MATHEW GREENWALD'S TESTIMONY
TO SENATE SPECIAL COMMITTEE ON AGING

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I am Mathew Greenwald, President of Mathew Greenwald & Associates, a non-partisan market and social research firm located in Washington, D.C. I am delighted to have this opportunity to testify before you for two reasons in particular. First, the implications of aging on the Baby Boom generation has been a special interest of mine since my graduate work in sociology more than a quarter century ago. I was fortunate to study under Dr. Matilda Riley, a pioneer in the sociology of age and now a Scientist Emeritus at the National Institutes of Health. Second, for the last quarter century I have conducted hundreds of focus groups and in-depth interviews with Baby Boomers on long term care and related issues and have implemented surveys of over half a million Baby Boomers on issues related to aging, retirement and long term care. I will refer to a number of these studies today.

There are four major issues I wish to address.

First, what future awaits the Baby Boom as it ages, particularly in the area of long term care? There is a lot we can anticipate, and if we take a comprehensive view we can discern things that are not apparent if we look at one issue at a time.

Second, what problems do the retired now have, and what problems will Baby Boomers have, with the financial aspects of retirement? A proper understanding of these problems will provide a useful insight into how to overcome these problems and how you can be most helpful to the Baby Boom generation.

Third, what are people's viewpoints on these issues now? Do Baby Boomers understand the issues that are before them; are they adequately preparing for the financial stresses of the possibility of needing long term care in general and retirement in particular?

And fourth, what should Congress do to most effectively help the Baby Boom population achieve financial security in old age; especially when it comes to funding long term care?

1. The Baby Boom in Retirement

The first issue is the financial future awaiting the Baby Boomers. A lot is apparent, even though the first Baby Boomer will not become 65 for another 13 years. Perhaps the most significant trend is the increase in life expectancy. Life expectancy at age 65 has been rising quickly since the late 1960s and there is reason to believe that the life spans of Baby Boomers will be especially long; much longer than the current generation of older people.

There are several reasons to expect longer lives for Baby Boomers: the dramatic increases in medical technology and significant gains in the understanding of the aging process itself, the fact that Baby Boomers had much better care than older generations from the time of conception (in the post World War II era) through infancy and until now, and improvements in lifestyle factors, such as reduced rates of smoking.

Even if these facts are ignored, the trend in life expectancy is clearly up and government life expectancy projections have a track record of considerably underestimating life expectancy increases, with implications for the financial projections that are made about Social Security in particular.

Samuel Preston a leading demographer from the University of Pennsylvania stated that life expectancy in Japan was 79.7 in 1994 but that Social Security assumes we will not reach that figure until 2050, 56 years later than Japan. Many demographers think that Americans will live five years longer than Social Security now assumes.

Long life is a great gift. It is a gift we all want and are grateful to receive. This is the first time in the long history of the human species that most people reach old age and that is a very significant accomplishment that certainly has not received as much notice as justified.

However, unlike other gifts, the gift of long life has a financial cost, and for the Baby Boomers the financial cost will be high indeed. There are many reasons for this.

First, longer life has already significantly lengthened the retirement period. Currently, it is not unusual for a person to be retired for over 30 years. Even if the average age of retirement goes up, and there are many reasons to expect that it will not go up much, it will be difficult for the average age of retirement to go up faster than life expectancy at age 60 or 65. And each year of life has very significant cost, even if lived in good health.

Second, as life expectancy increases, more people live into the high incidence years for needing nursing care. The need for nursing care goes up significantly after age 85, and many more of us will reach that age. Further, although we are making great progress in dealing with the killers of older people, such as cancer, heart attack and stroke, we are making far less progress against some of the cripplers of older people, such as Alzheimees, osteoporosis and arthritis, which put people into nursing homes. There are reasons to expect that the gap between the onset of ill health and the time of death will widen, meaning that the need for nursing care and the term in nursing homes may rise substantially.

