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Retirement Security in a Post-Pandemic World

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Before the coronavirus disease 2019 (COVID-19) pandemic and corresponding recession struck, retirement security was already elusive for far too many retired and working Americans, and cracks were forming in the system for those expecting it. This paper will review the underlying challenges and shortfalls of the American system designed to establish retirement security; speculate on the effects of the pandemic and global recession; and propose a framework for addressing these problems with ideas for possible solutions.

Retirement Security is Elusive for Many Americans

Achieving retirement security results from accumulating sufficient assets and claims on future government benefits over a working lifetime, and protecting those assets from risks that would diminish them in retirement. While Social Security provides a basic level of support for nearly all retirees, the American approach that builds retirement security on employer-sponsored plans works for many workers, but not all.

Today's retirees may have more assets and be better prepared than previous generations, but these assets are held by less than half of the retired population. Even so, retirees with employer-sponsored benefits are still at risk for rising out-of-pocket health and long-term care costs and lengthening life spans. Social Security or public assistance are the only sources of income in old age for more than half (55%) of today's retirees (Bond & Porrell, 2020).

Future generations of retirees may reach retirement with relatively less wealth than current retirees have. Over 40% of

today's working Americans age 45 to 64 own no retirement account assets of any type beyond their entitlement to Social Security benefits (Rhee & Boivie, 2015). For those with retirement accounts, the median account balance of those nearest retirement (age 55 to 64) was \$104,000 in 2013: the equivalent of a few hundred dollars a month if annuitized at age 65. The typical household in the 55 to 64 age group had a net worth that was only three times their annual income.

Fundamental Challenges, the Effect of the Pandemic, and Solutions

Before the pandemic, the hope of financing and maintaining a secure retirement appeared to be diminishing for future generations of retirees (Rhee & Boivie, 2015). The transformation of work and its impact on the relationship between employers and their employees is eroding the availability of and participation in employer-provided retirement benefits and affecting the funding for government-provided benefits. A system built to reward employee continuity and loyalty is not adapting well to the experiences of employment discontinuity, worker interchangeability, global competition, and short-term corporate thinking.

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The pandemic recession is shining a light on the stark divide between those who benefit from the privilege and opportunity over a working career to prepare adequately for retirement and the almost equal number of workers who do not. While the former have largely continued to work in essential jobs or from home with pay and benefits until the economy reopens, the latter have either worked at low-paid essential jobs without benefits or have lost those jobs and have struggled to get by, drawing down savings, applying for unemployment benefits, and lining up at food pantries (Brown, 2020; Gould & Wilson, 2020). This divide follows deep fissures in our society, including racial and ethnic disparities, that affect health, education, and employment and undercut the ability to achieve retirement security.

Comprehensive reform is needed to ensure retirement security for a larger portion of the population. At a minimum, it should:

- Focus on low- and moderate-income workers and promote the dignity of work by shoring up Social Security and protecting and expanding employment-related benefits, including retirement plans and health insurance coverage.
- Provide a greater degree of retirement asset protection from insecurity resulting from job churn, life events, the accumulation of student loan and health-care debt, market-timing mistakes, bad investment choices, and economic catastrophes.
- Provide better protection in retirement from health-care costs, and especially long-term care costs.

Social Security

Social Security is the foundation for retirement security, providing most or all retirement income for nearly half of working Americans, and providing an assured base on which to build additional wealth for the rest. The program needs a thoughtful reform to ensure that it can continue to perform this role and serve the needs of a transforming workforce.

Existing Challenges

Social Security faces a short-term financial challenge and long-term inadequacies in meeting the retirement needs of 21st century workers. Earned Social Security benefits are not fully funded and will require short-term adjustments of revenues and/or benefits within the next few years to avoid reductions in the protection provided. Absent a change in law, Social Security benefit payments will be reduced (by 24%) to match incoming revenues once its Trust Fund is exhausted in 14 years (Office of the Chief Actuary, Social Security Administration, 2020). The Social Security financing task is complicated by the simultaneous need for more substantial financing in the Medicare Hospital Insurance Trust Fund. Longer term, the tax structure and

benefit design for Social Security needs to be revisited to respond to changes in the nature of work and the risks and disruptions that occur throughout life that diminish the level of retirement security that can be achieved.

