup>37</sup>

In short, retirement can be comfortable and enjoyable for those fortunate enough to enjoy the support of four strong financial pillars, Social Security, savings/pensions, health insurance, and, if they choose to continue working, their own earnings. Those in the top income quartile can look forward to retirement knowing they are financially prepared for it. For those in the middle two quartiles, continued strengthening of Social Security and Medicare benefits will be critical to their ability to maintain their standard of living. For those in the lowest quartile, the ability to continue earning something, if only from part-time work, and the availability of safety-net programs such as Medicaid will be even more vital to the future—particularly as health care costs continue to escalate.

**While the poverty rate for Americans over 62 has declined remarkably, the probability of being poor in old age remains quite high. Disturbingly, there is a 4 in 10 chance that an American will be poor at some time in his or her life after the age of 60.**

## The Importance of Economic Growth

Economic growth plays a critical role in the trend of entitlement spending. While we are not going to merely grow our way out of our fiscal problem, sustained economic growth through strong investment in human and physical capital and productivity improvements can vastly alleviate the pressure for spending reductions or tax increases. One reason that economic growth is so critical is that entitlement spending is counter-cyclical, rising as a percent of GDP during economic downturns and declining relative to GDP during economic expansions.

Economic growth is also important because tax revenues will automatically grow faster than the economy because of “real bracket creep,” where real growth (i.e., growth that exceeds the rate of inflation) causes some taxpayers to move into higher tax brackets, increasing income tax revenue. From 1975 until 2000, GDP (adjusted for inflation) grew at 2.57 percent per year, about the same as the 2.60 growth rate for entitlements. More important, during the same period, income tax revenues grew by 3.84 percent per year, almost 50 percent faster than entitlement spending, explaining why the budgetary pressure of entitlement spending has actually diminished in the past quarter century.

**Part of the solution is already being provided by older people themselves... a smaller percentage are entering nursing homes, more are continuing to save into their retirement years, and more continue to be working taxpayers after they reach traditional retirement age.**

## Summary

The snapshot of older America has many faces. For some, it looks better than ever before, largely because their quality of life—the most important gauge—seems to be improving. But without Social Security, Medicare, and Medicaid the picture would change dramatically for the worse, not only for the poor but also for the majority of Americans. Strengthening and guaranteeing the future of Social Security and reining in the rising costs of health care are fundamental to improving the lives of older people, even as individuals are likely to be playing a greater role in ensuring their own financial security.

The challenges facing older people and our society as a whole are complex but, contrary to conventional views, they are not driven primarily by an aging population and greater longevity. The main drivers of rising health care costs are not unique to Medicare and Medicaid. And part of the solution is already being provided by older people themselves. As noted earlier, a smaller percentage are entering nursing homes, more are continuing to save into their retirement years, and more continue to be working taxpayers after they reach traditional retirement age. To see older Americans merely as passengers and not part of the crew is counter-productive to our understanding of aging in America today—and in the future.

## Meeting the Challenge

**P**roviding tomorrow's older adults with independence, choice, and control in ways that are affordable for them and society as a whole is a considerable challenge, but not an impossible one. Given the vast array of opportunities—including those presented by the latest facts

and trends, potential innovations on the horizon, and public policy tools available—AARP believes that America is capable of successfully meeting the challenge of an aging society. Below are nine key challenges drawn primarily from our Ten-Year Social Impact Agenda (at the end of this booklet), that will substantially affect the quality of life for Americans as they age.<sup>38</sup> By successfully addressing these challenges, the country will also have positioned itself to have the best chance of sustaining the long-term viability of important entitlement programs.

**Currently, 45 million Americans lack health coverage; the uninsured account for one in 6 individuals under the age of 65. Far from being a cost saving to society, this represents a huge future liability.**

### Spending Health Dollars Wisely

Of all the factors that affect the quality of life in later years, health is the most fundamental. Improving the health care system is critical. Indeed, Dr. Henry E. Simmons, president of the National Coalition on Health Care, characterizes the nation's current health care problems as “a perfect storm,” consisting of three inter-related elements: poor quality, decreasing coverage, and rising costs.<sup>39</sup> Together, these elements create a need for fundamental health care reform that results in affordable coverage for, and access to, quality health care and supportive services.

The GAO, CBO, and other agencies and organizations point out that slowing the growth of health care costs is also critical to meeting the fiscal challenges ahead. Indeed, the CBO has concluded that “fiscal policy could be financially sustainable if the growth of health care costs slowed significantly from historical rates, but that even in this scenario, tax revenues would probably have to be higher than in the past.”<sup>40</sup>

While improving the health care system may sound like a straightforward charge, actually doing so is complicated by several factors, including the size and complexity of the system and the highly fragmented nature of health care delivery. In addition, there are many views

of the relative value of different health care expenditures. Because not everyone has the same view of relative value and because not everyone is motivated by the same incentives, other dynamics enter into the effort to contain costs. Therefore, one must be careful not to minimize the challenge inherent in improving the health care system.

Spending on clinical preventive services illustrates one aspect of the complexity of the health care system. There is broad consensus that such services produce better health outcomes and lower future costs over the long run. Making them available now, however, may well drive up current cost through increased demand. Similarly, many projected quality improvements cannot be achieved without significant upfront investment in technology. Nevertheless, without such investments of resources to support the transformation of the system, the nation is unlikely to realize the full potential in lives saved, reduced disability, and healthier people—as well as the reduced costs that should ultimately flow from these improvements.