Further, the cost of nursing care is likely to rise especially fast. As we all know, the huge size of the Baby Boom population will push up the overall need for nursing care no matter what. But what is less focused on is that if the laws of supply and demand continue in force, as they have for centuries, the cost of nursing home care will be pushed up because the huge numbers of Boomers, especially as they succeed the much smaller population just before them, will represent an enormous increase in demand for these services.

Currently, a great deal of nursing care is provided free of charge by the grown children of the elderly, especially daughters. But the Baby Boomers are not likely to be as fortunate. They have fewer children: remember they produced a Baby Bust, not Boom, and record numbers of Boomers have no children at all. Further, more daughters are working and unavailable to assist. And the geographic distance between grown children and their parents has widened. Fewer grown children live in the same neighborhood as their elderly parents. I conducted a study of long-distance care-giving for the Pew Foundation and discovered that even people who live in the same metropolitan area as their frail parents often cannot take adequate care of them if it takes more than 30 minutes to reach these parents. Many frail elderly need daily care and few working people have the energy and ability to commute an extra one hour each day to help a parent in need (that is 30 minutes of travel each way).

As less long term care is provided free of charge, more will be provided at a cost. And the cost for Baby Boomers will be very high.

The third reason why the gift of long life will carry a very expensive price tag is the tremendous advances in medical technology that will clearly continue, if not accelerate.

Right now hip and knee replacements are commonplace. So are replacements of heart valves, eye lenses and other parts. But scientists are perfecting many other replaceable parts, including combining natural cells with artificial materials to make replacement organs. Human parts tend to wear out with age. When they do wear out, people will want replacements, if available. If you lost your eyesight and could get it restored, would you want to? The cost of replacement parts is a cost that will be staggering for our society when the Baby Boomers age; it will be a cost there will be great pressure to pay.

I wish to make two further points about the cost of longer life expectancy for the Baby Boomers. The first point is that the Baby Boomers have significantly higher life style needs than prior generations. Today, most retirees lived through at least most of the Great Depression. They remember privation, doing with less and sacrifice. Just about all retirees clearly remember World War 11 and gas rationing, meat rationing and victory gardens. The current generation of retirees can do with less. I recently completed a series of focus groups for MetLife among middle-class retirees. Their average age is 68. Almost all are homeowners. All made a good living; they were teachers, store owners, government managers, chemists, television cameramen and others. None had long periods of unemployment; all had good jobs.

Since retiring, almost all have cut back on their life style. They eat out less, travel less, buy fewer clothes. Most feel they will have to cutback more in their lifestyle in the future. They feel they can do with less, feel perfectly comfortable with that, are resigned to that.

After hundreds of focus groups with Baby Boomers and surveying thousands of Baby Boomers I can assure you that Boomers will not be as easily resigned to a very diminished lifestyle at the end of their lives, They will not be as accepting of second-class health care or third-class nursing care as the current generation of retirees.

The other point I wish to make is one I am sure you are well aware of, so I will make just a brief comment. It will be just about impossible for government programs to expand to pay for increased Baby Boomer needs in retirement. Right now the Social Security system takes in far more than it pays out, significantly reducing the need for government borrowing. Soon after the Boomers start retiring, the Social Security system will have to pay out first more and then a great deal more than it takes in. This will put an enormous burden on other government programs. The Medicare program is projected to be bankrupt far before the first Boomer is eligible for benefits. The rising, ever more sophisticated, ever more expensive, medical technologies will put an even greater strain on the system.

Furthermore, the Boomer population is of such disproportionate size, compared to other generations, that its impact on entitlement programs will also be disproportionate. Overall, entitlement programs will be under great strain to even attempt to keep cut-backs in protection modest. This makes it essential to help the Boomers themselves pre-fund.

II. Organizing Finances in Retirement

The second major issue I would like to address is the financial problems that retirees inevitably have, why these problems are especially serious and what can be done about them.

Retirement is a time of maximum financial uncertainty, compounded by the fact that most retirees cannot recover from a financial set back or miscalculation. A working person can work overtime, seek a second job, invest more aggressively, or put off retirement if he or she makes a financial miscalculation. For most retirees, there is no chance to earn more money and investing more aggressively can be dangerous.