COVID-19 Effects

The pandemic may accelerate Social Security and Medicare financing shortfalls

A 5%–10% contraction in the economy and persistent high unemployment this year could shorten the period before Social Security would have to reduce benefits by as much as 4 years (to 2030; Penn Wharton, University of Pennsylvania, 2020). The loss of payroll and income tax revenues to the Old Age, Survivors Insurance (OASI) Trust Fund will have the most immediate impact.

Medicare is less dependent on the payroll tax. Reduced payroll tax income for Hospital Insurance (Part A) will hasten the Hospital Insurance Trust Fund depletion (already anticipated for 2026), but not affect Part B and D financing. Medicare spending increases for COVID-19–related hospitalizations appear to be offset by reductions in other hospital activity. Increased spending in other parts of Medicare would be largely covered by general revenues and premium increases for current retirees (Miller, 2020).

The pandemic may also affect covered earnings and benefits

The recession is likely to reverse the recent trend of older workers deferring retirement. In past recessions, older workers have tended to leave the workforce early and either apply for Social Security Disability Insurance or take reduced Social Security early retirement benefits (Munnell & Rutledge, 2013). Early claiming reduces monthly Social Security benefits by 28% (not counting an additional 25% loss from not delaying retirement until age 70; Office of the Chief Actuary, Social Security Administration, 2020a,b). Protracted unemployment or disruptive job changes can reduce younger workers' lifetime earnings and future retirement benefits.

Post-COVID-19 Solutions

Finance and improve Social Security

Legislative action is needed within the next few years to avert a depletion of the OASI Trust Fund and a resulting 20% across-the-board benefit reduction. Unlike federal budget deficits, for which the government has borrowing authority limited only by the congressionally determined debt ceiling, once the OASI Trust Fund is exhausted, Social Security expenditures are limited to the amount of incoming dedicated revenues. Some simple changes could significantly reduce or eliminate the program's annual deficit and delay the exhaustion of the Trust Funds. For example, raising the Social Security cap on taxable wages (\$137,700 in 2020) from a level taxing 83% of covered

earnings back to a level taxing 90% would eliminate one-third of the shortfall ([Congressional Research Service, 2019](#)). Pursuing benefit-side changes is another option, but most benefit modifications would have to phase in too slowly to meet short-term needs.

Long-term reforms in Social Security should seek to adapt the program to changes in the nature of work and compensation, and to close the gap between annual spending and income. Changes in the program should aim to provide additional support for workers who rely entirely on Social Security for their retirement income, while factoring longer life expectancies into the program for future retirees, and reducing the magnitude of benefits for future retirees with substantial personal resources.

Employment-Based Retirement Programs

Employer-sponsored pension and savings programs supplement Social Security and enhance retirement security for roughly half of the workforce. The accumulation of assets through these programs is particularly susceptible to economic cycles, individual work histories, overall changes in types of work, and individual employer and worker decisions on offering, participating, and investing. Reforms are needed to broaden participation and better protect retirement asset accumulation from effects of unforeseen economic and employment changes.

Existing Challenges

Low access to and participation in retirement programs
Changes in how work is performed, shifting toward part-time, low-pay, and contract or gig employment, have been weakening continuity, compensation, and benefit coverage for existing work. As a result, access to and participation in pension and savings vehicles is declining. Only half of the workforce has access to a pension or savings plan through their employer, and only half of those employees participate in the plan ([Rhee & Boivie, 2015](#)). Workers who do have employer-provided retirement assets are increasingly in vehicles that have shifted the investment risk to the worker.

COVID-19 Effects

Pandemic job loss will reduce retirement asset accumulation
In the first 3 months of the pandemic, forty-four million Americans claimed unemployment benefits, and by mid-May an estimated 13% of the workforce was officially unemployed, although the percent adversely affected is likely double that ([Pariapiano, 2020](#)). Low-wage workers, particularly racial and ethnic minorities, are disproportionately represented among the unemployed. They are also disproportionately represented in the group of low-wage workers

who have risked their health to keep essential services staffed.

