

A Financially Secure and Healthy Retirement

A financially secure and healthy retirement is our ninth and final gateway to a life of opportunity. A secure and healthy retirement should be the reward for a life of hard work and contribution to family and community.

Those who enjoy financial security and good health in their senior years will remain active participants in the lives of their families and communities, experience fewer expensive health complications, remain self-reliant longer, and ultimately be most likely to pass resources (and therefore opportunity) on to future generations.

Those who are not financially secure or in good health in their senior years will suffer a greatly diminished quality of life. Many may have to delay retirement in order to meet their financial needs.

And rather than being able to leave resources to future generations, many seniors may have to rely on family or the public sector to meet their basic needs or to pay the high cost of health care or long-term care.

We have chosen four indicators to determine how well Coloradans are preparing for this final gateway in a life of opportunity.

Indicator 1: Colorado workers participating in workplace retirement plans

Payments from employer sponsored retirement plans are a potentially significant source of income for retirees.

Indicator 2: Financial soundness of Colorado-based pension plans

Pension benefits for Colorado retirees depend on the financial soundness of pension plans offered by private and public entities in Colorado.

Indicator 3: Retirement assets owned by families

Retirees can use assets in individual retirement accounts, Keogh plans and 401(k) plans to supplement income from pension plans and Social Security.

Indicator 4: Colorado seniors with long term care risk factors

The odds of suffering a disability or chronic illness that requires long term care increases with age and identifiable risk factors. This is a significant health risk for Colorado's seniors and a potential drain on their retirement assets.





Backgrounder: The federal government plays the most critical role in guaranteeing a financially secure and healthy retirement.

Federal programs are by far the dominant public programs contributing to the financial security and health of our seniors. Social Security, established in the 1930s, and Medicare, established in the 1960s, combined to greatly enhance the quality of life of American seniors.

Before Social Security, the senior years were often a cruel time in life. Many people were forced to work until their bodies wore out. Many others relied on relatives for their well-being, or lived and died in poverty. Without Social Security, the golden years were far from golden for many Americans.

In December 2003, 356,594 retirees in Colorado received Social Security payments.¹ For most, Social Security payments are a critical source of income.

Of Colorado seniors, 65 percent get half or more of their income from Social Security. And 73 percent of those 75 or older get half or more of their income from Social Security.

Stated another way, the average Colorado senior aged 65 and older relies on Social Security for 65 percent of income, and

those 75 and older count on it for 75 percent of income. Hispanic seniors and non-married women rely on Social Security for three-quarters of their income.²

For the three-year period from 2000 through 2002, Social Security benefits lifted 151,000 Colorado seniors above the poverty line. Only 7 percent of Colorado seniors had income below the federal poverty line during this period. Without Social Security, it would have been 43 percent.³

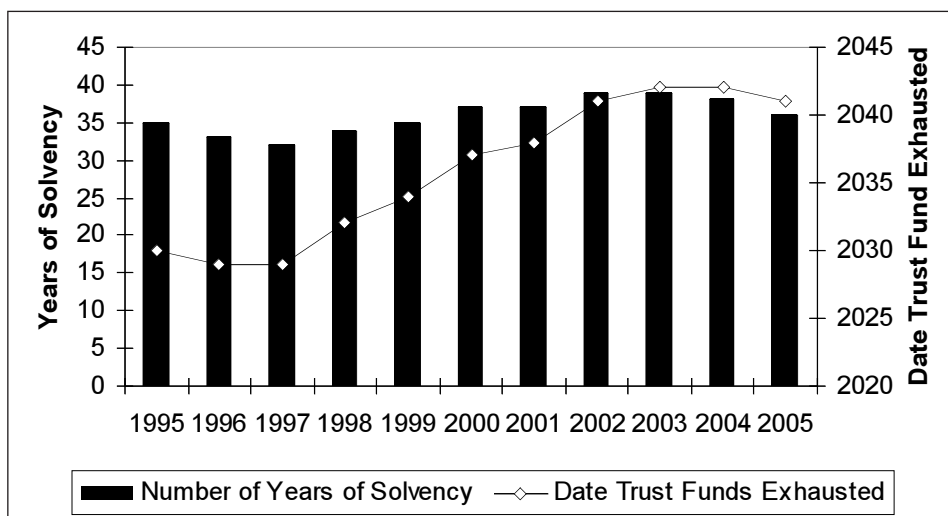
Before Medicare, medical costs threatened the economic security of many seniors. The creation of Medicare in 1965 substantially altered the picture by reducing the burden of health care costs for most elderly Americans. Today most Colorado seniors depend on Medicare for health care. Only 1 percent of Coloradans aged 65 and older lack health insurance, compared to 14 percent of those aged 60 to 64.⁴

