Retirement Security & State Benefit Expenditures

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Notalys, LLC | Data Decision Direction
www.Notalys.com
Overview

• Question: Many workers are finding themselves near retirement with insufficient resources; what will this lack of resources end up costing the states?

• Case Study: Utah
  • Study conducted by Notalys, LLC for AARP-UTAH

• Some broader perspectives on State policy perspectives
Case Study: Utah

• How prepared are Utahns for retirement?
  • Notalys study focused on the readiness and costs associated with those retiring over the next 15 years.

• Approach
  • Estimate:
    1. The number of new retirees
    2. Their household net worth at retirement
    3. Their utilization of state programs
    4. The aggregate state outlays necessary to fund those benefits
A Profile of Utah

• Rapidly Growing Population:
  • 2015: 3 million → 2050: 5.5 million

• Strong and Diverse Economy
  • Never having relied heavily on heavy industry, Utah’s leading sectors are information technology and tourism, both likely to grow in the future.

• Heavily Urbanized (91%)

• Highly Educated

• Ranks 10th in Median Household Income
  • [But last in per-capita income]

• Youngest state in the country with the highest fertility rate
  • TFR: 2.45
Median age by state

Utah’s Median Age: 29
A Profile of Utah

• Summary
  • Economic growth prospects: strong
  • Population aging: low

• Question: Perhaps Utah doesn’t really face a challenge with respect to retirement security?

• Answer: *Every* state faces a challenge with respect to retirement security.
Coming Retirements

NUMBER OF UTAHNS TURNING 65 BY YEAR

- 2015: 15,000
- 2016: 20,000
- 2017: 25,000
- 2018: 30,000
- 2019: 27,000
- 2020: 28,000
- 2021: 29,000
- 2022: 32,000
- 2023: 31,000
- 2024: 30,000
- 2025: 31,000
- 2026: 30,000
- 2027: 31,000
- 2028: 33,000
- 2029: 30,000
- 2030: 32,000
Public Programs

1. Supplemental Nutrition Assistance Program (SNAP)
2. Supplemental Security Income (SSI)
3. Medicare Cost Sharing Program (Utah Medicaid)
4. Utah Home Energy Assistance Target (HEAT) Program
5. Utah Retirement Income Tax Credit
6. Property Tax Abatement
Key Findings from Utah

• 18% of retirees in the next 15 years will retire with more debt than savings.

• Nearly 1 in 10 retirees qualifies for more than $2,500 per year in direct government assistance

• Total cost to taxpayers for new retirees will top $3.7 billion over the next 15 years

• 73% of these costs are expended on 1/3 of the retiring population

• A 10% increase in net worth of the 1/3 least prepared for retirement will ave taxpayers $194 million through 2030.
The problem of liquidity

LIQUID ASSETS AS PERCENT OF NET WORTH

TOTAL NET WORTH (IN 1000S)
Broader Policy Perspectives

• Retirement security is fundamentally a cohort problem not a period problem.
  • Because of the baby boom, we are entering a period where retirement will have high aggregate social costs.
  • But it is the whole life experience of the retiring cohort that determines their financial security.

• The inseparability of health and assets
  • Nothing wipes out savings like an uncovered medical expense

• The power of Nudging
Broader Policy Perspectives

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Health and Assets: An Example

<table>
<thead>
<tr>
<th>Obesity Status</th>
<th>Median</th>
<th>% &lt; $50K</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neither spouse obese</td>
<td>$371,841</td>
<td>9.1%</td>
</tr>
<tr>
<td>Husband obese</td>
<td>$292,000</td>
<td>10.3%</td>
</tr>
<tr>
<td>Wife obese</td>
<td>$183,734</td>
<td>17.1%</td>
</tr>
<tr>
<td>Both spouses obese</td>
<td>$149,462</td>
<td>18.3%</td>
</tr>
</tbody>
</table>

Notes: Household wealth is in constant (2012) dollars and includes all survey waves from 1998-2012. Data come from the Health and Retirement Study, author's calculations.
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Thank you

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