
The Graying of America

America is aging. The 78 million baby boomers who pushed the Beatles and the Rolling Stones into stardom are well into middle age. Indeed, the future of America is now on display in Florida, where one person in five is over 65. In 25 years, almost 20 percent of all Americans will be 65 or older. Just as the post-World War II baby boom presented both obstacles and opportunities, so too does the graying of America. Let's see why.

Two principal forces are behind America's "senior boom." First, we're living longer. Average life expectancy in 1900 was 47. Today it is over 77 and is likely to reach 80 within the next decade. Second, the birthrate is near record low levels. Today's mothers are having far fewer children than their mothers had. In short, the old are living longer, and the ranks of the young are growing too slowly to offset that fact. Together, these forces are pushing up the proportion of the population over 65; indeed, the population of seniors is growing at twice the rate of the rest of the population. In 1970, the **median age** in the United States—the age that divides the older half of the population from the younger half—was 28; in 2005 the median age was 37 and rising. Compounding these factors, the average age at retirement has been declining as well, from 65 in 1963 to 62 currently. The result is more retirees relying on fewer workers to help ensure that their senior years are also golden years.

Why should a person who is, say, college age be concerned with the age of the rest of the population? Well, old people are expensive. In fact, people over 65 now consume over one-third of the federal government's budget. Social Security payments to retirees are

the biggest item, now running over \$500 billion a year. Medicare, which pays hospital and doctors' bills for the elderly, costs over \$300 billion a year and is growing rapidly. Moreover, fully a third of the \$250-billion-a-year budget for Medicaid, which helps pay medical bills for the poor of all ages, goes to those over the age of 65.

Under current law, the elderly will consume 40 percent of all federal spending within 15 years: Medicare's share of the gross domestic product (GDP) will double, as will the number of very old—those over 85 and most in need of care. Within 30 years, probably *one-half* of the federal budget will go to the old. In a nutshell, senior citizens are the beneficiaries of an expensive and rapidly growing share of all federal spending. What are they getting for our dollars?

To begin with, the elderly are already more prosperous than ever. Indeed, the annual discretionary income of those over 65 averages 30 percent higher than the average discretionary income of all age groups. Each year, inflation-adjusted Social Security benefits paid new retirees are higher than the first-year benefits paid people who retired the year before. In addition, for more than 30 years, cost-of-living adjustments have protected Social Security benefits from inflation. The impact of Social Security is evident even at the lower end of the income scale: The poverty rate for people over 65 is much lower than for the population as a whole. Retired people today collect Social Security benefits that are two to five times what they and their employers contributed in payroll taxes, plus interest earned.

Not surprisingly, medical expenses are a major concern for many elderly. Perhaps reflecting that concern, each person under the age of 65 in America currently pays an average of more than \$1500 per year in federal taxes to subsidize medical care for the elderly. Indeed, no other country in the world goes to the lengths that America does to preserve life. Some 30 percent of Medicare's budget goes to patients in their last year of life. Coronary bypass operations—costing over \$30,000 apiece—are routinely performed on Americans in their sixties and seventies. For those over 65, Medicare picks up the tab. Even heart transplants are now performed on people in their sixties and paid for by Medicare for those over 65. By contrast, the Japanese offer no organ transplants. Britain's National Health Service generally will not provide

kidney dialysis for people over 55. Yet Medicare subsidizes dialysis for more than 100,000 people, half of them over 60. The cost: over \$3 billion a year. Overall, the elderly receive Medicare benefits worth five to twenty times the payroll taxes (plus interest) they paid for this program.

The responsibility for the huge and growing bills for Social Security and Medicare falls squarely on current and future workers, because both programs are financed by taxes on payrolls. Thirty years ago, these programs were adequately financed with a payroll levy of less than 10 percent of the typical worker's earnings. Today, the tax rate exceeds 15 percent of median wages and is expected to grow rapidly.

By the year 2020, early baby boomers, born in the late 1940s and early 1950s, will have retired. Late baby boomers, born in the 1960s, will be nearing retirement. Both groups will leave today's college students, and their children, a staggering bill to pay. For Social Security and Medicare to stay as they are, the payroll tax rate may have to rise to 25 percent of wages over the next 20 years. And a payroll tax rate of 40 percent is not unlikely by the middle of the twenty-first century.

One way to think of the immense bill facing today's college students and their successors is to consider the number of retirees each worker must support. In 1946, the burden of one Social Security recipient was shared by 42 workers. By 1960, nine workers had to foot the bill for each retiree's Social Security benefits. Today, roughly three workers pick up the tab for each retiree's Social Security, plus his or her Medicare benefits. By 2030, only two workers will be available to pay the Social Security and Medicare benefits due each recipient. Thus a working couple will have to support not only themselves and their family, but also someone outside the family who is receiving Social Security and Medicare benefits.

