



LIFT Perspective

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Planning for Retirement is a Personal Responsibility

The Dallas Morning News recently (June 17, 2006) highlighted the plight of Adeline Brown, a 63-year old woman whose income has fallen below \$1,000 per month since she retired from her job as an accounting clerk. The article's author suggests that Brown's situation is illustrative of the plight of millions of other retired women who "live alone and scramble to make ends meet," and that this group will continue to grow as forty million baby boomer women approach retirement.

The author points out that women are more likely to spend old age in poverty than men because they typically earn less during their working lives, due to both dropping out of the workforce to raise children, and having to take lower-paid, more flexible jobs to allow for their role as homemakers. The article suggests that women also live longer than men and that they typically receive less Social Security income when their spouse dies. It is true, according to the US Census Bureau, that women do live, on average, almost six years longer than men, and the Social Security Administration reports that retired men typically receive \$1,135.60 per month, while women receive, on average, \$871.70 per month. The author argues that these factors make women especially vulnerable during retirement.

The article is notable for failing to address the two most important issues it raises. The first concerns the nature of the Social Security system. When the Social Security Act was passed in 1935 it covered only unemployment insurance, retirement benefits, disability benefits, and death benefits. The first expansion of the Act in 1939 extended the retirement benefit to widowed spouses. This was intended to ensure that women who had taken time out of the workforce in order to raise families did not suffer as a result during retirement.

However, subsequent expansions of the program, such as the inclusion of immigrants who may or may not have ever paid into the system, and the creation of Medicare, have meant that the money in the Social Security fund must now go further than it did when the system was established. This, together with a workforce that is shrinking relative to

those who are claiming Social Security, has led to a situation in which groups of individuals such as retired widows are not sufficiently supported by the Social Security system. In essence, the Social Security system's expansion means that it is struggling to achieve the core objectives for which it was established.

When the Social Security Act was passed in 1935, female life-expectancy at birth was 63.9 years, while male life-expectancy was 59.9. By 1965, both of these figures had increased by roughly 10 years, and by 1995 female life-expectancy was approaching 80 years, and male life-expectancy was approaching 75 years.¹ In short, both men and women are living considerably longer today than they were when Social Security was introduced.

To reflect this change, the Social Security Administration (SSA) calculates variable retirement ages, which currently range from 65 (for those born before 1938) to 67 (for those born later than 1959)². Many people choose to work longer than this, and if you retire before reaching the SSA approved age, you will receive a reduced level of retirement benefit. The approved retirement age for someone, such as Adeline Brown, who was born in 1943 is 66. The SSA makes it clear that by retiring three years before this, a retiree will receive only 80% their full retirement benefit because they will be receiving benefits for an additional 36 months.

It is an individual *choice* to retire before reaching the age at which you would receive full retirement benefits from the SSA. If an individual makes this choice they will receive reduced benefits. If they have not planned sufficiently for their early retirement, and in the absence of other resources to draw from, such as support from family members and relatives, then the retiree should take odd jobs to supplement their retirement benefit. The notion that once retired, an individual can dispense with the use of rational decision-making, and assume an entitlement to anything she desires, regardless of the cost, is patently absurd.

Whether an individual elects to take early retirement or not, planning for retirement is plainly a personal responsibility. This fact has been clearly acknowledged at the federal level, with the introduction of retirement savings plans, such as 401(k) plans, which allow people to pay part of their salary, tax-free, into an investment plan from which they can withdraw when they retire.

The IRS proposed 401(k) regulations in 1981, and successive pieces of legislation since then, such as the Economic Growth and Tax Relief Reconciliation Act of 2001, which increased the maximum annual contribution to a 401(k), have expanded both participation in 401(k) plans and the amount of money that an individual can save. According to the Employee Benefit Research Institute, in 1990 there were 19.5 million

¹ National Vital Statistics Reports, Vol. 54, No. 14, April 19, 2006; http://www.cdc.gov/nchs/data/nvsr/nvsr54/nvsr54_14.pdf

² Social Security Administration, Retirement Information; <http://www.ssa.gov/retirement/>

401(k) participants, and by 2003 this figure had more than doubled to 42.4 million.³ With the existence of plans such as the 401(k), it is more straightforward than ever before for an individual to save sufficiently for their retirement in order to avoid having to “scramble to make ends meet.”

