

# Retirement on the Other Side of the Demographic Cliff

By Eric Reed 03/14/16 - 09:34 AM EDT

Retirement may not look the same for much longer.

The world is headed for a demographic cliff. Thanks to slowing birthrates, increasing longevity and a large Baby Boomer population, much of the industrialized world is rapidly aging. In countries like the United States, birth rates hover just above what sociologists call “replacement rate,” the number of babies needed per year just to keep the population steady. In many other countries, such as Japan and Italy, that number has actually slipped even lower: there are fewer births than deaths. As a result, the population is aging rapidly.

There’ll be a lot of fallout from this *Children of Men*-esque situation, but one of the first to arrive will be profound changes to how societies approach the concept of retirement.

“It’s one of the megatrends of our time,” said Michael Hodin, CEO of the Global Coalition on Aging. “It’s also a situation where people are struggling with, ‘O.K., I get it, it has to do with the age of the population. What am I going to do about it?’”

At this point, more than a billion people across the planet are over the age of 60. In the United States alone, more than 13% of the population is over 65. From the perspective of retirement, these numbers have the potential to be profoundly destabilizing, both as a financial matter and a workplace issue.

Retirement as most Americans think about it has been built around reliance on demographics. Programs like Social Security spend considerably more than they take in -- contrary to the image many Americans have of simply collecting back benefits paid -- and need a young, working population considerably larger than the pool of retirees to pay for. Much the same can be said of the idea of retirement itself: in order to have Americans enjoy their so-called Golden Years, there needs to be an even larger share of workers in the population to replace senior citizens and still keep up productivity growth.

These will get harder to sustain as their demographic assumptions prove shakier, and the U.S. isn’t the only country facing a crisis.

“Japan, in the next few years, will get to a place where they’re going to have about 40% of their population over 60,” Hodin said. “You can’t keep up entitlements at that rate. China is in even in worse shape, in many ways exacerbated by their one baby policy.”

Recently former Nebraska Governor and Senator Bob Kerrey spoke on this subject at a forum hosted by Bank of America and the Museum of American Finance. In an interview with *TheStreet*, he described his own growing sense of alarm at the state of American retirement.

“I think the demographic trends show that we have way too many people with inadequate savings, and the program demonstrates that we don’t have the capacity to transfer our way out of the problem,” he said. “Notwithstanding some of the assertions made by Senator Sanders and others.”

The question is not if but when demographics catch up with ideas like retirement and Social Security, ones institutionalized when younger generations outnumbered the old by considerably wider margins. What will aging look like in an era defined by low birthrates and increasing longevity? The answer depends.

First, it’s time we start considering that Americans have a lot more good years than they did when the retirement age was set at 65 (an age, Hodin points out, that was originally defined for pensioners by Otto von Bismarck).

“Retirement is being reinvented,” said Andrew Sieg, head of Global Wealth and Retirement Solutions with Bank of America. “Traditional retirement may no longer exist, and it almost causes you to forget that our notion of traditional retirement is a construct that was only introduced in the 1950s.”

It’s “a blip in all of history,” he said, attributing it to the work of Del Webb and his development Sun City.

“A lot of marketing muscle went around that, to create this idea of retirement as the golden years and a time of leisure and golf, and moving to the south to soak up sunshine... I think you’re on very safe ground to say that vision of retirement is being redrawn before our eyes.”

In other words “traditional retirement” isn’t all that traditional but a postwar invention, one capable of change.

First things first: as many have argued, work probably won’t end at 65 anymore.

“We used to think about the three legged stool [of retirement],” Sieg said, “which is personal savings, Social Security and pension. Increasingly there’s a fourth leg, which is income from work.”

For many people that income will offset shortfalls in their retirement savings, doing away with the concept of retirement altogether as they continue to earn needed income, but to the surprise of many who study the field an increasing number of retirees actually want to continue working. Approximately 70% of people surveyed, according to one study, say they actually want to keep working during their retirement.

“We were very skeptical,” Sieg said of the survey results, “even though the results seem positive and we did focus group research. We went back and asked another question, ‘Are you considering working because you have to make ends meet or because you want to?’ Up and down the socioeconomic spectrum overwhelmingly people said, ‘it’s because we want to not because we have to.’”

This will be good, too, because as experts will point out, an exodus of that many people from the workforce could put a substantial strain on hiring.

Still, financial decisions will make up a major part of the new retirement, including the future of Social Security. Due to the growing proportion of seniors relative to workers, the program has had to increasingly rely on its reserve trust fund to pay out benefits. Without changes, in 20 to 25 years, beneficiaries will have to be paid entirely from taxes at a rate of approximately \$0.75 on the current dollar.

It’s one of the first programs Kerrey would change, along with addressing the lack of retirement savings on the part of many Americans. As each larger, older generation approaches seniority with fewer young workers to pay for benefits, their retirement accounts will be ever more crucial. Many people worry that the savings just aren’t there.

“If you’re 30, it’s not too late to start saving,” Kerrey said. “It is way too late if you start when you’re 60.”

Instead, he suggests a mandatory retirement account for every child born, something the government could create and put a relatively small amount of money into, like \$1,000, to simply grow over the course of the child’s life. That, Kerrey suggested, along with changes to Social Security such as means testing and a tax increase, could stabilize the system for the foreseeable future.