Biomedical research is another area where investments today will pay dividends in better health outcomes in the future. In testimony before the U.S. House of Representatives Appropriations Committee, National Institutes of Health (NIH) Director Elias Zerhouni detailed a broad range of advances made possible by biomedical advances. He went on to predict that current research in molecular biology and molecular genetics would pay off in new medical interventions that would “thwart diseases before they strike, at potentially reduced costs.”<sup>41</sup>

Another key part of improving the system is ensuring that health care resources are used efficiently so that people have access to high quality health care services. Reducing the number of uninsured and underinsured individuals has merit in its own right, but may also contribute to lower total costs in the longer term.

Currently, 45 million Americans lack health coverage; the uninsured account for one in six individuals under the age of 65. Far from being a cost saving to society, this represents a huge future liability. A recently completed six-part study by the Institute of Medicine (IOM) of the National Academy of Sciences estimates that the potential economic value (e.g., less morbidity and mortality, greater sense of social equality, reduced family stress, greater workplace productivity) to be gained in better health outcomes from uninterrupted coverage for all Americans would be between \$65 billion and \$130 billion each year.<sup>42</sup> The IOM

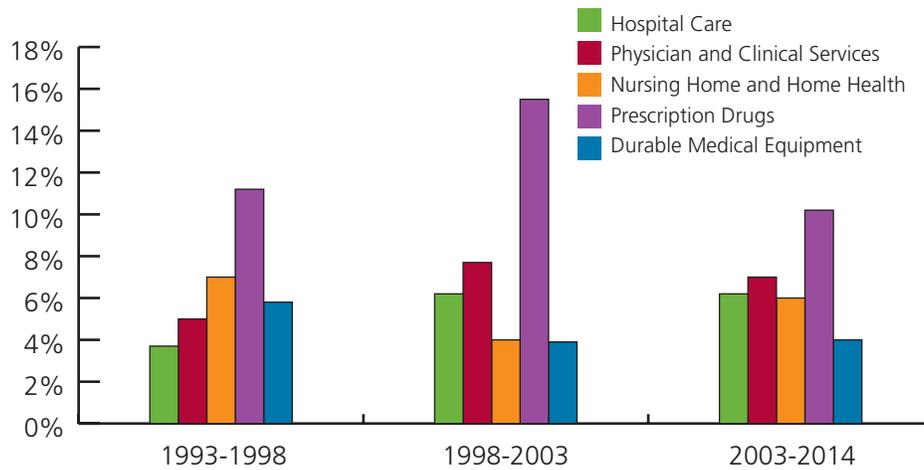
study concludes that it is “both mistaken and dangerous to assume that the persistence of a sizable uninsured population in the United States harms only those who are uninsured.”<sup>43</sup>

A similar situation exists with prescription drugs. Prescription drugs are a cornerstone of modern medicine and have contributed greatly to improved quality of life for Americans. But the inability to afford prescription drugs can be a barrier for some people whose quality of care and health status depend on them. The enactment of the Medicare Prescription Drug Improvement and Modernization Act of 2003 was a significant step toward resolving this problem for older Americans and those with disabilities.

Under the newly created Medicare drug benefit, the federal government will incur additional costs for which it was not previously responsible. There exists, however, a potential for future savings in health care spending as a result of making prescription drugs available to more people who need them.<sup>44</sup> In particular, there is evidence that, for certain populations and certain medical conditions, not taking necessary drugs is more costly than providing the medicine.<sup>45</sup> Several other studies have documented lower total spending for patients with particular illnesses and diseases due to declines in the number of hospital stays, bed days, or surgical procedures despite an increased use of certain prescription drugs.<sup>46</sup>

But more needs to be done. As Figure 4 illustrates, drugs are one of the fastest growing components of health care spending. Controlling the overall cost of health care without addressing the high cost of prescription drugs is unlikely. To achieve that goal, objective research that evaluates the comparative effectiveness of alternative drug and non-drug therapies is needed. This information can be used to stimulate price competition between similar drugs, identify when less costly drugs are at least as effective as more costly products, and determine when expensive drugs are the most effective. The goal should be to make prescription drugs more accessible and affordable not only for people in Medicare, but for everyone, including the large number of uninsured and under-insured between the ages of 50 and 65.

**Figure 4.** Average Annual Percent Growth in Health Expenditures for Selected Spending Categories, 1993-2014



Source: AARP Public Policy Institute computations using data from Cynthia Smith, et al., "Health Spending Growth Slows in 2003," *Health Affairs*, Vol. 24, No. 1, January/February 2005, pp. 185-194; Stephen Heffler, et al., "U.S. Health Spending Projections for 2004-2014," *Health Affairs*, Web Exclusive, February 23, 2005.

Historically, technological advances have contributed to the growth in Medicare spending. Recently, for example, use of expensive imaging services, such as magnetic resonance imaging and computerized axial tomography, has grown rapidly.<sup>47</sup> On the one hand, research shows that the average worth of Medicare spending since its inception has been high (as measured by greater life expectancy and reduced morbidity).<sup>48</sup> On the other hand, despite high returns on medical innovation, substantial evidence shows that those resources have not been allocated very efficiently. Examples include Medicare paying different amounts for the same type of service provided in different settings, significant geographic variation in practice patterns and use of supply-sensitive services in the United States. In addition, overall the U.S. health care system has higher prices and administrative costs relative to other developed countries.<sup>49</sup>

Addressing inefficient and irrational use of health care resources is another vehicle for getting better value from dollars spent on health care. Efforts along this line have already begun. Research will help physicians make better clinical decisions about using specific interventions.