To illustrate the uncertainty inherent in retirement, I would like you to imagine a married couple both age 65 retiring today. Let's imagine they are attending this hearing as their last work responsibility and will then go home to start their retirement. It is possible that they will get into an automobile accident on their way home and both die. It is also possible that they will each live to age 105. Thus their combined life expectancy (and I use combined life expectancy because a married couple's finances are, of course, combined) can range from two hours (if they both die on their way home today) or 80 years, if they both live to the age of 105. The difference in cost of funding two hours or eighty years of life is, to understate it, huge. But people are stuck with this uncertainty because they cannot predict how long they will live.

This couple has equal uncertainty in the area of needing long term care. It is possible that neither will need long term care. It is also possible that both will develop Alzheimer's and each spend eight years in a nursing home. Thus, the possible cost of their nursing care ranges from zero to over one million dollars. And they cannot accurately predict what it will be.

The cost of medication for older people is very high. Again the cost for this illustrative couple can range from zero to an astronomical amount.

In other areas the uncertainty is just as large, especially in the area of health care costs.

A number of financial planners have stated that a person retiring today needs one million dollars. That statement reminds me of a Dilbert comic strip. In the first panel a researcher is standing before a business group and states that he did a survey of 1,000 people and the average respondent had an income of $25,690. In the next panel a member of the audience asks how many of the respondents actually had an income of $25,690. Of course the answer could be none. The odds of any retiree needing one million dollars is very low. Many retirees will need far less for a life time of financial security, but some will need far more.

The problem a couple retiring today has is that they have to answer three key questions if they want to know how they should organize their finances. They will have to know 1) how long they will live in retirement, with a realistic possible range of two hours to a combined 80 years, 2) if they will need nursing care, with a realistic range of zero to a combined 16 years at a realistic expense of at least one million dollars and 3) what will their combined health and drug. costs be, with a realistic range of nothing to well over one million dollars.

The problem with these questions is that they are not answerable by individuals. Those who underestimate how much they will need risk ending their lives in want and deprivation, or in a substandard nursing home. But these questions are answerable through risk protection insurance products.

One other point about this. The risk of miscalculation is predominantly a women's issue. Women are the ones who significantly outlive men. Women are more likely than men to end their lives in poverty. And women are more concerned about the financial uncertainty of old age than men. I clearly recall focus groups I conducted for the American Council of Life Insurance in which fairly affluent women in their 50s talked about being afraid of ending their lives as "bag ladies," sorting through garbage cans and dining on ketchup and warm water.

There are three ways that people can deal with the financial uncertainty of retirement. First, they can save up enough money to meet every exigency. But there are two problems with this. One is that very few can afford this; for most this is not an option. Second, most will not require the maximum amount of money in retirement. Few couples will live to 105 and spend a combined 16 years in a nursing home. Thus, those that save the maximum will be safe and secure, but most will have saved too much and, thus, sacrificed too much.

A second approach is to save less than is necessary to meet every exigency and hope for the best. This is what most do, and it is risky. The risk is ending life in deprivation. Doing research on this subject I have heard plenty of heartbreaking stories. The man who could not afford Christmas presents for his grandchildren and was too embarrassed to attend his children's Christmas parties. The woman I interviewed, in an assignment for the Institute of Medicine, who were in a nursing home that did not have a private place to be examined by a doctor. When a medical examination required them to disrobe they had to do so in front of other people. And there are, of course, problems far worse than those created by people who took the risk of not saving all that was necessary for them.

But there is another way; a much more efficient way that protects people against all of the risks, at a cost affordable for most Baby Boomers. This more efficient way is through the use of insurance products that can give people the money they need for key risks at a fraction of the cost. Thus, rather than having to save up hundreds of thousands to pay for the potential cost of nursing care, a Baby Boomer can buy long term care insurance for a very affordable amount of money and be protected if the need arises. Rather than saving up enough to pay for a life than could last until 105 or more, a person can buy a life annuity and get a guaranteed income for life. Those who do not live that long in a sense subsidize those that do live a long time. But, all who buy a life annuity get a guaranteed income for life.

