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Public expectations of social security in the future

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Distinguished members, honored guests, ladies and gentlemen:

It is my privilege and pleasure to represent AARP and its 35 million members before this Conference. I would like to express my appreciation to Secretary General Hoskins for inviting me. And to our gracious hosts here in British Columbia and throughout Canada, I offer a heart-felt "thank you" for your warm hospitality.

Some sixteen hundred years ago, the great philosopher Augustine, known to the world's Roman Catholics as Saint Augustine, wrote,

> "Hope has two beautiful daughters. Their names are Anger and Courage. Anger that things are the way they are. Courage to make them the way they ought to be."

It is in that spirit that my organization, AARP, is expanding our quest for social change worldwide.

For over 40 years, our official name was the "American Association of Retired Persons." But a couple of years ago, we changed it to simply "AARP." We did it for two main reasons: First, although being retired was never a condition for membership in AARP, as we began the 21st century, we found that more than half of our members were still working – and the number continues to grow.

And, second, AARP's activities are no longer confined to America. They now span the globe and will do so more rapidly in the coming years. We recognize the interconnectedness of aging societies and their economies. And we realize that aging of our world population both affects - and is affected by - how we in the United States respond to its opportunities and challenges.

One of the great success stories of the 20th century was the dramatic increase in human longevity. This phenomenon was due in large part to the eradication of childhood diseases and improvements in public health systems, diet and standard of living.

But as we passed mid-century, birth rates began dropping - to below replacement levels in some countries such as Italy - and by the end of the 20th century this, too, had become a worldwide phenomenon.

The result is simple: the number of older people as a proportion of the world's population is rapidly increasing. By the year 2050, there will be two billion older persons in the world, as compared to 600 million today.

Every month, approximately one million persons reach 60 years of age, and 80 percent of them are in developing countries. By 2050, older people will outnumber children for the first time in world history. This is the seismic shift in demographics we now know worldwide as "global aging."

AARP is focusing considerable effort on global aging issues, and is becoming more involved at the international level because we believe these issues will affect virtually every sector of public life - our economies, our politics, our health care, our infrastructures such as transportation and housing, and our involvement in every part of our societies.

Before I continue I should point out, to those not familiar with our system, that the term "social security" does not convey the same meaning in the United States as it does in the context of ISSA. The "social security" in ISSA refers, of course, to the overall social protection of our people. In this context, will be using the terms "economic security" and "income security."

The term "Social Security" in the United States refers to our federal program for providing income security for retired Americans and those with disabilities. It is that program I will be referring to when I use the term "Social Security" from here on.

The great global aging challenge facing us in the United States will be the aging of our huge post-World War II "Baby Boom" generation - the 76-million strong generation of Americans born between 1946 and 1964. Nearly one out of every three Americans alive today is a member of that generation.

Last year, AARP released a landmark report, *Beyond 50: A Report to the Nation on Economic Security*[*]. The report provides keen insight into Americans' - including the older Baby Boomers' - attitudes and expectations regarding economic security in their retirement years.

Beyond 50 was a first-of-its-kind report. Previous examinations of the attitudes and expectations of "older Americans" were largely concerned with people after they reached age 65 and beyond. But the question of economic security in old age doesn't begin at age 60 or 65. It begins much earlier.

And today in the United States, even what people define as "retirement" has changed. For generations, the accepted definition of the term "retirement" was "to quit working." But now, 80 percent of the "Baby Boomers" say they expect to work at least part-time in their so-called "retirement" years.

We took a unique approach to analysing the 50 and over population. Rather than lump everyone age 65 and over together, we segmented the 50 and over population into three distinct age subgroups - based on relevant differences in retirement behaviour, health status and life expectancy. By comparing their objective economic circumstances with their perceptions, we can evaluate how realistically they assess their retirement prospects.

[*] Summary posted on the ISSA Website and distributed at the Vancouver Conference.