## Improving the Quality of Health and Long-Term Care

Despite the fact that the United States spends more of its GDP on health care than any other nation, American patients often suffer avoidable medical mistakes or do not receive appropriate care.<sup>50</sup> Quality problems are pervasive, occurring across care settings and delivery models. Too often, some socioeconomic, racial, and ethnic groups experience health care disparities as well.<sup>51</sup> And, of course, we cannot ignore the unique quality problems faced by America's most vulnerable citizens, those who occupy nursing homes, where substandard care is all too common.

In the long run, a more efficient health and long-term care system—one that offers patients the right health care and support services at the right time in the right setting—may yield system-wide savings. However, these savings will not be achieved until the nation makes the significant investments necessary to create an infrastructure to support improvements. In the short term, scarce health and long-term care resources could be put to better use by avoiding wasteful expenditures for unnecessary medical services or for redundant procedures or hospital readmissions arising from medical errors. Another improvement would be to maintain the health and functional status of individuals so that more complicated and more expensive care can be minimized. The National Committee for Quality Assurance has estimated that more than \$9 billion in lost productivity and almost \$2 billion in hospital costs could be averted through more consistent delivery of best-practice, evidence-based care.<sup>52</sup>

Even without substantial savings, improved health care is valuable in and of itself. All Americans, old and young alike, stand to gain from improved quality. AARP has identified guideposts that will help the nation assess progress toward quality improvement. These are:

- > Implementation of health information technology to enable doctors and other providers to conduct clinical and administrative activities in a paperless environment;
- > Collection and reporting of standardized measures of doctor, hospital, and nursing home performance that will facilitate transparency, accountability, and quality improvement;
- > Realignment of provider and practitioner reimbursement to reward high quality, particularly with respect to nursing homes; and
- > Implementation of remedies such as better state government over-

sight, funding for more staff with better training, and reinventing the culture of nursing homes to focus primarily on the quality of life of their residents.

## Promoting Better Preventive Care

Good health is a lifelong pursuit; that is, health in later life is often predicated on behaviors and interventions earlier in life. For example, researchers at the National Institute of Child Health and Human Development (NICHD) now describe osteoporosis as a pediatric disease with geriatric consequences.<sup>53</sup> Health conditions (including an absence of healthy behaviors) at early ages that go unchecked can lead to poor health as this population ages. America has an opportunity—indeed, an obligation—to address these problems early in a person's life, not just to ward off a later reckoning, but to give America's children the best chance at a fully productive life.

Developments in two related areas—diabetes and obesity—demonstrate the potential contribution of better health promotion and disease prevention efforts. The fastest-growing causes of disability among the younger population are diabetes and musculoskeletal problems, conditions that are associated with obesity.<sup>54</sup> According to researchers at RAND Health, if historical trends in obesity continue, by 2020, up to 20 percent of health care expenditures would be devoted to treating the consequences of obesity.<sup>55</sup> The American Diabetes Association estimates the costs of diabetes at \$132 billion annually, with much of that money coming from Medicare and Medicaid.<sup>56</sup>

Clearly, these trends have negative implications for the nation's health care system. To the extent that these conditions occur among younger populations, society has an opportunity to address them before they begin to drive up costs in Medicare and Medicaid. But even prevention among older people can result in positive health and economic outcomes.

Primary prevention, encouraging healthy behavior to prevent a health problem from occurring, is critical. Based on a ten-year study documented in *Successful Aging*, Jack Rowe and Robert Kahn find that lifestyle choices and behaviors have a greater influence on how we age than any other factor, including genetics.<sup>57</sup> Likewise, Centers for Disease Control and Prevention (CDC) researchers also point out that three important habits—physical activity, good nutrition, and not smoking—

can keep people healthy and delay disability by at least ten years.<sup>58</sup>

Behavioral changes could achieve the same goals as an enlightened health care policy. However, behavioral change is not necessarily easy to effect, and recognizing this challenge is important if the public effort to change behavior is to be serious. Creating behavioral change is not just a matter of individuals being aware of the right thing to do; if it were, there wouldn't be so many people driving without seatbelts, eating the wrong foods and/or excessive quantities of the right foods, not exercising, smoking in bed, not wearing lifejackets in boats, not securing guns in homes, and not receiving prenatal care. Despite this challenge, there is reason to be hopeful about achieving behavior change. As the result of a concerted national campaign to reduce smoking, over the past 20 years (from 1983 to 2003), the prevalence of smoking among adults in the United States declined significantly from 32.1 percent to 21.6 percent.<sup>59</sup>

Secondary prevention, seeking clinical services that screen individuals in order to detect health problems sooner, is also critically important. Unfortunately, clinical preventive services are often underutilized. One key factor is insurance coverage: uninsured adults are less likely than adults with any kind of health coverage to receive preventive and screening services or to receive them on a timely basis.<sup>60</sup>

**...lifestyle choices and behaviors have a greater influence on how we age than any other factor, including genetics.**

With an aging population comes an increase in the incidence and prevalence of chronic conditions. One analysis found that Medicare beneficiaries with three or more conditions (46 percent of beneficiaries) account for almost 90 percent of total spending, while those with no chronic conditions account for less than one percent.<sup>61</sup> Conditions such as heart disease, diabetes, and asthma are now the leading cause of illness, disability, and death. Patients with multiple chronic conditions are likely to have higher health care spending. Nonetheless, today's health care system remains overly devoted to addressing acute, episodic care needs.