Projected solvency of Social Security and Medicare

Because so many Colorado seniors depend heavily on Social Security and Medicare, and because many more will depend on these programs in the future, the financial soundness of both programs is crucial to their economic well-being.

Both programs are funded by payroll taxes paid by most American workers. Revenues in excess of current costs are deposited in trust funds to support the programs in the future.

Figure 1. Social Security trustees intermediate projections of the solvency of the Old Age and Survivors Insurance Trust Fund



Source: Bell calculations based on annual reports of the Trustees of the Social Security and Medicare trust funds, 1995 – 2005.

Each year the trustees of the Social Security System project the solvency of both programs. Recent projections suggest both programs need adjustment to ensure their long-term solvency.

Social Security

The trustees make three projections each year: a low cost, a high cost and a best estimate projection. These estimates are based on current law and factors such as birth rates, life expectancy, economic growth and immigration. As a result, health of the system changes from year to year.

Figure 2, on the facing page, shows the trustees' best estimate projection for solvency of the Old Age and Survivors Insurance (OASI) Trust Fund from 1995 through 2005, and shows the number of years into the future the trustees project the system to remain solvent.

In 2005, the trustees projected the fund will exhaust its assets in 36 years, far short of the goal of 75 years of solvency. But even if the assets in the trust fund are exhausted, Social Security is projected to be able to pay 68 percent of the benefits promised under current law in 2080, 75 years from 2005.⁵

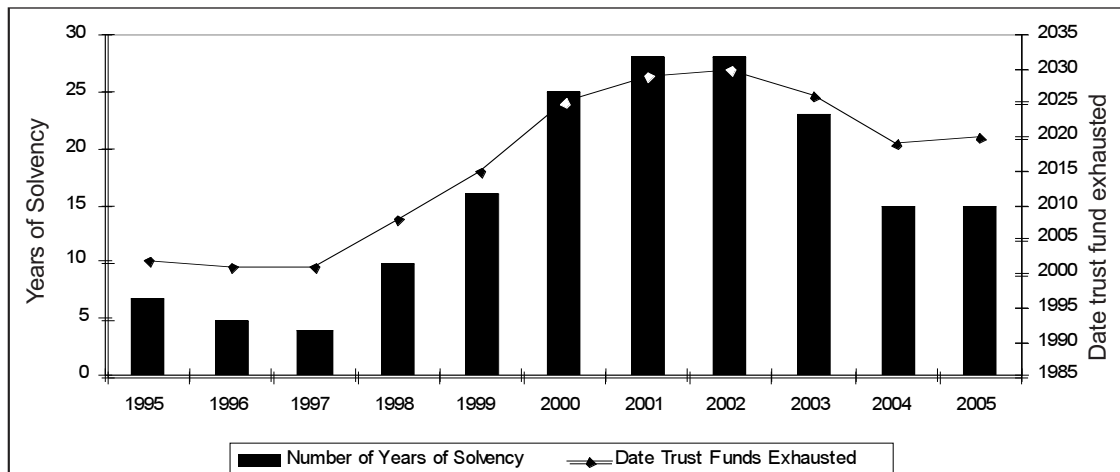
Medicare

Despite national attention on the Social Security system, it is Medicare that faces the most immediate and serious challenges. In 2005, the Social Security trustees' best estimate indicates assets in the Hospital Insurance Trust Fund will be exhausted by 2020, far short of the desired goal of projected solvency for 75 years.