For some who have continued to work, employers have suspended their contributions to employees' retirement accounts. Some workers who are furloughed or laid off will be brought back as business starts to resume. For many, however, the dislocation will be longer lasting and recovery from it more difficult ([Munnell & Rutledge, 2013](#)). Meanwhile, many furloughed workers will take loans from their retirement savings accounts, and many will never repay them. High unemployment that persists could reduce future Social Security and pension benefits for large numbers of working-age Americans.

Pandemic investment losses will lower the value of retirement assets

A recession's effect on the value of retirement accounts is typically a matter of timing. Retirees and workers near retirement with less time to wait for recovery are the most affected by short-term losses. In the Great Recession, a 50% stock market drop in the first year was not recovered for 4 additional years, resulting in net-zero returns over 6 years ([Munnell & Rutledge, 2013](#)). While the market eventually recovered more than its losses, workers and retirees who had to convert assets in that period lost significant value.

Market volatility in the COVID-19 recession is unique and hard to explain. Despite 30%–40% swings in stock indices over the first 4 months of the pandemic, net decline from the year's high by June was only 8%. Market volatility of this kind makes retirement account holders more conservative, reducing long-run retirement account returns. Federal Reserve policy has compounded the problem, lowering interest rates and reducing income from more secure investments in which retirement account holders might seek haven.

Post-COVID-19 Solutions

Improve employment-based retirement accounts

Improvements are needed in employer-sponsored pension and savings accounts to reach the half of the workforce that does not participate in retirement programs, to increase the participation of workers who have access, and improve the investment performance and reduce the investment risk of those who have retirement accounts.

In the short term, Congress should enact a simple plan allowing employers to add an amount to existing payroll tax payments that would, along with a federal matching amount, be administered and invested by the Social Security Administration and paid along with Social Security benefits. Small employers, workers with part-time employment or multiple jobs, and independent contractors would benefit without the complexity of plan sponsorship.

In the long term, Congress should undertake broader reforms to improve the offering of, participation in, and performance of employment-based retirement accounts.

Reforms could include simplifying the multitude of retirement accounts now available, requiring passive enrollment to increase participation, and limiting choices of investment options to minimize bad investment choices.

Post-Retirement Threats to Retirement Security

Older adults' growing out-of-pocket expenditures for health care and long-term services and supports (LTSS), in the context of increasing longevity, are the greatest threats to the adequacy of retirement assets. Even healthy retirees face steadily rising Medicare premiums, and few retirees have accumulated sufficient resources to afford the out-of-pocket costs of a protracted need for LTSS provided in a nursing home, assisted living facility, or their own home. The pandemic's disproportionate effect on nursing home residents and workers underscores our failures to protect vulnerable older adults, and the pressing need for reform in how LTSS are provided and paid for.

Existing Challenges

Retirement security erosion

Over the course of retirement, older adults face the conflicting challenges of stretching fixed incomes and assets to cover longer life expectancies, while gradually succumbing to the relentless erosion of rising out-of-pocket health-care expenses and unanticipated long-term care costs.

Older adults who were already spending, on average, 41% of their incomes on Medicare premiums, copayments, and uncovered expenses in 2013 will be spending, on average, 50% by 2030 (Cubanski, Neuman, Damico, & Smith, 2018; Cubanski, Swoope, Damico, & Neuman, 2014).

The lack of any insurance coverage for LTSS also threatens to erode retirement security. One-half of all Americans retiring today (age 65 to 69) will need LTSS at some point in their lifetime: a quarter of those will need it for 5 years or more. While many will rely on family caregivers for help, one-quarter of retiring Americans will have lifetime expenses for paid care of \$100,000 or more (Favreault & Dey, 2015).

Medicaid is the only source of public support for LTSS, providing only for those who reach retirement with few resources or exhaust their resources paying for health care and LTSS. Originally paying only for nursing home care, it has come to cover in-home care through limited, special, population-specific waiver programs that vary by state.

Most retirees have no insurance coverage for LTSS. The lack of broad financing results in substantial underfunding for in-home care, with consequences for the safety of older adults who need care, the quality of that care, and the availability and training of the workforce.