These facts argue strongly for more effective mechanisms for providing chronic care. One of the goals of better management of such chronic diseases is tertiary prevention, the slowing of disease progression and

other complications of an established disease so as to improve or maintain function. Research points to a chronic care model consisting of patient self-management, practice teams that include non-physician personnel, and decision support that includes evidence-based practice guidelines and clinical information systems.<sup>62</sup>

Managing chronic care is easier to accomplish in integrated delivery systems where teams can form and information can be shared. Fortunately, in recent years, the Centers for Medicare and Medicaid Services (CMS) has launched a number of chronic care demonstrations, the latest created by the Medicare Modernization Act of 2003.

## Creating a National System for Home- and Community-Based Care

Most older people and those with disabilities want to remain independent and receive the assistance they need in their homes and communities, not in nursing homes. Currently, America has no organized system for doing this. Most of the care people need as they age is personal care, not medical care—that is, help with various daily activities such as dressing, bathing, or preparing meals—which often is provided informally by family members. Providing care at home or in assisted-living facilities instead of nursing homes can improve quality of life, as well as provide better value, thereby allowing many more people to obtain essential care.

In order to both improve quality of life and continue to contain costs, broad changes are necessary in the way care is delivered. Several important steps in this process include:

- > Support family caregivers better, through financial and other resources, and by providing respite care—temporary residential care for patients that provides relief for the permanent caregivers.
- > Improve access to services outside nursing homes by reorienting Medicaid's funding toward home- and community-based services. (Currently, approximately two-thirds of Medicaid long-term care funding is spent on nursing homes and only one-third on home- and community-based services.)
- > Encourage “consumer-directed” services in publicly funded programs such as Medicaid so that individuals could take more charge of their own care.
- > Expand the network of local adult day care centers and provide transportation, for people needing services who are able to leave

home. In addition to providing activities and personal care, these centers also could deliver many health services.

- > Expand volunteer programs that provide regular, dependable services like shopping, friendly visits, or driving services. In addition, increase training and reduce barriers (e.g., liability) to volunteering. America already has a strong tradition of volunteering and the need for a renewed effort to tap into this tradition on behalf of older people and those with disabilities is clear.

## Investing in Livable Communities

People overwhelmingly want to live in their own homes and communities as they age.<sup>63</sup> Most, in fact, do so. But many others confront housing and transportation barriers that take the choice away from them or make it difficult or impossible to remain independent and involved in their community. The challenge then is to create a livable community, one that has appropriate and affordable housing, adequate options for mobility, and the various community features and services that can facilitate personal independence and the continued engagement in the community's civic and social life. Each of these elements of a livable community contributes to successful aging.<sup>64</sup>

To some extent we can expect the marketplace to resolve these issues. The growing number of older consumers as the baby boomers age will create demands that smart business owners will hasten to answer. But good community planning and sound public policy are also essential.

Housing plays a unique role in the life of older Americans. It provides a sense of comfort and security as well as shelter. Universal design is critical to aging with independence. Both the private and public sectors should seek the goal, not merely of retrofitting houses, but rather of designing and building homes that meet new specifications capable of serving homeowners for a lifetime.

Housing for adults 50+ also should create choice to the maximum possible extent. It is important to give older Americans options—to remain in a life-long home, to buy an apartment, or to move into an assisted-living facility or retirement community. Yet many Americans do not have those options. Unfortunately, the nation's affordable housing inventory is diminishing as the demand increases and communities are losing their diverse and affordable housing that is essential to meet the needs of all their residents.<sup>65</sup>

Public policy and private actions can help remedy these problems. For example, new models of community design, in the United States and internationally, incorporate best practices that promote livable communities. Residential land use and smart-growth policies are in place in many communities and provide models to establish the priorities that an aging society will need. State and local housing authorities can be pressed to issue tax-exempt bonds to finance the construction of assisted-living facilities. Public funding for housing development can be tied to features that help older Americans maintain their independence. Older homeowners are eligible for reverse mortgages—interest-free loans—to cover some of the costs of home repairs and conversions. States and localities can help affordability by limiting the property tax burden for low-income older Americans.

The availability of supportive services also influences not only whether a person can remain in the community but also the types of activities in which a person can participate. A livable community actively promotes the inclusion of residents in its social and economic life. Such communities have the physical features, programs, and readily accessible services that enable older residents and people with disabilities to remain independent and actively engaged in community life.

Transportation is the crucial link between individuals and their communities and is essential for independence. For most older people, mobility is a vital component of their quality of life and having affordable, easy-to-use, and flexible transportation options is essential. Without mobility, older Americans pay the price of isolation—poorer physical and mental health.<sup>66</sup> In a nation dominated by an automobile culture, creating a range of mobility options can be a daunting task.