Most retired people improperly organize their finances. Besides Social Security and a pension, if they have one, they invest conservatively and live on the interest on their principle. This could work with a retirement that lasts five or ten years. But it cannot work with a retirement that lasts 20 or 30 years. Further, there is a great deal of evidence that a primary financial goal of most older people is to be financially independent. Leaving money behind to children is important to most, but of secondary importance. The strategy of trying to live on the interest generated by their savings means that people are very reluctant to spend any of their principal. After all, it is the principal that is producing their income and reducing the principal means that their income will go down. Additionally, since almost no one knows how long they will live, almost no older person knows how long their income must last. Thus, those that follow the strategy of living on the earnings of their principal tend to die with their principal intact and passed on to the next generation. As stated, these estates are not caused by the desire to leave an estate as much as they are the product of not knowing how long one's money must last.

The people who follow this strategy do not use the money they spent a lifetime accumulating on their primary financial goal. They often suffer a good deal of privation to preserve this principal intact.

The key point is to recognize the financial uncertainty inherent in the retirement period and come up with an effective strategy for dealing with this uncertainty. If this is followed, older people will have more financial security and better lifestyles. The reason is they will be using their money more efficiently by engaging in a type of risk sharing that protects all who participate, at a fraction of the cost. Long term care insurance is a good example of this.

There is another reason why this is important. It might be referred to as the de-annuitization of old age. Most people are used to living on a paycheck. They budget from week to week, from fortnight to fortnight or from month to month. And after decades of that, most learn to do this fairly well.

In earlier times, the retirement period was similar. Most people lived primarily off Social Security and if they had a pension it was likely to be a defined benefit plan. Both Social Security and defined benefit plans are basically annuities and act as a paycheck. They provide a "paycheck' on a regular basis that people live off. The same budgeting techniques that people employed when they were employed could be used in retirement.

However, recently, people have been encouraged to take on more financial responsibility for their retirement. Individual Retirement Accounts, 401 (k) plans, defined contribution plans and other plans have been developed in response. One result of that is that people are no longer "put on a paycheck" when they retire. Rather, they have access to a sum of money (for the Baby Boomers it will typically be a larger amount of money than they have ever dealt with before) and told to manage that money to last an indeterminate period of time that could be two hours and could be over 40 years. This is a task that requires new skills and strategies. Without that, many will fail.

Developing retirement financing vehicles, such as IRAs and 401 (k)s was a wonderful idea that has worked; these vehicles have encouraged people to prepare financially for retirement. But the implications of providing many people with a large sum of money that must be managed must also be thought through.

In no area is the risk sharing strategy more important than in preparing for long term care needs. The incidence of needing long term care is high, and for the Baby Boomers there is reason to expect it to get higher. The cost can be staggering to those who do not prepare properly and reasonable to people who do.

Most older people cannot afford a long stay in a nursing home. But almost all Baby Boomers can afford the cost of long term care insurance that will enable them to afford a long nursing home stay. My company, along with the Employee Benefit Research Institute and the American Savings Education Council, organize an annual survey of Americans, called the Retirement Confidence Survey. In 1995 we asked a representative sample of 1,000 Americans in the Retirement Confidence Survey what they would have to give up to. Less than 1 0 percent said they were unable to cut-back. What they would cut-back on was interesting. Eating out less topped the list. Second, was getting less expensive food at the supermarket (and I am willing to bet the food they would buy would be better nutritionally). Third was going out less. A few said they would have to give up cable television. Twenty-five dollars a week is sufficient to buy a good long term care insurance policy with infliction protection for even the oldest Baby Boomer couple, and the price goes down significantly for those younger.

Thus it is clear that almost all Baby Boomers can provide for their long term care needs, at little sacrifice, if they choose an efficient means for doing so.

