Baby Boomers: Hope For The Best Or Plan For The Worst?
by Leonard D. Schaeffer

The Long Baby Boom: An Optimistic Vision for a Graying Generation
by Jeff Goldsmith
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In The Long Baby Boom, Jeff Goldsmith challenges the growing consensus that the projected increases in spending for Medicare and Social Security threaten the economic future of the United States. His effort to debunk the “catastropharians”—Goldsmith’s term for those who warn that, left unchecked, the federal spending generated by baby-boom retirement will lead to an unsustainable budget deficit for future generations—begins with an insightful discussion of baby-boomers’ values, attitudes, and behavior.

Goldsmith makes three observations about baby boomers that should inform policy change: they are interested in continuing to work, their confidence in government is limited, and they accept that Social Security and Medicare will provide limited postretirement support. Goldsmith further asserts that baby boomers will be able to self-finance a significant percentage of their social needs, thus reducing the shift to younger workers. In addition, he argues, the wealth amassed by the top quartile will fuel future economic growth.

Goldsmith says past is not prologue. He understands that the heterogeneity of the boomer population is significant. He stratifies them into three groups: Set for Life; Might Be OK; and Struggling and Anxious. His vision is flexible policy that gives greater choice and control over public benefits. Rejecting the one-size-fits-all solutions of the past is a promising approach to ending the practice of giving social subsidies to those who do not need them.

Goldsmith’s optimism springs largely from his assumptions about boomers’ wealth. His data, however, are at odds with other analyses. For instance, the Center for Retirement Research (CRR) found that even if households work to age sixty-five and annuitize all of their financial assets, including receipts from reverse mortgages, 44 percent would still be “at risk” of being unable to maintain their standard of living in retirement.1 Also, baby boomers are not all building reserves for retirement. Instead, many spend all of their earnings and more, contributing to the negative savings rate and huge credit card debt among the working population.2

Like most policy experts, Goldsmith selects information that advances his thesis. When the issues are as complex as Social Security and Medicare, however, the policy community has a responsibility to reconcile different data and conclusions to shape effective policy for a heterogeneous population.

Since nearly all baby boomers will need and use Medicare, any discussion of boomers’ financial health must include the potential impact of private health care spending. The CRR study found that when health care (out-of-pocket payments) was factored in, the percentage of “at risk” households climbed from 44 percent to 61 percent.3 In addition, the CRR estimated that an individual and couple should have $102,000 and $206,000, respectively, earmarked for health care when they re-

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tire. Fidelity Investments estimates that a couple will need $225,000 in savings for medical costs when they retire. Most “Set for Lifers” probably can absorb such costs, but many “Might Be OKs” will be caught by surprise when they join the “Struggling and Anxious” because of health care costs.

Goldsmith also underestimates the problem of rising health care costs for the Medicare program. He too easily dismisses the concerns of the comptroller general, the Congressional Budget Office (CBO), the Centers for Medicare and Medicaid Services, the Medicare trustees, and the sixteen economist members of the Brookings-Heritage Fiscal Seminar. Despite the diversity in ideology and politics, there is remarkable consistency that the “enormous gap between projected federal spending and revenues” must be narrowed. Moreover, most agree that the rate of cost growth per beneficiary, not the number of beneficiaries, is the chief concern.

Goldsmith chastises catastropharians for making fiscal projections that are “absurd” because they are based on current ground rules. However, many credible organizations vary their assumptions with respect to growth rates and still conclude that the fiscal outlook is grim. The CBO has even changed its methodology to assume that Medicare will not grow at historical rates but will, in fact, slow because employers, households, and insurance firms will change their behavior to avoid reducing consumption of nonhealth goods.

Goldsmith also suggests that baby boomers will be the “economic engine” that allows the country to grow its way out of its fiscal problems. Unfortunately, he may be promoting a myth that perpetuates inaction. According to the Brookings-Heritage seminar, “we cannot grow our way to a sustainable budget outlook” (nor can we tax our way out). Goldsmith further minimizes the risks of excessive borrowing from foreign countries.

Goldsmith’s perspective is not as far from the catastropharians’ as he claims. After all, Goldsmith’s contrarian, optimistic vision still requires a challenging set of policy changes to avoid the economic consequences of “autopilot” federal spending. Catastropharians and Goldsmith both agree that the real problem is evading tough choices. And Goldsmith’s proposals are worth exploring. It makes sense to consider simplifying the Medicare benefit and to incorporate long-term care. In addition, one of Goldsmith’s best insights is that “Medicare has become an entitlement program for providers of health care” (pp. 33, 109). We must address that by changing incentives to health care providers through payment reform and eliminating up to 30 percent of unnecessary medical spending.

Whether one is a catastropharian or an optimist, after one decides what needs to happen, the real problem is how to get it done. The politics of health care and Social Security have prevented meaningful change. Unless the health policy community acts quickly, those seeking a political decision to reduce the federal deficit or our dependence on foreign lenders may, by default, set future Social Security and Medicare policy. Goldsmith paints a persuasive picture of a more positive outcome for both baby boomers and our economy. I hope he is right.

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NOTES

1. A.H. Munnell et al., Health Care Costs Drive Up the National Retirement Risk Index, Issue Brief no. 8-3 (Boston: Center for Retirement Research at Boston College, February 2008), 1.
3. Munnell et al., Health Care Costs Drive Up the National Retirement Risk Index, 4.
8. Ibid., 8.