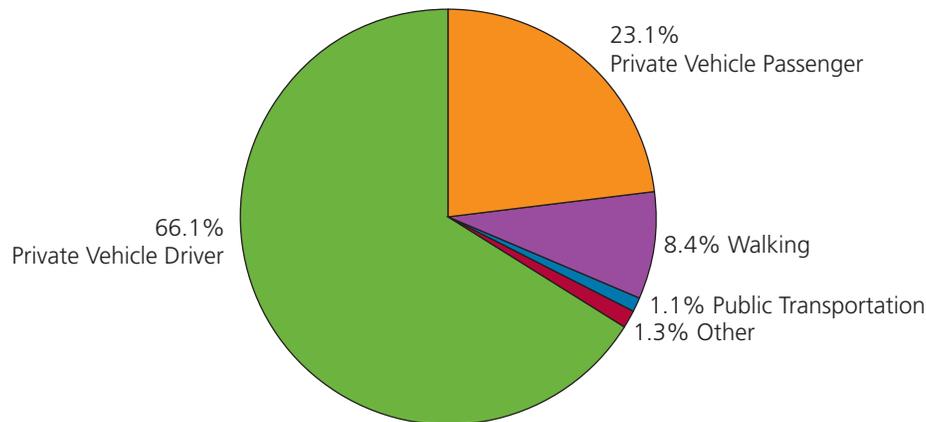
Transportation experts are seeking ways to improve the driver, the vehicle, and the driving environment. The first effort must begin with policies that help older Americans drive safely longer. Refresher driving training classes are a start. In addition, highway construction policy needs to evaluate and act on criteria that will improve visibility (e.g., lettering, color, size, and location of traffic signs) and enhance driver safety (e.g., left-turn lanes, protected turn signals, and traffic-management measures).

Communities also need to enhance mobility options for those who no longer drive. As Figure 5 illustrates, not surprisingly, older Americans still depend disproportionately upon automobiles to meet their transportation needs. Livable communities must have alternatives for those who cannot or choose not to drive, or they could become increasingly isolated.

Despite the need for transportation alternatives, the availability of public transportation is limited, particularly in rural areas. For non-drivers of any age, public transportation, walking and bicycling paths, and specialized transportation for individuals with varying functional capabilities, can make the crucial difference in living independently and being involved in community life.

Public and private sector collaboration will facilitate efforts to ensure that older people have affordable and appropriate housing, supportive community features and services, and adequate mobility options.

**Figure 5.** Percent Distribution of Trips Taken by Persons 65 and Older, By Selected Mode of Transportation, 2001



Source: U.S. Department of Transportation, 2001 National Household Travel Survey, generated by AARP Public Policy Institute, using public use microdata available at: [http://nhts.ornl.gov/2001/html\\_files/download\\_directory.shtml](http://nhts.ornl.gov/2001/html_files/download_directory.shtml) (2004). Categories do not add to 100% due to rounding.

## Keeping Social Security Solvent

The role that Social Security plays in income security for those over age 62 remains unique. Most Americans would not have a viable retirement without it, and it will continue to be a critical source of retirement income in the future. It provides, and will continue to provide, an average of 40 percent of total retirement income and about 80 percent for retirees in the bottom 40 percent of the income distribution. Social Security plays a particularly significant role in providing retirement income security for women and minorities. More than three quarters of older women, older African Americans, and older Hispanics depend on Social Security for more than half their income.<sup>67</sup> The difference that Social Security makes in people's lives makes strengthening the program absolutely essential.

Social Security faces no immediate crisis but a serious, though manageable, long-term financing problem. According to Social Security Administration (SSA) actuaries, even with no changes, Social Security can pay full benefits through 2041. After that date, Social Security can pay 74 percent of promised benefits.<sup>68</sup>

Social Security's long-term solvency problem can be solved by relatively modest adjustments if we make them now (see Table 1). The system does not need a major overhaul, and AARP firmly opposes plans that create private investment accounts financed with Social Security tax revenues. Diverting funds from Social Security into private accounts does not make the system solvent; it makes the problem worse.

While ensuring Social Security's long-term fiscal viability, we also need to preserve the elements of Social Security that are vital to the economic well-being of Americans. In addition to retirement benefits, these include insurance protection for persons with disabilities, for survivors and dependents. It also includes protection against inflation, and protection against lifetime low wages (through its progressive benefit formula).

The first priority of Social Security reform must be to strengthen long-term solvency in the guaranteed, defined-benefit program. As in 1983, the path to successful reform of Social Security is likely to combine additional revenues with changes to the benefit structure in a way that maintains the integrity of the program but also ensures its long-term viability. AARP has endorsed at least three options that would advance the program toward long-term solvency. One option is to raise the maximum percentage of wages subject to the Social Security FICA tax,

**Table 1.** Options to Improve Trust Fund Solvency

<b>Reform Options</b>	Percent of Solvency Target (1.89% of payroll) Achieved by Option (2004 Trustees' Report)
Make 90% of earnings subject to payroll tax over 10 years and maintain at that level	43
Invest 15% of Social Security fund assets in equities at assumed 6.5% inflation-adjusted return over 2006-2020	13
Cover newly hired state and local workers	11
Raise amount of earnings subject to full Social Security payroll tax to \$120,000 and subject earnings over \$120,000 to a 3% surtax	50
Lower benefits for higher wage workers	11
Increase benefit computation period from 35-38 years phased in from 2005-2009	14
Accelerate the increase in retirement age (to 67) and index retirement age to longevity up to age 70	36
Tax Social Security like private pensions	17