III. The Public Works Through Long Term Care and Retirement Issues

I now want to address the third issue on my list, what are people's viewpoints on these issues at this point. For this purpose I will depend upon the Longevity and Retirement Survey, a study my company conducted in 1997 for the American Council of Life Insurance. A representative sample of 1,000 Americans, ages 42 and over were interviewed by telephone for this study. A complete report of the survey is available from the American Council of Life Insurance, in Washington, D.C.

Based on the Longevity and Retirement Survey I feel that people's viewpoints can be summarized by four key words: Awareness, Concern, Denial and Desire for Self-Responsibility. I will address each in turn.

Awareness

In the area of awareness, Americans ages 42 and over have a good sense of the longevity they are likely to achieve. Almost two out of three people (61%) we surveyed feel it is at least somewhat likely that they will live to age 80 and almost half (44%) feel it is at least somewhat likely that they will live to age 85.A quarter believe it is at least somewhat likely that they will reach age 90 and 15% feel it is at least somewhat likely that they will reach age 95. Women are more likely than men to think they will live into their 80s.

There is also awareness of the need to predict future situations in order to determine how much money to accumulate for retirement. For example, 77% feel it is very important and 17% somewhat important to predict general health in retirement to determine how much money to save for retirement. Fifty-nine percent think it is very important and 30% somewhat important to know how many years you will spend in retirement. Finally, 53% feel it is very important and 35% somewhat important to predict if you will need nursing care.

But there is also awareness and realism that these things are difficult to predict. Indeed, more than four in five (82%) agree "It is difficult to know how much money to save when you don't know how long you will live."

Further, people have given a good deal of thought to how to support a potentially long retirement. Among the youngest people in this survey, the Baby Boomers bom in 1946 to 1955, 41 % have given a great deal of thought to how they will support themselves if they live a long time in retirement and 39% have given this some thought.

Concerns

This thought may be why there are high levels of concern about many aspects of retirement. Two4hirds of the working people surveyed are extremely or very concerned about cutbacks in Social Security and Medicare, 54% are extremely or very concerned about having to pay for nursing care for self or spouse and just about half (49%) are extremely or very concerned about outliving their resources.

Denial

Even with these concerns most non-retired Americans ages 42 and over have a fairly rosy view of their future in retirement. Most think they will remain independent and active when they retire; indeed, only one in eight feel it is very likely that they or their spouses "will require nursing care"(12%) or "Will require assistance with everyday activities such as bathing, getting dressed and getting out of bed (11%)." Actually, we know that many more than that will need long term care. Almost two in five of the Baby Boomers in our sample say it is very likely that they will work during their retirement. But if the experience of the retired of today is any indication, this is wishful thinking. Indeed, it is extremely likely that even the age that Baby Boomers predict they will retire is wishful thinking.

Among the non-retired people in our survey, 16% plan to retire before age 60, 27% plan to retire between 60 and 64, 30% plan to retire from 65 to 69 and 8% plan to retire at age 70 or after. Eight percent do not plan to retire and 11% could not answer the question. The average age planned for retirement is 62. We examined the planned retirement ages of those who expect to live into their late 80s and 90s with those who expect to live a shorter time. Interestingly there are no real differences. This means that expectations of living longer do not translate into expectations of working longer. These two things - long life and age of retirement - are disconnected in Americans' minds. But this is wishful thinking at best and denial at worst. Because if the age of retirement does not go up, and there are reasons to think it will not, then retirement becomes longer (and more costly) and thus requires more accumulation to fund it. We have evidence that Americans have yet to think this through.

There is another often overlooked problem probably awaiting the Baby Boom generation as they prepare for retirement. Forty-one percent of the retired people in our survey state that they retired before they planned. This confirms the findings of other surveys, including the Retirement Confidence Survey. The most frequent reason for retiring before one planned is poor health and disability. Plant closing and downsizing are other frequent reasons. This likelihood of retiring before one planned is important because many people delay preparing financially for retirement until the time of retirement looms. Retiring early means significantly curtailing the preparation period. We know that people who retire before they planned are likely to be in financial hardship during retirement.

