

Aging Has Economic Costs to North Carolina Workers, Taxpayers, and Small Business Owners

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Retirement security is deeply connected with health security for older adults, and public policy needs to incorporate these interrelationships more fully.

Introduction

While aging has health implications, it also affects economic security, which in turn can affect people's health and access to care in old age. Before discussing these interrelationships, this article provides an overview of Americans' retirement security.

The State of Americans' Retirement

Unlike in prior generations, more of retirement security for today's workers must be self-funded, but many are not saving enough, or at all. Retirement security in the United States is predicated mainly on two sources: Social Security, which provides a basic income floor to prevent poverty in old age, and retirement income from employer-sponsored retirement plans (a third source is personal assets, which are not covered here for purposes of brevity). Some Americans have been able to acquire retirement income by saving from their paychecks at work, usually through 401(k) plans, since the 1980s. Often, these plans are augmented by employer matching contributions. However, approximately 1.7 million North Carolina residents work for small businesses that do not provide a retirement savings plan [1].

Social Security benefits are earned from employment and are based on a person's length of career and average salary. Today, the average benefit from Social Security is \$1669 per month, or just \$20,028 annually [2]. Despite seemingly low benefits, Social Security is an important source of income. Among elderly North Carolina Social Security beneficiaries, 57.3% receive 50% or more of their income from Social Security; 28.7% of beneficiaries rely on Social Security for 90% or more of their income [3, 4]. This means the many 65+ families relying entirely on Social Security benefits are struggling. In North Carolina for example, the average benefits for a 65+ family come to only about \$21,000 per year [3], while older North Carolina families on average spend \$22,000 per year on food, utilities, and health care alone [5]. Note that average spending does not include basic needs such as housing and transportation.

While Social Security is a critical piece of the puzzle, it is not enough to rely on in retirement. Building personal retirement savings as a supplemental source of income is an important way to ensure financial security later in life. If a person were to save \$50 per week consistently over a 40-year career, using reasonable assumptions about inflation and investment returns, they could accumulate over \$360,000 by the time they reached age 65. But according to the Federal Reserve, the median level of retirement savings for those aged 55 to 64—people who are on the cusp of retirement—is \$134,000 [6]. Again, access to workplace retirement savings is critical. Americans are 20 times more likely to save if their workplace retirement plan is automatic (estimates provided to AARP by Vanguard, 2022).

As a result of a basic Social Security benefit and low levels of savings, many will not have enough income in old age. According to a survey conducted by Transamerica, only 21% of women and 27% of men are very confident that they will fully retire with a comfortable lifestyle [7].

Preparing for the Costs of Old Age

What does insufficient retirement savings in old age mean for individuals? Many will need to reduce their standard of living by cutting back on expenses. Some will incur adverse health effects from not being able to afford, or by trying to delay, medical services and prescriptions. Large and unexpected expenses that are not covered by Social Security or Medicare, such as a major medical bill or home repair, may mean that an older person cannot stay in their home. In fact, medical debt is the leading cause of personal bankruptcy among those aged 65 and older [8]. Finally, there are indications that financial stress could be associated with poor health outcomes [9].

It is possible that the most predictable expense in old age for which we—collectively and individually—have not prepared is long-term care. Many older Americans will need some form of long-term care but will not be able to afford it.

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According to the Genworth Foundation, the median monthly cost for a home health aide in North Carolina is \$4385, while the median monthly cost for a private room in a nursing home facility is \$8213 [10]. These costs will almost certainly go up; Genworth estimates that North Carolina nursing home costs will nearly double to \$14,834 monthly in just 20 years [10].

In the absence of affordable long-term-care services, many older people will rely on unpaid caregivers who are often family members or friends. North Carolina has 1.33 million family caregivers who provide an estimated \$13 billion in total economic value annually [11]. Caregiving can exact an emotional, financial, and physical toll on the caregiver, who may need to leave a full-time job with benefits to provide care to a loved one. Nearly half of all caregivers of an adult aged 50+ have experienced some negative financial impact of their role as a caregiver and a significant portion have seen their savings eroded [12].

If a senior in need of care cannot fund long-term care or receive unpaid care from a family member or friend, they will

likely need to rely on Medicaid. Medicaid provides a variety of services, including long-term care, and is funded by both the federal and state governments. In 2021, North Carolina spent \$5.7 billion on Medicaid [13]. On average, Medicaid spends \$14,700 for every American aged 65 and older who is enrolled in the program, and taxpayers will end up covering these costs [14].

Due to insufficient retirement savings and an increasing elderly population, states like North Carolina can expect to spend more to cover the costs of services needed by seniors. As a result of insufficient retirement savings alone, the Pew Charitable Trusts estimates that the federal government will spend an additional \$1.02 trillion over the next 20 years in increased social assistance for the older population in the United States [15].

What is the solution? It is true that individuals can set up their own individual retirement account (IRA), but only 5% of Americans save in an IRA if they are not covered by an employer plan.^a Workplace retirement options make sense

a Data compiled by AARP's Public Policy Institute from unpublished estimates from the Employee Benefit Research Institute of the 2004 Survey of income and Program Participation Wave 7 Topical Module (2006 data). See also: Brookings Retirement Security Project and WhiteHouse.gov. Automatic enrollment data estimates provided by Vanguard.

because they can cover more people in a more efficient way. Perhaps more importantly, when retirement savings can be linked to payroll systems the savings can occur on an automatic basis, which has proven to be enormously successful.

Many businesses in North Carolina—mainly small businesses—do not offer retirement benefits to their employees. So, how do we increase retirement savings at the business firm level? Employers want to provide retirement benefits. Businesses use retirement plans to attract and retain workers. Business owners told the Pew Charitable Trusts, however, that lack of low-cost retirement plan options means many employers cannot afford to sponsor their own retirement plan, and that they do not have the administrative capacity to do so [15]. As a result, many small businesses in local communities cannot compete with larger firms offering benefits, and the employees they do have miss out on savings.

Policy Implications

Over the past several decades, federal policy has provided an array of retirement programs and incentives, but

the access gap for employees of small businesses remains large, and many workers don't have the ability to save for retirement out of their regular paycheck. However, states across the country are working on innovative solutions to these problems. Currently, 16 states have enacted or implemented state-facilitated retirement savings programs, sometimes known as Work and Save, for workers without employer-sponsored retirement plans. Across the four automatic-IRA states that are active and have had time to take in contributions, over 145,000 employers have registered, and over 640,000 workers are saving for retirement, many for the first time in their careers [16, 17].

These automated savings programs—which states can design to best fit the needs of their workers, employers, and taxpayers—are a practical solution that provide retirement savings access to millions of Americans without cost or burden to small business owners and taxpayers. Automated savings programs have zero employer fees and the setup is simple; once registered, small businesses can seamlessly enroll their workers to automatically contribute via voluntary payroll deductions. Workers can then save for their

future through a default rate or by customizing their savings to meet their needs, including changing their contributions or investments or opting out entirely at any time. These programs are public-private partnerships, professionally managed by a private financial services firm with oversight by the state.

State-facilitated retirement savings programs provide workers with access to a portable, low-cost, easy-to-use retirement benefit. By increasing personal savings, the programs promote fiscally sound public policy that eases the burden on taxpayers to fund costly government programs for retirees.

Conclusion

Retirement insecurity negatively affects older adults nationwide, and by acknowledging the correlation between this issue and health security (among other things), the state can play a critical role in facilitating a solution. Lawmakers have the chance to create lasting change for millions by increasing opportunities for retirement savings through the workplace for all people. **NCMJ**

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