Source: Chris Chaplain and Alice Wade, Memorandum to Steve Goss, Chief Actuary, SSA, entitled "Estimated OASDI Long-Range Financial Effects of Several Provisions Requested by the Social Security Advisory Board—Information," dated February 7, 2005, and estimates by AARP Public Policy Institute using ARC Social Security model.

which now covers about 84 percent of wages, to the 90 percent level that prevailed in the early 1980s. That option alone would close the solvency gap by up to 50 percent, or 0.95 percent of payroll, depending on how quickly it is phased in. A second option is to invest a modest proportion of the Social Security accumulated reserves in equities, an approach used by a number of other countries and by many state pension funds. Such investing would allow Social Security to gain the benefit of the historically higher returns available from the stock market, while spreading the risk broadly. A third option is to include all new state and local government workers in the Social Security system, because many of them benefit from that system now without paying into it.

Equitable solvency plans need to take into account outlays as well as revenues. Benefit formula changes in particular bear consideration. Such changes may be uniquely able to restrain the growth in benefits while protecting low-income workers who are more likely to lack employer-provided pensions or significant personal savings. Pressures on Social Security created by increased longevity and the impending retirement of baby boomers also suggest the need for a balance between the number of years spent working and the number of years spent in retirement. Such a balance between work years and retirement years need not take the form of arbitrary increases in the retirement age, but could be achieved by indexing the age of full benefits to increases in life expectancy, or indexing benefits directly to longevity. To make longevity indexing a viable approach, however, there must be realistic employment opportunities for older workers, greater flexibility in work arrangements to accommodate an aging workforce, and an end to age discrimination in employment.

Changes to Social Security, if part of a comprehensive plan that encourages people to stay active in the workforce and lengthens work lives, must also recognize the continuing need for protections for those with disabilities and for those who are economically vulnerable for other reasons, whether because of discrimination or other disadvantages. Reforms should therefore include a new minimum benefit that will protect the most vulnerable against an unacceptably low level of support in retirement. For those at the bottom of the income scale, those with low lifetime earnings, or those who are long-lived and risk outliving all their other retirement assets, Social Security will remain the single most important source of retirement security and must continue to provide the protections that are not available or affordable in the private sector.

### Helping Americans Build More Retirement Assets

Private pensions and individual savings combined constitute, after Social Security, the second pillar of retirement security. At one time, the two were seen as distinct and separate components of retirement security. However, as typical pensions change from defined-benefit plans, which provide an annuity, to defined-contribution plans, which are basically tax-privileged savings plans, the situation changed. Since the advent of 401(k) plans, the most common defined-contribution plan—which shifts the responsibility for retirement security from the employer to the worker—pensions have become virtually indistinguishable from other

individual savings. This is because 401(k) accounts are portable, immediately vested, and are plainly visible to the worker. In effect, pensions are the way Americans do most of their saving.

Roughly half of all working Americans age 50 and older have current pension coverage, a percentage that has not changed in two decades. (Coverage rates are higher if we take into account coverage at any time in the past, or coverage through a spouse, or include only full-time workers.)

Because only 40 percent of eligible workers in organizations that offer 401(k) plans actually enroll in them, some employers have begun to experiment with automatic enrollment, in effect changing the general model from an “opt-in” system to an “opt-out” one. The results have been encouraging. One research team found a 30 percent higher participation rate after auto-enrollment. Encouraging or requiring other employers to follow this approach would be a significant step towards improving retirement security.<sup>69</sup> Not surprisingly, employer-matching contributions also seem to encourage higher levels of participation.<sup>70</sup>

Another approach has shown that workers are willing to increase their savings rates, especially when they receive raises. This approach, labeled “save more tomorrow,” allows workers to voluntarily allocate part of any compensation increase to their 401(k) plan while receiving the remainder in regular pay. Research shows that such innovations have raised worker savings remarkably.<sup>71</sup>

In addition to inadequate accumulations in 401(k) plans, plan assets often leak out when participants take lump-sum distributions when changing jobs or fail to annuitize benefits at retirement. Traditional defined-benefit plans used to offer a guaranteed income for life by annuitizing the entire pension, eliminating the leakage problem. In many 401(k) plans, however, there is no annuitization option available. Mandating retirement benefits to be paid as an annuity would help protect workers in retirement.

About half the population has no employment-based savings plan of any kind. For some of these individuals, one option is the saver’s credit,

Since the advent of the 401(k) plan, which shifts the responsibility for retirement security to the worker, pensions have become virtually indistinguishable from other individual saving... In effect, pensions are the way Americans do most of their saving.

which was enacted as part of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) but is due to expire in 2006. It provides tax credits to low-income individuals and couples who set aside up to \$2000 in savings. The sliding scale credit, which phases out at \$25,000 for an individual and \$50,000 for a couple, expires in 2006. It needs to be expanded to cover more middle-class taxpayers and be made permanent and refundable.

But the saver's credit is only a modest beginning. Long experience shows that people find it very difficult to save without the carrot of an employer plan or a matching employer contribution, or the stick of a mandatory payroll deduction such as Social Security. One ambitious possibility would be to create a government-subsidized "universal 401(k)" plan for all workers, which could require employers to make available to each worker the option of a 401(k)-type retirement account with a narrow range of investment options that could not be accessed until retirement. Further, the plan would afford the great advantage of automatic payroll deduction by the employer. For low-income earners, a subsidized initial contribution, which could be in the form of a refundable tax credit, would enable people with very modest means, to "jump start" their savings for retirement.

