



The Fiscal Implications of Inadequate Retirement Savings in Maine

Policy Brief

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This study estimates the future costs to taxpayers from new retirees in Maine and in the United States as a whole. Inadequate savings for retirement creates fiscal costs due to increased elderly reliance on public assistance. An aging workforce moving into retirement is increasing public-assistance spending on the elderly. Moreover, savings for retirement has been declining in recent years, which will further exacerbate the problem. But the fiscal burden from the retirement-age population does not have to grow. Simulations show that increasing retirement income through greater preretirement savings can substantially reduce the need for taxpayer contributions for public assistance.

The charts below show average public-assistance spending per retirement-age person (defined here as ages 65 to 79) in 2016 dollars. These are estimated using data from the Current Population Survey.

Estimated Annual Means-Tested Public Assistance per Elderly - United States (Average for Ages 65-79 during 2009-13 but in 2016 \$)							
	mean	less than	\$5,000 to	\$10,000 to	\$15,000 to	\$20,000 to	more than
"Retirement" Income	\$25,827	\$5,000	\$9,999	\$14,999	\$19,999	\$24,999	\$24,999
Total Public Assistance	\$987	\$3,697	\$2,210	\$1,491	\$724	\$430	\$270
Medicaid	\$520	\$1,498	\$1,147	\$832	\$422	\$276	\$195
Supplemental Security Income	\$181	\$1,221	\$342	\$137	\$98	\$39	\$20
Food Stamps	\$143	\$431	\$321	\$249	\$122	\$78	\$38
Housing Subsidies	\$103	\$436	\$333	\$215	\$43	\$8	\$1
Other	\$40	\$111	\$67	\$59	\$38	\$30	\$17

Estimated Annual Means-Tested Public Assistance per Elderly - Maine (Average for Ages 65-79 during 2009-13 but in 2016 \$)							
	mean	less than	\$5,000 to	\$10,000 to	\$15,000 to	\$20,000 to	more than
"Retirement" Income	\$24,956	\$5,000	\$9,999	\$14,999	\$19,999	\$24,999	\$24,999
Total Public Assistance	\$841	\$2,811	\$2,214	\$1,282	\$755	\$700	\$185
Medicaid	\$377	\$486	\$707	\$604	\$500	\$428	\$136
Supplemental Security Income	\$134	\$1,171	\$602	\$46	\$0	\$58	\$0
Food Stamps	\$164	\$365	\$488	\$332	\$124	\$145	\$30
Housing Subsidies	\$95	\$588	\$360	\$159	\$38	\$1	\$0
Other	\$70	\$201	\$57	\$141	\$94	\$68	\$18

Total means-tested public-assistance spending on the age 65 to 79 population is estimated to be \$37 billion nationally in 2016 (this does not Social Security). Most (76%) of this fiscal cost is federally financed. In Maine, public-assistance spending on the retirement-age population was \$164 million, with about \$28 million of the fiscal cost financed within the state.

Continuing demographic change (i.e., baby boomers reaching retirement age) will cause these costs to rise substantially. Using data from the American Community Survey, the U.S. retirement-age population is projected to be 39% greater in 2032 than in 2016. Maine’s retirement age population is projected to increase 30% between 2016 and 2032.

Compounding this, asset accumulation among the U.S. preretirement-age population has not kept pace with economic growth. In fact, as shown in the chart below estimated using data from the Health and Retirement Study, preretirement asset accumulation has more than just stagnated in recent years; in constant dollars it declined between 2006 and 2014. Although the recession, bear market, and slump in housing prices were contributing factors, they do not fully explain the downward trend. Moreover, the downward trend in asset accumulation has been

Estimated Total Net Wealth for Americans Age 47 - 61 (in 2016 \$)				
Year	Not Including Pension Wealth		Including Pension Wealth	
	Mean	Median	Mean	Median
1992	\$387,077	\$150,539	\$575,443	\$341,710
1994	\$430,303	\$167,940	\$608,436	\$360,760
1996	\$442,634	\$165,793	\$667,758	\$373,338
1998	\$458,032	\$164,618	\$745,728	\$410,936
2000	\$525,506	\$178,402	\$787,114	\$447,680
2002	\$498,680	\$194,781	\$766,361	\$465,538
2004	\$523,220	\$182,959	\$766,598	\$457,429
2006	\$573,533	\$203,577	\$851,981	\$486,594
2008	\$512,666	\$170,555	\$794,303	\$438,810
2010	\$458,169	\$73,965	\$716,003	\$318,435
2012	\$450,790	\$65,857		
2014	\$444,966	\$70,562		

particularly severe in the lower half of the wealth distribution; that is, low- and middle-income households who would most benefit from better opportunities to save for retirement.