The second point that the article raises but fails to address is revealed in two quotes. Firstly, Adeline Brown, faced with having to take odd jobs to supplement her Social Security check, and having to save money by going to a barber shop instead of a beauty salon, is quoted as saying “this isn’t how my life was supposed to go.” Secondly, the article quotes Paul Hodge, chairman of Harvard University’s Global Generations Policy Institute, arguing that “unless there are dramatic policy shifts, boomer women, particularly minority women, will find retirement a never-ending struggle.”

Both quotes reveal an inherent and negligent absence of the notion of personal responsibility on the part of both Brown and Hodge, and the article implies that this notion is lacking among the majority of baby-boomer women (and perhaps men) who are now approaching retirement. Social Security is not intended to guarantee that upon retirement, an individual’s income or standard of living will remain as it was when the individual was working. The role of the Social Security system is to ensure that retired individuals, who have an entitlement to retirement benefits, whether through their own contributions, or the contributions of a spouse, are provided with a basic level of support.

To suggest that “this isn’t how my life was supposed to go,” is to deny the obvious fact that life takes many unexpected turns and demands tough decisions to be made, which is not the government’s responsibility to ameliorate. When someone is employed, she may decide to save money by shopping at a cheaper grocery store, or going to a barber shop instead of a beauty salon. These same decisions must be made in retirement, and if an individual values the beauty salon sufficiently over the barber shop, they can make decisions which will allow them to pursue the more expensive option. This may require reducing their spending in other areas, such as eliminating cable television, or simply electing not to retire.

The complaint that women (or even men) will “find retirement a never-ending struggle” similarly points to a misplaced notion of both retirement and personal responsibility. Individuals and families will always experience some form of struggle throughout their lives. The concept of a “struggle” simply implies that some form of great effort is exerted. People exert great effort during their working lives, and in retirement the great effort is to adapt to living on a reduced income, with the trade-off being that you do not have to work for that income. If an individual is unwilling to make that trade-off, she must take the decision to continue working, and opportunities for work will continue to increase for the aged as the birth rate (which recently hit an all-time low) continues to drop, and abortion remains legal and common.

³ History of 401(k) Plans: An Update, Employee Benefit Research Institute, February 2005; <http://www.ebri.org/pdf/publications/facts/0205fact.a.pdf>

It is an individual's *personal responsibility* to provide for their own retirement, rather than rely on the government to provide for them. However, the Social Security system has been instrumental in discouraging personal responsibility. As Bruce Fenton, writing in the *Fenton Report*, argued, "Social Security has become nothing more than a big disincentive to save. Those depending entirely upon Social Security for their retirement will tell you that their incentive to save for retirement was diminished by their belief that they would be taken care of by Uncle Sam."

Put simply, the Social Security system crowds-out private saving for retirement. In fact, the Congressional Budget Office has estimated that "under certain conditions, wealth in the form of Social Security could crowd out private wealth *dollar for dollar*." [Emphasis added]

This crowd-out is particularly significant when we consider research from the American Association of Retired Persons (AARP), which demonstrates that the baby boomer generation is considerably wealthier than the previous generation. AARP's research compares boomers in 2001 with the same age group (37-55) in 1983. The 2001 group is, on average, six times wealthier in terms of financial assets, twice as wealthy in terms of non-housing net worth, and 20% wealthier in total net wealth. Median family income is also 12% higher. The wealthier baby boomer generation is clearly far more able to save for retirement than the previous generation, and yet this potential for saving has been at least partly eliminated by the presence of a Social Security system.

Stories of people "scrambling to make ends meet," especially when the government is blamed for failing to do enough to help, should be read critically and skeptically. The government's role is to act as a safety net to prevent people from slipping into poverty, for instance, not to maintain a raised standard of living for those who have had ample opportunity to take responsibility for their own retirements. Assuredly, there are problems with the Social Security system, but these problems only serve to illustrate that the state is not always the best solution.