## Helping Americans to Work Longer

Key findings indicate that many of today's workers want to continue to work or have viable work options later in life. A 2002 study by AARP and Roper ASW found that 69 percent of individuals between the ages of 45 and 74 who are either working or looking for work plan to work in some capacity during retirement.<sup>72</sup>

There is also some evidence to indicate that aging boomers, who as younger workers in the 1970s and 1980s provided an abundant supply of employees, will be called upon again to supply sufficient numbers of workers to ensure economic growth. Many employers are likely to face shortages of younger workers as the population ages. The Employment Policy Foundation reports that by 2011, when the first boomers turn 65, available jobs could outnumber workers by 4.3 million, and by 2031, that gap could widen to 35 million.<sup>73</sup>

A concerted effort to encourage workers to voluntarily remain in the workforce longer would have significant benefits for our society. It would help employers avert potential labor shortages projected by the

retirement of the baby boomers. Finally, it would help individuals meet their needs for income during their later years and provide for continued productive engagement in society.

Government, employers, and individuals all have key roles and responsibilities for making this happen. For example, government can support a new vision of work in retirement by providing incentives for employers to hire older workers and for individuals to continue working. Government must also continue to enforce laws against age discrimination in the workplace.

Employers should be more aggressive in developing practices and policies with regard to hiring, retaining, and retraining older workers.<sup>74</sup> For employers to get the most out of an aging workforce, they may need to redefine policies, such as flexible work schedules, telecommuting, training and education, phased retirement, and “bridge jobs” that offer new experiences and work-life flexibility. Incentives for employers to take these steps would be one way to achieve these goals without a required mandate.

Likewise, employees have a responsibility to keep themselves employable. That means keeping up with the latest technologies, being willing to learn new skills, and performing functions they may not have done in previous jobs.

There is no magic age at which someone can no longer work. Given generally better health and longer life expectancies, many people of “retirement age” have another 10 or 20 or more vigorous years ahead of them. As a nation, we cannot afford to waste this human capital.

## Restoring the Federal Revenue Base

No realistic solution to our long-term fiscal problems can ignore the need to restore federal revenues to a level and growth path that is commensurate with our national and international commitments. By recent standards, federal revenues are well below average, at a time when federal spending is growing rapidly to meet new national and international challenges.

The importance of new revenue for sustaining vital safety-net programs was underscored in CBO’s most recent long-term examination of entitlement growth and the economy.<sup>75</sup> CBO concluded that even if health care costs (which are the single most important factor accounting for

projected long-term fiscal deficits) were slowed significantly from historical rates, our fiscal policy would be sustainable only if federal revenues were to rise substantially higher than they were in the past. Respected parties across the political spectrum all recognize that the long-term outlook is bleak unless we raise additional revenues.

The burden on American taxpayers is the lowest that it has been in nearly half a century.

Moreover, the public is willing to pay more for certain purposes. It has consistently deemed tax cuts as less important than reducing the federal budget deficit.<sup>76</sup> A Kaiser-National Public Radio-Harvard University poll found that when asked whether it was more important to maintain spending on domestic programs such as health care and Social Security, 80 percent favored maintaining spending rather than cutting taxes.<sup>77</sup>

The United States ranks near the bottom of the developed world in its social commitments and willingness to pay for them. Among the OECD countries, the United States ranks 24th out of 29 in the share of GDP going to social expenditures—14.6 percent and 25th out of 29 OECD countries in terms of total tax revenue as a percent of GDP—28.9 percent in 1998.<sup>78</sup> This level of commitment will not be enough to sustain the entitlement programs in the years ahead as boomers and their children reach their retirement years.

**CBO concluded that even if health care costs, which are the single most important factor accounting for projected long-run fiscal deficits, were slowed significantly from historical rates, our fiscal policy would be sustainable only if federal revenues were to rise substantially higher than they were in the past.**

## Conclusion

**M**eeting the challenge of adapting to an aging society, including keeping Medicare, Medicaid, and Social Security strong and affordable, requires substantial social change. As a nation, we are not now ready for the retirement of the baby boomers. As individuals, we must understand the implications of longer life expectancy and what that means for each of us throughout the lifespan.

While the aging of the population and longer life expectancy have an impact on the affordability and long-term viability of entitlement programs, the long-term estimates and future forecasts of the fiscal gap are highly volatile and uncertain. Other factors, namely the fragmented and disorganized delivery of health care (which costs too much and delivers too little), have a greater impact on the long-term fiscal gap than the aging of the population. Moreover, such projections are largely overstated because they do not factor in changes in health and long-term care, declining disability rates among older people, changing views of retirement, and the changing workforce. In addition, boomers are better educated and more economically secure, making them a more powerful consumer and economic force contributing to productivity and economic growth.

Nevertheless, we do face a significant national challenge to improve the quality of people's lives while finding ways to keep pension, health care and other systems affordable and sustainable so they will endure for generations to come. Meeting this challenge will take the involvement of every sector of society. It will require systemic and broad social change, not simply shifting costs from one sector to another or from one generation to the next. As such, the responsibility for meeting this challenge is not just the government's, it is the nation's—including the private sector (for-profit and nonprofit) and individual citizens. Longer life expectancy has important implications for people regardless of age. As a society, we need to create a new vision that reaches beyond the immediate challenge of the aging of the boomers framed by a productive, high quality of life, and active engagement throughout the lifespan.