Expenses for doctor's bills and other expenses incurred by outpatients and the newly enacted prescription drug benefits are financed through monthly premiums charged to beneficiaries and general fund appropriations from the federal treasury.

In order to maintain the fiscal soundness of the entire Medicare system, the federal government will have to appropriate sufficient funds to cover doctor's bills and prescription drug costs, raise the premiums charged to beneficiaries, increase payroll taxes going toward the Hospital Insurance Trust Fund, reduce or restrain increases in health care costs, or a combination of all of these.

Figure 2. Social Security Trustees intermediate projections of the solvency of the Hospital Insurance Trust Fund



Source: Bell calculations based on annual reports of the trustees of the Social Security and Medicare trust funds, 1995 – 2005.





Backgrounder: Seniors are the fastest growing age group in Colorado.

As the Baby Boom generation ages across the United States, Colorado will see a rapid increase in the number of residents 65 and older. In fact, this will be the fastest growing segment of Colorado's population over the next 25 years.

The number of Colorado residents in this age bracket is expected to increase by 505,300, or 112 percent, according to the U.S. Census Bureau. Among those 65 and older, the fastest growing segment is expected to be those aged 85 and older, which is projected to increase by 87,438 or 196 percent.

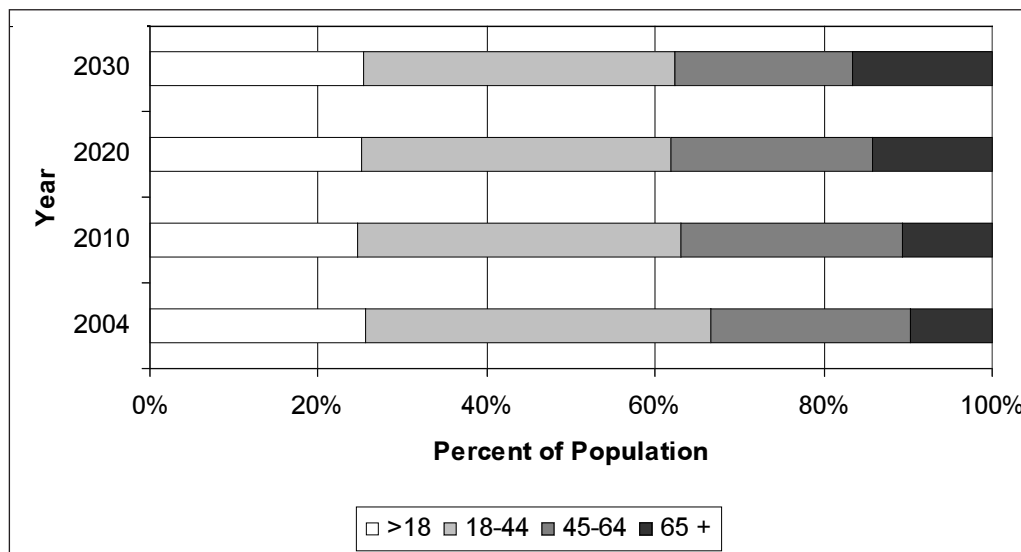
Even with these increases in the senior population, Colorado will remain one of the youngest states in the nation.

Currently, Colorado ranks 48th in the percentage of its population aged 65 and older. By 2030, Colorado is projected to be ranked 47th for population aged 65 and older.⁶

In 2004 there were 15 people aged 65 and older per 100 people aged 20 to 64. Known as the old age dependency ratio, this measures the number of people who are retired or getting ready to retire for every 100 people who are still likely to be in the workforce.

Stated another way, in 2004 there were 6.7 working-age Coloradans for every person of retirement age. By 2030, that number is expected to decline to 3.3 working-age Coloradans for every person of retirement age.⁷

Figure 3. Projected Colorado population by age 2004 – 2030



Source: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005.

Indicator 1: Colorado workers participating in workplace retirement plans

Most Coloradans will rely on pension payments, personal savings and Social Security payments to replace their earnings when they retire. Generally thought of as a three-legged stool, these income streams help people maintain their standard of living during retirement.