After accounting for these trends, the national cost of public assistance on the retirement-age population is projected to be \$86 billion in 2032 (i.e., 2.4 times higher than in 2016, even without any inflation). Maine’s fiscal cost is projected to increase to \$362 million in 2032, with the state’s share growing to \$61 million (2.2 times greater than in 2016). The chart below shows the estimated costs of new retirees beginning in 2018.

Fiscal Costs from New Retirees (in 2016 \$)				
Year	United States		Maine	
	Total Cost	Cost to States	Total Cost	Cost to Maine Govt.
2018	\$4,727,301,571	\$1,117,173,921	\$21,236,635	\$3,599,714
2019	\$9,697,150,906	\$2,291,667,655	\$44,067,508	\$7,469,659
2020	\$14,930,627,266	\$3,528,462,731	\$66,991,083	\$11,355,317
2021	\$20,399,802,301	\$4,820,959,017	\$90,440,387	\$15,330,089
2022	\$26,115,113,133	\$6,171,623,051	\$115,984,726	\$19,659,980
2023	\$31,972,518,709	\$7,555,867,458	\$141,296,504	\$23,950,450
2024	\$37,911,501,387	\$8,959,390,476	\$167,269,306	\$28,352,967
2025	\$43,985,533,648	\$10,394,828,926	\$193,521,295	\$32,802,808
2026	\$50,233,894,621	\$11,871,465,401	\$218,641,158	\$37,060,748
2027	\$56,476,415,397	\$13,346,721,699	\$244,575,228	\$41,456,700
2028	\$62,772,344,066	\$14,834,599,554	\$269,878,612	\$45,745,748
2029	\$69,058,496,552	\$16,320,167,064	\$294,107,532	\$49,852,668
2030	\$75,150,378,111	\$17,759,823,728	\$317,375,244	\$53,796,660
2031	\$80,897,298,810	\$19,117,957,927	\$338,932,927	\$57,450,793
2032	\$86,425,799,580	\$20,424,474,296	\$361,599,782	\$61,292,936

The fiscal cost from the retirement-age population does not have to grow to such a magnitude, though. Increasing retirement income through greater preretirement savings can substantially reduce taxpayer contributions for public assistance. For example, the table below shows the estimated annual fiscal effects per \$1,000 of retirement income for bottom 40% of the retirement income distribution. Nationally, an additional \$1,000 in retirement income would lead to \$3.9 billion in fiscal savings by 2032. An additional \$1,000 in retirement income in Maine would create \$15.6 million in fiscal savings in 2032.

Annual Fiscal Savings if Retirement Incomes of the Bottom Two Quintiles were \$1,000 Greater (in 2016 \$)

Year	United States		Maine	
	Total Cost	Cost to States	Total Cost	Cost to Maine Govt.
2018	-\$280,124,989	-\$66,200,205	-\$1,200,346	-\$203,465
2019	-\$561,785,771	-\$132,763,354	-\$2,435,319	-\$412,798
2020	-\$846,233,964	-\$199,985,235	-\$3,622,130	-\$613,969
2021	-\$1,131,875,670	-\$267,489,172	-\$4,787,288	-\$811,469
2022	-\$1,419,314,190	-\$335,417,738	-\$6,013,917	-\$1,019,388
2023	-\$1,702,988,548	-\$402,456,743	-\$7,180,392	-\$1,217,112
2024	-\$1,980,026,821	-\$467,927,483	-\$8,335,019	-\$1,412,826
2025	-\$2,253,596,983	-\$532,578,627	-\$9,459,985	-\$1,603,514
2026	-\$2,525,899,714	-\$596,930,246	-\$10,489,346	-\$1,777,996
2027	-\$2,788,126,772	-\$658,900,743	-\$11,520,045	-\$1,952,704
2028	-\$3,043,693,762	-\$719,297,308	-\$12,485,149	-\$2,116,294
2029	-\$3,289,931,149	-\$777,489,066	-\$13,367,872	-\$2,265,920
2030	-\$3,518,661,533	-\$831,543,502	-\$14,177,419	-\$2,403,142
2031	-\$3,723,805,752	-\$880,023,965	-\$14,884,481	-\$2,522,992
2032	-\$3,912,229,664	-\$924,553,022	-\$15,615,756	-\$2,646,947