Only 9% of the older Baby Boomers, now ages 43 to 52 have thought a great deal about preparing financially for the possibility of needing nursing care. (Of course not all of these have taken any action.) We asked those who have not thought a great deal about preparing financially for the possibility of nursing care costs why not. The four main reasons, given by hale the Boomers: 1) don't want to think about it right now, 2) don't have the money for it, 3) don't think will need it, and 4) anticipate insurance will pay for it.

Reasons for Not Preparing for Nursing Care Needs -- Baby Boomers

Reason	Strongly Agree	Somewhat Agree
Don't want to think about it right now	31%	26%
Don't have the money for it	29%	24%
Don't think you will need it	20%	33%
Anticipate your insurance will pay	14%`	37%
Don't think it is important to plan for it	13%	15%
Expect relatives or friends will provide for it	6%	14%
Anticipate the government will pay for it	4%	16%

Some of these reasons are likely misconceptions or wishful thinking. Health insurance does not pay for nursing care, yet many who have health insurance think it will cover nursing care expenses. Similarly, many believe Medicare covers nursing care, but Medicare does not cover most nursing care, although it does cover some. Those who feel they do not have the money for it most often can afford it. As for those who do not want to think about it now, this is a problem that must be addressed. The sooner Baby Boomers start preparing for the possibility of nursing care costs, the less expensive it will be for them, the better the care they will receive and the lower the costs that society will have to endure (probably through the Medicaid system).

Currently, many Baby Boomers are not familiar with long term care insurance. Indeed, even among Baby Boomers there is less familiarity with long term care insurance as an option for paying for long term care than there is with Medicaid as a way of paying for long term care.

DESIRE FOR SELF-RESPONSIBILITY

However, for most people, especially the Baby Boomers, long term care insurance is the most desirable option for paying for nursing care. Among Baby Boomers, twice as many people feel long term care insurance is the best way to pay for nursing care than feel this way about Medicaid, which is next most chosen as the best option. Four times as many Boomers feel long term care insurance is the best way to pay for nursing care than feel this way about using savings.

Most Desirable Options for Paying the Cost of Nursing Care -- Baby Boomers

Long term care insurance 52%

Medicaid 23%

Your own savings 12%

Reverse annuity mortgages 7%

Money from children or family 1%

Don't know 4%

What does this all mean? I think it means that people in general, and Baby Boomers especially, are working through the problem of how to deal with finances in retirement and the risks and uncertainties in the retirement period. There is a natural tendency to put these considerations off, because they are complex and because some of the problems that often beset people in old age, such as disability, ill-health and of course the uncertain timing of death, are unpleasant and therefore hard to think about.

The central issue remains the increasing cost of the retirement period, especially for the Baby Boomers, and the increasing cost of a large retired population for our society, especially as the Baby Boom increases the proportion of all Americans who are retired. Because of these cost pressures, it is useful to have more efficient ways for Americans to use the money they have accumulated. But this requires a different way of thinking about retirement finances and the use of different financial strategies for dealing with the uncertainties intrinsic to the retirement period.

This brings me to suggestions for Congress. A key issue is the tremendous financial strain that the gift of longer life will create. The impact of the aging Baby Boom on Social Security and Medicare is clear. As government tries to assure the financial security of these programs it must help people find the most efficient ways to use their resources to protect themselves financially against the uncertainties they will encounter in retirement. There are four steps that I feel will most effectively do that:

1. Educate people, especially Baby Boomers, about the uncertainties they will face in retirement, and the financial strategies, especially that can help them most effectively deal with the financial aspects of these uncertainties.

2. Develop new tax policy that encourages people to prepare early for retirement through the most effective vehicles that are affordable for most people. In the area of preparing for possible nursing care needs, long term care insurance is the most effective approach, it is affordable by most people and is the approach that people find most desirable.

3. Further encourage employers to offer employees long term care insurance and education and information on other risk protection vehicles and approaches.