Payments from employer sponsored retirement plans can be a significant source of income for retirees. However, not all workers are covered by pension plans and not all of those who are choose to participate. Low-wage workers and minorities are less likely to participate in retirement plans at work.

From 2002 to 2004, 42 percent of Colorado workers were covered by employer sponsored pension plans. The national rate was 45 percent. The 58 percent of Colorado workers not covered by pension plans at work amounted to nearly 1.4 million people.

Workplace retirement plans changed over the past 25 years. The number of defined contribution plans, such as 401(k) plans in which employees invest a portion of their

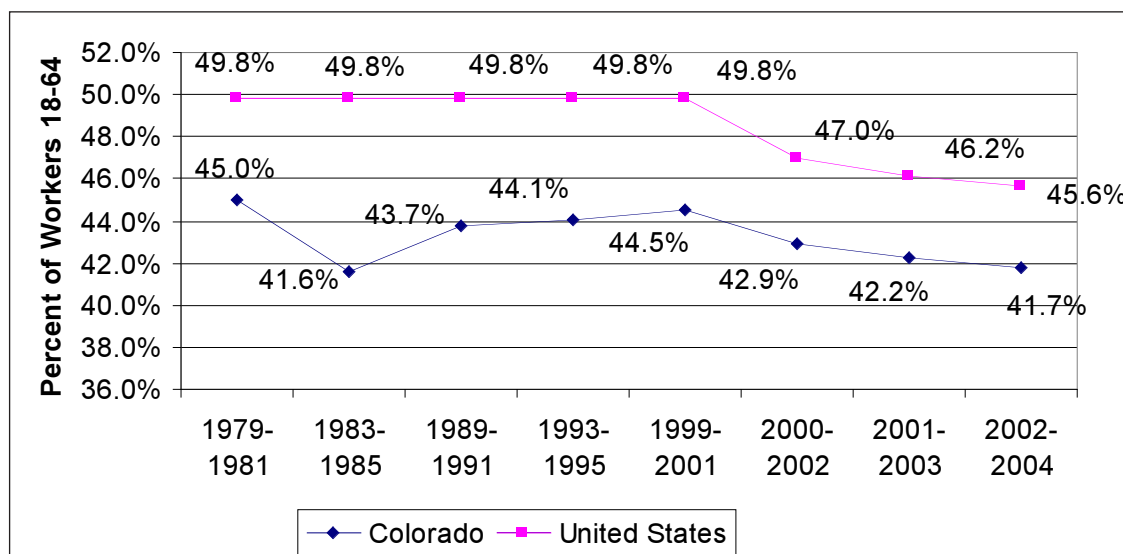
salaries, sometimes matched by employers, have increased.⁸ This trend shifts to workers the responsibility of funding and managing retirement.

Surveys by the U.S. Department of Labor show that nationally, workers who make less than \$15 per hour, work for small businesses or work in rural areas are less likely to participate in retirement plans than higher-wage workers, workers in large firms or those who work in metro areas.

Data on businesses offering retirement plans closely track data showing employee coverage and participation in retirement plans. Nationally, 49 percent of firms with less than 100 employees offer pension plans compared with 90 percent of firms with 100 or more employees. Metro businesses are more likely to offer retirement plans and fewer businesses in the intermountain West offer plans than businesses nationally.⁹

Currently, higher income, male or white workers are more likely to participate in pension plans and have more retirement savings than low-wage, female or minority workers.¹⁰

Figure 4. Percent of Colorado and U.S. workers 18-64 covered by an employer pension plan, 1979-81 to 2002-2004 (two-year moving averages)



Source: Economic Policy Institute analysis of data from the U.S. Census Bureau, Current Population Survey, March Supplement 1979 – 2005.





Indicator 2: Financial soundness of Colorado-based pension plans

As the recent experience of United Airlines retirees shows, pension benefits for Colorado retirees depend on the financial soundness of pension plans offered by private and public entities in Colorado.