COVID-19 Effects

The pandemic may accelerate the movement to transform LTSS

Older adults in residential care facilities (nursing homes and assisted living facilities) have borne the brunt of COVID-19 mortality, particularly those who are racial and ethnic minorities (Centers for Disease Control and Prevention, 2020). Estimates as of June 2020 are that 1.8% of residential care facility residents have died of COVID-19, accounting for 42% of all deaths in the United States (Girvan, 2020).

The pandemic has highlighted the weaknesses in our long-term care "system." Lack of financing and the failure to provide adequate in-home care has placed too much emphasis on nursing homes, where vulnerable older adults are concentrated and infections are difficult to control. Care will increasingly shift to the home, but without added financing for workforce training and compensation, delivery system innovation, and quality improvements, many older adults may be left at even greater risk in home care.

Post-COVID-19 Solutions

Transform LTSS

An LTSS system more reliant on in-home care will be more expensive and leave more vulnerable older adults at risk, unless there is a substantial transformation in how care is provided. Family caregivers need more support through training, connectivity, and respite to reduce the need for more paid care. The paid direct care workforce needs training, expanded responsibility, and adequate compensation to play a greater role and reduce in-home visits from nursing and medical staff. Innovation is needed to improve the efficiency of in-home care, including through engaging digital technology to connect individuals, their caregivers, and their extended care team, and finding ways to reduce the intensity of in-person care.

Investments in LTSS innovation have been impeded by the limited resources families have to pay for care outside of the Medicaid program. A major policy initiative is needed to simultaneously finance and transform LTSS.

Finance LTSS

Increased public financing for LTSS (through expanded coverage or savings incentives) is a necessary adjunct to transforming how care is provided. The money for LTSS is there: it is spent now on expensive emergency room visits and hospitalizations that result from our failures to provide adequate support in the home. The health-care industry has begun to acknowledge the role that nonmedical supports and services play in avoiding hospitalizations, improving health outcomes, and reducing costs of care (Lee & Korba, 2017).

Emerging models that integrate medical care, behavioral health care, and LTSS enable greater coordination of care, more effective reliance on in-home care, and the potential to capture health-care savings from avoided hospitalizations. Currently, integrated care models exist only in Medicaid

managed care for beneficiaries who have dual eligibility for Medicare and Medicaid. Congress needs to greatly accelerate the pace of this change and proliferate successful models to meet the needs of today's retiring cohorts.

The place to start is in expanding integrated models to all dual-eligible beneficiaries. Of the 7.5 million Americans who have full coverage for all three by virtue of “dual eligibility” for both Medicare and Medicaid, 80% live in the 24 states that have Medicaid-managed LTSS plans (MedPAC, 2018). While nearly all of these states offer plans that fully integrate Medicare–Medicaid benefits, only 9% of full dual-eligible beneficiaries are enrolled in them. Enrolling all full dual-eligible beneficiaries in integrated plans can provide more effective care management and better in-home support while reducing the health spending on emergency room visits, hospitalizations, and nursing home admissions that could help pay for LTSS (MACPAC, 2020).

A larger population of adults with LTSS needs who are not eligible for Medicaid could be served through Medicare Advantage (MA) plans. Recent legislation allows MA plans to use health-care savings to offer supplemental non–health-related benefits to beneficiaries with chronic health conditions (LTQA & Anne Tumlinson Innovations, 2019). Success of these supplemental benefits could open the way for a package of MA plan benefits to support any Medicare beneficiary with complex care needs in their home, and prevent avoidable hospitalizations and nursing home admissions.

Expanding the availability of holistic care through these managed care models will help to redirect the focus and the resources in health care away from spending on expensive institutions and the medical care required to treat our failures of care and towards stronger support systems for families and older adults to avoid those failures and, in the end, towards ensuring better retirement security for older adults.

Conclusion

The first wave of COVID-19 and the resulting recession have exacerbated existing shortcomings and fissures in the current employer-based system of providing retirement security and accelerated the timeline for addressing them.

The virus and recession have not created new problems, but have brought into focus the harsh effects of existing divisions and inequities in the country. Congress must act in the next few years to shore up retirement security in the short run and protect today's older adults. A more comprehensive approach is needed to make substantial reforms in retirement income, health care, and LTSS programs in order to meet the retirement security needs of today's working Americans.

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Conflict of Interest

None declared.

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