We can and must meet this challenge. Entitlement programs are vital to American families. They are sustainable and affordable, and the pending crisis that some foresee can be avoided if appropriate action is taken now to meet the nine challenges outlined in *Reimagining America*.

We cannot wait to get started on this agenda for social change. We are now close enough to see what is coming, and we must create a future to address the new realities. To evolve the new ideas and structures to get the best from all our citizens at every age requires an awakening, an understanding of American social and demographic change.

We have to address this from three different perspectives: the immediate, the intermediate, and the long-range. The immediate refers to those who are age 65 and older now. They have immediate needs and concerns, and we must make sure that our public policies and social structures meet those needs. Just as important, they make vital contributions to society and could do even more if society would only remove the barriers and create more outlets for their wisdom, creativity, experience, and knowledge. While it is common to view the increasing number of older Americans as the problem, it is important to understand that they are part of the solution. By continuing to contribute to society by working, volunteering, and providing care to grandchildren and other family members and friends, they are already helping society to adapt.

The intermediate is those who comprise the next generation of older people, roughly those 35-64. We must create social structures and public policies that encourage them to use their creativity, wisdom, and experience in productive outlets for the good of society. At the same time, we must remove the institutional barriers that stand in their way. We must also work to reverse the trend of increasing disability among this group so they will have a better quality of life as they age. And, we must find ways of helping them to accumulate and protect their retirement assets.

And the long-range pertains to our children. We cannot forget that one of the main reasons we have increased longevity in the first place is because those who went before us invested in the health and well-being of their children. We have come a long way in that regard, but still have a long way to go.

Our collective social responsibility is to help our fellow citizens, particularly the aging boomers and those younger generations who, inevitably, will age, understand the choices available, take hold of opportunities, reach their chosen goals, and make the most of their lives, from the earliest youth to the greatest old age. 2011 is imminent. America must prepare to meet it.

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# AARP's Ten Year Social Security

People 50+ will have independent ways that are beneficial and affirm society as a whole.

## Economic Security

Americans can rely on Social Security that is solvent for the long term and maintains a guaranteed benefit and income protection features

- > There is stronger public support for Social Security improvements that comport with AARP policies
- > Legislation comporting with AARP's policies is enacted to make Social Security stronger and solvent

Americans 50+ remain in the workforce, as desired

- > Unfair and/or discriminatory treatment of 50+ workers is reduced
- > Employers adopt policies and practices that afford 50+ workers more and better workplace options
- > Underserved populations obtain employment

Americans accumulate and effectively manage adequate retirement assets

- > Pensions and retirement savings vehicles are protected, and where possible, expanded
- > Individuals manage financial decisions better
- > Consumers are protected from financial fraud and abuse that can erode retirement savings and financial assets (including home equity and investments)
- > There is access to affordable, quality utility services

Americans with low incomes and special populations have increased resources available to meet their needs

- > Low income and special populations use benefits for which they are eligible
- > Key components of the social safety net (e.g., SSI, state Rx, energy assistance) are preserved or expanded to protect the most vulnerable

## Health and Supportive Services

Americans have affordable coverage for, and access to, quality health care and supportive services

- > Medicare is strengthened as the most important source of quality health care for older Americans
- > Prescription drugs are more affordable to older Americans
- > Individuals have access to home and community-based care
- > Individuals have access to a range of financing sources for needed long-term services and supports
- > Appropriate quality services are delivered efficiently and effectively across all settings
- > Stable and affordable health coverage for all is available

Americans 50+ have improved health status (through healthy behaviors)

- > An increasing number of 50+ individuals become more physically active
- > An increased proportion of people 50+ use medication wisely

# al Impact Agenda

ence, choice, and control in  
fordable for them and for

## Livable Communities

Americans 50+ are able to sustain mobility as they age

- > There are adequate mobility options when driving is not feasible
- > Individuals retain their driving competencies and competent drivers retain their driving privileges to the maximum extent possible

Americans 50+ have appropriate and affordable housing options

- > Individuals have adequate housing options which enable them to age in place

## Global Aging

Nations exchange experiences and best practices on global aging issues to strengthen policies in the U.S. and other countries as a means of economic security and quality of life for all, regardless of age.

- > AARP is a leading force in international understanding and dialogues around the global aging agenda

## Navigation—Access to Information

Americans 50+ have access to and use needed information and resources

- > AARP provides one stop access to needed information and resources

**AARP will work in partnerships and coalitions, and utilize information and education, advocacy, community service/volunteers, products and services and other means to achieve these goals.**

ALTHOUGH THE FUTURE COSTS OF ENTITLEMENT PROGRAMS SHOULD NOT BE UNDERESTIMATED, WE MUST FIRST RECOGNIZE THE BENEFICIAL IMPACT SUCH PROGRAMS HAVE ON THE QUALITY OF LIFE FOR OLDER AMERICANS, INCLUDING BETTER HEALTH AND REDUCED POVERTY. THESE PROGRAMS ALSO CONVEY BENEFITS TO FAMILY MEMBERS WHO OTHERWISE WOULD BE OBLIGED TO PROVIDE MORE OF THEIR OWN RESOURCES TO ASSIST OLDER RELATIVES.



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