Paying all the bills presented by the twenty-first century's senior citizens will be made more difficult by another fact: Older workers are leaving the workplace in record numbers. We noted earlier that the average retirement age is down to 62 and declining. Only 30 percent of the people age 55 and over hold jobs today, compared with 45 percent in 1930. Thus, even as the elderly are making increasing demands on the federal budget, fewer of them are staying around to help foot the bill.

Part of the exodus of the old from the workplace is due simply to their prosperity. Older people have higher disposable incomes than any other age group in the population and are using it to consume more leisure. Importantly, however, the changing work habits of older individuals have been prompted—perhaps inadvertently—by American businesses. Career advancement often slows after age 40—more than 60 percent of American corporations offer early retirement plans, whereas only about 5 percent offer inducements to delay retirement. Looking ahead to career dead-ends and hefty retirement checks, increasing numbers of older workers are opting for the golf course instead of the morning commute.

Recently, however, the private sector has begun to realize that the graying of America requires that we rethink the role of senior citizens in the workforce. Some firms are doing more than just thinking. For example, a major chain of home centers in California has begun vigorously recruiting senior citizens as salesclerks. The result has been a sharp increase in customer satisfaction: The older workers know the merchandise better and have more experience in dealing with people. Moreover, turnover and absenteeism have plummeted. People with gray hair, it seems, are immune to “surfer’s throat,” a malady that strikes younger Californians before sunny weekends.

Other firms have introduced retirement transition programs. Instead of early retirement at age 55 or 60, for example, older workers are encouraged to simply cut back on their workweek while staying on the job. Often, it is possible for workers to get the best of both worlds, collecting a retirement check even while working part-time at the same firm. Another strategy recognizes the importance of rewarding superior performance among older workers. At some firms, for example, senior technical managers are relieved of the drudgery of mundane management tasks and allowed to spend more time focusing on the technical side of their specialties. To sweeten the pot, a pay hike is often included in the package.

Congress and the president thus far seem unwilling to face the pitfalls and promises of an aging America. Although the age of retirement for Social Security purposes is legislatively mandated to rise to 67 from 65, the best that politicians in Washington, D.C., appear able to do is appoint commissions to “study” the problems

we face. And the worst they can do? Well, we got a sample of it in 2003, with new legislation promising taxpayer-funded prescription drug benefits for senior citizens. Even those people in favor of the new program called it the largest expansion in **entitlement programs** in 40 years. Before passage of the law, the president claimed it was going to cost \$35 billion a year, but within a couple of months, that estimate had been hiked to over \$50 billion per year. In fact, the benefits of the program will be less than claimed, and the costs will be even higher, because more than three-quarters of senior citizens had privately funded prescription drug plans *before* the new law. You can be sure that these private plans are already disappearing, leaving seniors with fewer choices, and leaving you with a larger tax bill.

The sad fact is that there are currently programs out there that demonstrate how it is possible for government to responsibly address the crisis in funding programs for senior citizens. Chile, for example, faced a national pension system with even more severe problems than our Social Security system. Its response was to transform the system into one that is rapidly (and automatically, as time passes) converting itself into a completely private pension system. The result has been security for existing retirees, higher potential benefits for future retirees, and lower taxes for all workers. Americans could do exactly what the Chileans have done—if we chose to do so.

Many experts believe that significant changes in America's immigration laws could offer the best hope of dealing with the tax burdens and workforce shrinkage of the future. About a million immigrants come to America each year, the largest number in our nation's history. Yet more than 90 percent of new immigrants are admitted based on a selection system unchanged since 1952, under which the right of immigration is tied to family preference. As a result, most people are admitted to the United States because they happen to be the spouses, children, or siblings of earlier immigrants, rather than because they have skills or training highly valued in the American workplace. Both Canada and Australia have modified their immigration laws to expand opportunities for those immigrants who possess skills in short supply, with results that are generally regarded quite favorably in both nations. Unless Congress manages to overhaul America's immigration preference system,

new immigrants are unlikely to relieve much of the pressure building due to our aging population.

In the meantime, if Social Security and Medicare are kept on their current paths, and older workers continue to be taxed out of the workforce, the future burden on those who are today's college students is likely to be unbearable. If we are to avoid the social tension and enormous costs of such an outcome, the willingness and ability of older individuals to retain more of their self-sufficiency must be recognized. To do otherwise is to invite a future in which the golden years are but memories of the past.

DISCUSSION QUESTIONS

1. How do the payroll taxes levied on the earnings of workers affect their decisions about how much leisure they consume?
2. When the government taxes younger people so as to pay benefits to older people, how does this affect the amount of assistance that younger people might voluntarily choose to offer older people?
3. When the government taxes younger people to pay benefits to older people, how does this affect the size of the bequests that older people are likely to leave to their children or grandchildren when they die?
4. In general, people who are more productive earn higher incomes and thus pay higher taxes. How would a change in the immigration laws that favored more highly educated and skilled individuals affect the future tax burden of today's American college students? Would the admission of better-educated immigrants tend to raise or lower the wages of American college graduates? On balance, would an overhaul of the immigration system benefit or harm today's college students?