Public sector pensions

Colorado's Public Employees Retirement Association (PERA) is the retirement system for most public employees, including state workers, teachers and municipal workers throughout the state. Government workers and their employers contribute to the PERA plan in lieu of Social Security.

At the end of 2004, PERA had a funding ratio of 70.6 percent, meaning it had about 71 cents in assets available to pay each \$1 in estimated long-term liabilities. This represents \$11.3 billion in unfunded liabilities.¹¹

Unless benefits are reduced or contributions increased, some estimates show the plan insolvent by 2035. Estimates indicate that PERA needs about \$400 million a year in additional contributions to stabilize the fund.

As of July 2005, approximately 365,000 employees and former employees from about

400 workplaces participated in PERA. In 2004, approximately 67,900 people received PERA benefits, including retirees and spouses of deceased beneficiaries. Almost 90 percent of all retirees and benefit recipients reside in Colorado.¹²

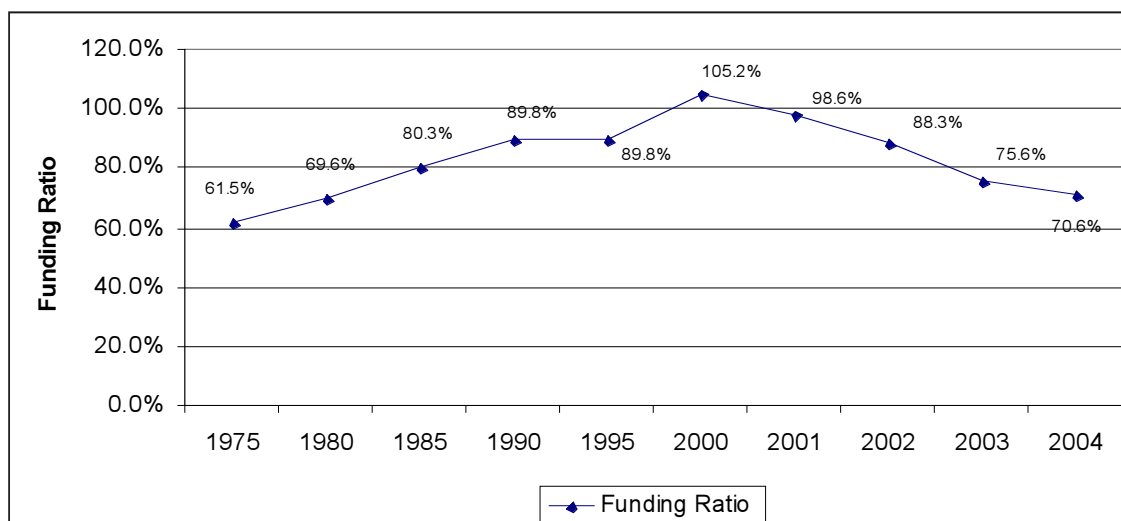
Private sector pensions

The U.S. Pension Benefit Guarantee Corp. (PBGC) takes over pension plans for companies in bankruptcy or those that can no longer pay their pensions. In 2002, the PBGC insured 323 pension plans offered by Colorado-based employers covering 385,353 employees.

PBGC reported that in 2002, the assets of plans offered by Colorado employers totaled \$17.4 billion and liabilities totaled \$15.6 billion.¹³ Although some plans may not have sufficient assets to cover the liabilities, overall Colorado pension plans had an excess of the assets over liabilities.

It is important to note, however, that some plans (such as United Airlines) appeared to be adequately funded right up until the point they needed to be bailed out by the PBGC.

Figure 5. PERA funding ratio for selected years, 1975 - 2004



Source: Colorado Public Employees Retirement Association, Comprehensive Annual Financial Report for the fiscal year ended Dec. 31, 2004.

Indicator 3: Retirement assets owned by households

Assets in individual retirement accounts (IRAs), Keogh accounts, 401(k) plans and thrift savings plans can be used by workers to supplement income from pension plans and Social Security.