AARP's *Beyond 50* report has literally changed the way we think of economic security for our older citizens. We discovered that the traditional "three-legged stool" of economic security for Americans in their retirement years - Social Security, private pensions, and savings - has changed.

Instead of the three-legged stool, we now have "four pillars" of retirement security: private pensions and savings combined is one. Health care coverage is another. Earnings is the third. Fourth - and still the most important - is Social Security.

An Employee Benefit Research Institute (EBRI) survey earlier this year found that 7 out of 10 employed adults felt confident that they would have enough money to live comfortably throughout their retirement years. This was before the stock market took its tumble. But evidence suggests they were being too optimistic even then.

Let us focus, for a moment, on pensions and savings. There has been a dramatic shift over the last two to three decades from employer-provided, defined benefit pension plans to employee-driven defined contribution plans under which the employees' contributions are invested in stocks or mutual funds.

Only about one-third of those over age 65 today have pension income, and just over half of today's pre-retirees have pension coverage - a figure that hasn't changed since 1980.

So what we have is a fundamental transfer of responsibility for funding retirement plans - and directing investment of such funds - from employers
to employees.

Defined contributions plans give employees greater autonomy over their investments, but also expose them to greater risk. They're now at the mercy of the financial markets and face greater risk of depletion due to the ability to cash in private pensions when they change jobs.

This trend also has led to lower participation rates than we see with corporate pensions because defined contribution plans are voluntary. Indeed, a serious problem for the future of retirement income security in the United States is the failure of employees and employers alike to participate in voluntary private pension programs. A major reason among employees is that many individuals simply lack the time to sort through the information provided, and the knowledge to act upon it properly.

The recent downturn in our stock market, and the recent accounting irregularities and corporate mismanagement leading to the bankruptcies of corporations like Enron and WorldCom, have further sapped the confidence of both current and potential investors, and have taken an unfair and heartbreaking toll from many current and future retirees who did the right thing by saving and investing.

The cumulative effect of the market's decline has been a widely felt loss of personal income and savings – estimated to be well over $5 trillion dollars. Thousands of retirees from Enron and WorldCom have suffered devastating financial losses, as have thousands more whose future economic security in retirement depended upon the pension plans provided by these corporations.

Health care coverage has become critically important to the economic well-being of all Americans in recent years, especially for those between the ages of 50 and 65, the age when many become eligible for Medicare; the number of uninsured among this group is rising. Medicare is the U.S. government program which provides health insurance to people

age 65 and over, those who have permanent kidney failure, and certain people with disabilities. It covers over 39 million Americans.

But even those 65 and over with Medicare coverage spend nearly one-fifth of their income for out-of-pocket healthcare expenses and poor Medicare beneficiaries must spend one-third of their incomes on healthcare.

One result of all of this is that earnings are becoming a more important part of retirement security, and more people over 50 will need to remain in the workforce later than their counterparts did decades earlier.

But the major result is - regardless of anything you may have heard or will hear - Social Security will remain *the* most important factor in determining income security for most older Americans in the future.

For most retirees, Social Security will continue to be the *predominant* source of income - providing at least 40 percent of income overall, and will account for more than 75 percent of total income for lower-income retirees. Without the retirement income provided by Social Security, *half* of all the people age 65 and over in the United States would live in poverty.

Now that I've discussed some of the most important facts about the issue of economic security in retirement in the United States, what are some of the perceptions? And what are some of the controversies?

First, support for our Social Security program in the United States is, indeed, strong and spans the generations. Younger people in the United States see their older counterparts as deserving of their Social Security benefits.

A recent National Council on Aging survey found that younger generations *do not* feel that more of their Social Security tax money should be spent on children, rather than on older people. Indeed, skepticism among younger workers about Social Security's future should not be construed as lack of support.

Consistent with the tendency to be over-optimistic about their own finances, only 27 percent of today's working adults think that Social Security will be a major source of income in their retirement years, according to the Employee Benefit Research Institute. Those who have already retired, not surprisingly, have a more realistic view, with 62 percent of them saying Social Security is a major source of their income.