The portion of families nationwide with retirement accounts, including IRAs, Keogh accounts, 401(k) plans and thrift savings plans, increased from 49 to 52 percent between 1998 and 2001.¹⁴ The median value of accounts increased by 11 percent, from \$26,100 to \$29,000. Most of the growth in value accrued to families in the top 40 percent of the income distribution.¹⁵

From 1998 to 2001, the percentage of white families with retirement accounts increased from 54 percent to 57 percent. During the same period, the percentage of minority families with retirement savings grew from 32 percent to 37 percent.

The median value of retirement savings accounts owned by white families increased from \$28,300 to \$35,000. However, the value of retirement assets owned by minority families declined from \$14,200 to \$10,000.

It is not clear whether this decline reflects a loss or simply the fact that many new participants may have opened their accounts with smaller amounts.

Table 1. Retirement asset ownership by household – 2001

Median family income	Percent owning asset		Median value of asset	
	1998	2001	1998	2001
\$10,300	9.4%	13.2%	\$6,500	\$4,500
\$24,400	30.9%	33.3%	\$9,800	\$8,000
\$39,900	53.5%	52.8%	\$13,100	\$13,600
\$64,800	69.2%	75.7%	\$22,900	\$30,000
\$98,700	75.3%	83.7%	\$47,100	\$55,000
\$169,600	87.5%	88.3%	\$98,000	\$130,000
All families	48.9%	52.2%	\$26,100	\$29,000

Source: Recent Changes in U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances, Federal Reserve Bulletin, Federal Reserve Bank, Washington, D.C., January 2003

Table 2. Retirement assets ownership by race

Racial category	Percent of families owning asset		Median value of asset	
	1998	2001	1998	2001
White	53.7%	56.9%	\$28,300	\$35,000
Minority	32.1%	37.3%	\$14,200	\$10,000
All families	48.9%	52.2%	\$26,100	\$29,000

Source: Recent Changes in U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances, Federal Reserve Bulletin, Federal Reserve Bank, Washington, D.C., January 2003





Indicator 4: Colorado seniors with long term care risk factors

The odds of suffering from a disability or chronic illness that requires long term care increases with age and identifiable risk factors. This is a significant health risk for Colorado's seniors and a potential drain on their retirement assets.

Among Coloradans most likely to need long term care services are seniors over 85, those with limitations in self-care or mobility, or those who live alone.

Seniors with long-term physical, mental or emotional conditions that make it difficult for them to dress, bathe or get around inside the house, and those who cannot go outside the home to shop or visit a doctor's office, are likely to need long term care services.

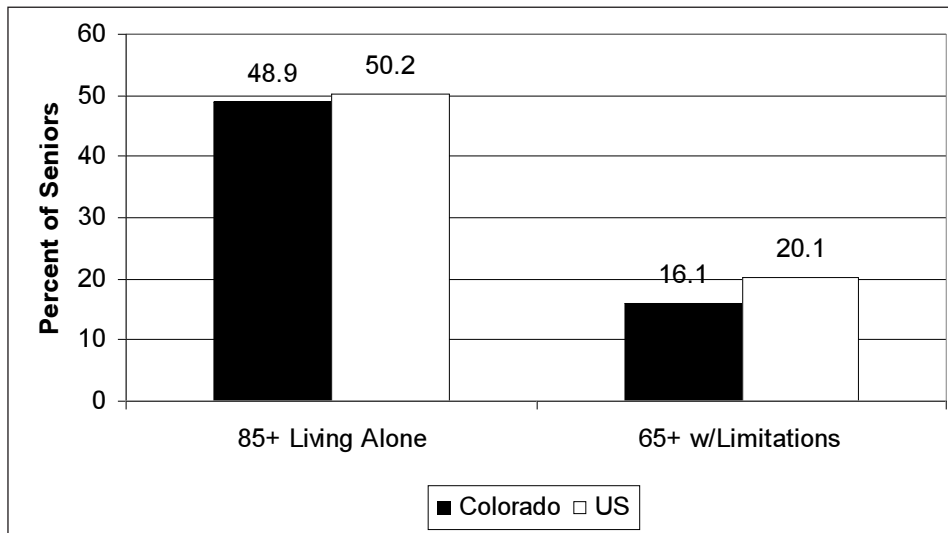
Of Coloradans 65 or older in 2002, 16 percent were limited in their ability to care for themselves or go out of the house, below the national average of 20 percent. Of Coloradans 85 and older in 2002, 49 percent lived alone, near the national average of 50 percent.¹⁶

Seniors over 85 are projected to be the fastest growing segment of Colorado's population over the next 25 years, increasing by 196 percent or 87,438 people.¹⁷

Most seniors will be eligible for Medicare when they turn 65, but many also will need supplemental insurance or additional savings to pay for care not covered by Medicare. As more people live into their 80s, growing numbers of Coloradans will need long term care.

The state Medicaid program, not the federal Medicare program, bears most of the costs for long term care. So growth in the number of residents who need these services poses a challenge to the state's budget.

Figure 6. Colorado and U.S. seniors with long term care risk factors, 2002



Source: AARP, Across the States, Profiles of Long-Term Care: Colorado, 2004.

What is Colorado doing?

Pensions and retirement savings

Most policies relating to pensions and Social Security are within the purview of the federal government.

Colorado operates the Old Age Pension Program (OAP), first added to the Colorado Constitution in 1936, to provide cash assistance to low-income people 60 and older. This program also provides health and dental care. To be eligible for OAP, a person must be a Colorado resident and a U.S. citizen or legal immigrant with a monthly income of less than \$589 (76 percent of the federal poverty level) and less than \$2,000 in available resources.

In FY 2005-06, it is projected that 4,985 seniors aged 60-64 will receive average monthly payments of \$297 from the OAP program. Over 20,000 seniors 65 and older are expected to receive average monthly payments of \$191 under the program.¹⁸

Health care services are provided to people who qualify for the OAP. Because the Legislature caps the annual expenses for the program at \$10.7 million, the Medical Services Board reduced benefits and reimbursements to stay under the appropriations cap.

The Legislative Audit Committee reviewed the financial and performance audits conducted on the Colorado Public Employees Retirement Association (PERA) in July and August 2005. In September 2005, a special commission appointed by state Treasurer Mike Coffman to study the financial soundness of PERA made recommendations to strengthen the retirement system.

It is likely that the Legislature will consider bills to improve PERA's financial health during the 2006 session. The proposals could include increasing employer contributions, increasing employee contributions, cutting benefits, reducing cost of living adjustments for retirees and raising the age for retirement.

Homestead exemption

In 2000, Colorado voters approved the Homestead Exemption for qualifying seniors. The exemption excludes from property taxation 50 percent of the value of a senior's primary residence up to a set maximum. The homestead exemption was not funded for 2003 through 2005 due to the state budget crisis. With the approval of Referendum C, the Legislature is likely to consider fully funding the Homestead Exemption.

Long term care

Colorado's Medicaid program covers individuals who make up to 300 percent of the federal Supplemental Security Income (SSI) payment level (about \$21,000) and are in need of long term care services in institutions or their community.

There were about 9,300 Medicaid clients in nursing homes in FY 2004-05. The number of long term care patients in nursing homes has been declining as more services are being provided in community settings.

Long term care recipients include disabled as well as the elderly. In 2003, long term care comprised almost 35 percent of total Medicaid spending in Colorado, slightly higher than the 32 percent national average.

Because it is generally less expensive, Colorado provides long term care in community settings more frequently than the national average.

In 2005, the Legislature created the long term care advisory committee to study innovative ways of providing long term care. Staffed by the Colorado Health Institute, the committee is expected to report its recommendations by July 2006.

Colorado offers a permanent tax credit to help underwrite the costs of long term care insurance. The credit, equal to 25 percent of the amount paid for insurance during the year up to \$150, is available to individual and joint filers with federal taxable income of \$50,000 or less.





What more should Colorado do?

Retirement savings

Research has shown that shifting the method for enrolling in 401(k) plans from requiring employees to opt in to requiring them to opt out expands the number of workers, particularly low-wage workers, who enroll. Federal law and regulations allow companies to automatically enroll their workers in 401(k) plans and to deduct a percent of their wages to fund them.¹⁹

Recommendation: Colorado business, political and community leaders should lead an outreach and education effort to encourage Colorado employers to offer automatic enrollment in their 401(k) plans.