Majorities among all age groups in the United States believe they will get Social Security benefits when they retire, according to a recent FOX News poll. Nine out of ten of those aged 60 and over believe this, while the figure for the 18 to 34 age group is 60 percent.

Only 31 percent of those still working believe their benefits will be of equal value to what today's retirees are getting, according to the Employee Benefit Research Institute.

We at AARP understand that young people in particular are skeptical about the future of our Social Security program. We believe our President and our Congress, as well as AARP, should accept the responsibility to address these concerns directly by working to strengthen the long-term fiscal security of Social Security. Our legacy to our children and grandchildren must include a retirement system they can count on.

Of course, we may attribute the tendency to be overly pessimistic about the future of Social Security benefits, at least in part, to all of the gloom-and-doom talk in recent years by proponents of privatizing Social Security.

With regard to the ongoing debate in the United States over the issue of privatizing at least part of our Social Security program, about half of the adult population favors the general proposition that individuals should be able to invest some of their Social Security contribution in a private stock market account.

Questions that pose such an option as “an opportunity to control some of your own money” receive a favorable response. But when some of the likely trade-offs are added to the poll questions, such as lower Social Security benefits, enormous transition costs and the likely necessity to raise taxes to cover them - then the results are different. Majorities then oppose a partial privatization measure.

AARP’s position on the privatization issue is clear: We support the creation and expansion of supplemental individual retirement savings accounts. But these accounts should be *in addition to, not a replacement for*, any of the guaranteed benefits now provided by Social Security.

The issues of global aging are priority issues for us all. They require the careful attention of governments, private enterprise and the public worldwide. AARP wants to work with organizations like ISSA.

In the coming years we will find that we share many concerns relating to our aging populations - so we must work together to find solutions. Regardless of the diversity in our approaches - regardless of whether our country is developed, developing, or somewhere in between - we all want to assure for our people economic security in their older years.

We must find answers for questions like:

- Can countries sustain social and economic development with fewer active workers supporting a rising number of retirees?
- Can we afford our present levels of social spending on health care, on pensions, and on the special needs of the elderly?
- How do we maintain and promote social inclusion and equality - providing opportunities for people of all ages?
- How do we protect our oldest citizens, as well as the youngest and most vulnerable?
- How will it affect developing and transitional economies where, in some countries, the rate of growth of older populations is even more rapid?
- How will we deal with the influx of older workers? In the U.S., for example, 40 percent of the work force will be over 45 by 2006. By 2015, 20 percent will be over 55! Meanwhile, the number of workers aged 25 to 44 will actually decline.

The time has come for us to begin moving on from debating the numbers surrounding global aging - to developing policies to deal with its impact on the future economic security of our citizens, particularly in their later years.

And to do that effectively, we must remain true to our national cultures and traditions. We must know what our people want, what their attitudes are, what their expectations are.

What sort of social contract does our government hold with our citizens? Is our social contract in need of modification? Yes, the rapidly increasing numbers of older citizens present our nations and our governments with enormous new social and economic

challenges. Each nation clearly has its own unique challenges and will require policies and programs tailored to its own particular needs.

We all want to maintain or create social programs and protections that are adequately financed and sustainable for the long-term. We all want to protect our most vulnerable citizens. We believe we have much to contribute - and much to learn. AARP stands ready to assist in any way we can, and we ask for assistance as we seek to meet the challenges of global aging.

Nearly 60 years ago, on June 12, 1943, United States Social Security Board Chairman Arthur Altmeyer spoke before an international audience in New York. He said,

> "Social security in any country is to the interest of all other countries, since it contributes to political stability, economic well-being, and is the embodiment of … belief in the innate dignity and worth of the common man. The development of social security programs is essential both to the internal security of nations, and to the international security and peace of the world."

Chairman Altmeyer's words were true then. They are true today. And they will be true tomorrow.