Increasing the number of employers that offer automatic enrollment will likely increase the number of workers, particularly those earning low wages, who participate in 401(k) plans.

Most small businesses do not provide retirement plans for their workers. Surveys show there may be many reasons for this, including cost, complexity and lack of demand from employees.

However, expanding the number of small businesses that offer retirement plans, even if they do not match contributions from workers, will help increase the number of workers who regularly save for retirement.

Recommendation: The governor and legislative leadership should appoint a commission of small business owners, pension experts, workers and policy makers to identify the barriers small businesses face in offering pension plans and to recommend actions to promote pension plans among small businesses.

One approach to making pension plans available to more workers is to create voluntary pension accounts accessible to all workers in Colorado. This idea is similar to a proposal developed by Dean Baker at the Center for Policy and Economic Research and considered by the Washington Legislature.

Such accounts would be defined contribution plans that could be administered by PERA or another appropriate entity and open to anyone who works in Colorado.

Workers would contribute part of their earnings to accounts similar to the defined contribution accounts that PERA offers to its members. Employees could contribute to the same account even if they change jobs within Colorado. Employers could also contribute a matching amount but would not be required to do so.

This approach would offer an easy and inexpensive way for small businesses to offer retirement plans for their employees.

Information online:

Retirement Security Project: www.retirementsecurityproject.org/

Social Security System Trustees Reports: www.ssa.gov/OACT/TR/

Social Security Administration Office of Policy: www.ssa.gov/policy/

Social Security Administration Retirement Research Consortium:

www.ssa.gov/policy/about/partnerships.html

Federal Reserve Board Survey of Consumer Finances:

www.federalreserve.gov/pubs/oss/oss2/scfindex.html

Colorado Public Employees Retirement Association (PERA): www.copera.org/

Research shows that these types of accounts would help lower-income workers, most of whom do not currently have access to retirement accounts at work, build pension assets.

There are initial costs associated with setting up the accounts. Congressional approval is also required to allow Colorado participants to benefit from the tax incentives afforded participants in other plans.

Recommendation: The Legislature should establish Colorado voluntary pension accounts to provide access to retirement plans for all Colorado workers. These accounts should be portable, allowing workers to contribute to them from each job they have in Colorado.

Retirement fund solvency

Congress and the president should enact changes to ensure the solvency of the Social Security system. Research indicates that individual accounts such as those proposed by President Bush will not help the long-term solvency of the system, and may negatively affect significant portions of Colorado retirees, such as Hispanics.

But other changes, such as raising the income level subject to FICA taxes, raising the amount exempted under the federal estate tax and dedicating its revenue to the Social Security trust fund, or even raising the retirement age, should be considered.

Of more immediate concern is the financial crisis facing Medicare. Congress and the president should take immediate steps to increase funding and reduce expenses in a system that is projected to be insolvent by 2020.

While reducing expenses, priority should be placed on meeting the essential health care needs of America's seniors.

Congress also needs to ensure that the Pension Benefit Guarantee Corp. is adequately funded to pay the pension benefits for those workers in bankrupt companies or bankrupt plans.

Recommendation: Colorado's congressional delegation should take action to ensure the long-term solvency of the Social Security and Medicare trust funds. They should reject efforts to create personal accounts that will not help the long-term solvency of the retirement system.

Recommendation: Colorado's congressional delegation should take the necessary action to ensure that the Pension Benefit Guarantee Corp. is adequately funded to protect workers pensions.

Closer to home, almost 365,000 government employees are counting on the Public Employees Retirement Association for their retirement.

Colorado has a moral obligation to ensure those who have worked for the state, schools or cities receive the benefits they deserve from the state pension system. This is especially critical since many PERA recipients receive few if any Social Security benefits.

Recommendation: The Legislature should ensure that PERA is adequately funded. This may require a combination of rate increases for employers and employees and restructuring of benefits.

