

Forum on Financial Experiences of Older Adults

July 17, 2013

Forum on Financial Experiences of Older Adults: Opening Presentation

TED FISHMAN: Wow. What a delightful introduction. What a delightful opportunity it is for me to be here. Left out of my CV is, you know, my role as a parasite, which is off of economist and the researcher, you know, part of my job is just to take what you do and attach story to it. You know I really strongly believe that data is a story, and I think all of you who really focus on your topics see the story in the data. For the audiences I write for story is data so part of my job is to create data out of story and story out of data, and I want to commend the Fed on the survey that is, you know, undergirding this conference. It was stunning. You know I spent, you know, several years on my book and it was really humbling, two things, one is to see a lot of what I say in my book "Shock of Gray" and not "Shades of Grey," too bad [laughter] my retirement would be fine, in the report. But also I understand that at the end of this conference there's going to be somebody who summarizes the entire conference in ten minutes. So I need--I think my challenge is to find something that you can't quite squeeze into those ten minutes. It's a little humbling to talk about aging right here in Washington. You know, you--Washington often gets charged with being in a bubble. You know, outside of the reality of America. Out of touch and yet Washington makes decisions, but in, you know, I think that's an unfair charge because I'm from Hyde Park in Chicago, and all of Hyde Park has moved to Washington. But it's also unfair because Washington is an anomaly in aging. It is one of only five jurisdictions in the whole country that are getting demographically younger. It's pretty astonishing and you know, over the last ten years D.C. has actually shaved about two months from the median age and the rest of the country has added about, you know, two and a half years. That's a big difference, you know. And not only is it a difference in the gap, the trend line is different. Interestingly enough capital cities are often

younger than their countries. Paris is younger than France. Tokyo is younger than Japan. London is younger than the U.K., and one reason is that in aging places, in big aging places, you don't want to be the last young person in the place that you were. And you get yourself to where other young people are and this is something that deeply informs communities. It's this count pounding dynamic of young people leaving a place that's aging and getting to where other young people are and that leaves the places that are left behind, and you can see this very starkly in the industrial Mid-West. They get older and older and older and if any of you have traveled in Japan you know, for example, that you go to villages in Japan and there are simply no, and when I say no, I mean, zero young people in some of those villages, unless they're from Indonesia. Today we're lucky enough to have His Excellency Dino Patti Djalal, who's the Ambassador from Indonesia to the United States, and he's launched an initiative in Indonesia, which is about the Indonesian Diaspora. And the Indonesian Diaspora in many ways is propelled by people who are filling the demographic gaps that exist in other countries, putting young people into other countries. And there is all those, you know, when you look comprehensively as Governor Stein advised at this dynamic, there is so much that is touched by this demographic. How people move, how money moves, how jobs move around the world and even, you know, cultural transmission around the world. That's something I try to explore in my book. I have better news. Even better news than Washington getting younger and that's that economist are long lived. You know. You would expect that because they fit a lot of the demographics for a longer life, which is, you know, correlated to high income, high education and so on, and you know, there's a U.K. blog called "Real Deal Economics" and the gentleman who runs it calculated, you know, the lifespan of the American Noble Prize-winning Economist and found that it is seven years longer than the average American male. Of course, you only get the prize when you're older anyway, so

there's a selection bias there, but, you know, take some heart in that. I want to begin with a theme that came out of my conversation with Dan and Angelyque before the conference, and that is fighting the temptation to see the whole trend towards aging populations around the world is the world's biggest downer. It's something I face on this beat. You know everywhere I go, you know, its people like, you know, we listen to you for an hour Ted. I don't know if I really want to read your book. Do I really want to spend 12 hours learning about the aging world? And that's just 12 hours. It's something that people are hardwired to resist thinking about because they think it's depressing. And I think what people are overlooking is the overwhelming good news of the world that we find ourselves in. It's astonishing. When you consider what human beings have wanted ever since they first started talking to trees, mixing herbs in bowls, rattling moleskin rattles, talking to Philosopher Stones, its longer life. And for 7,000 generations human beings have basically lived the same amount of time as all those other 7,000 generations. You know, Bob Fogel wrote a great book on this, and only in the last five or six generations has the human life span been ticking up, and it's been ticking up really, really fast. It's doubled in that period. We're adding between one and a half to two and a half years of--to the average life span every decade, and when you think about the ingredients that go into that longer life, which are better health, better education, public health. I'm going to go through some these later. It's impossible, you know, and I think this is an equation I would love economists to focus on to identify any of those that you would give back even with the challenges that come with an aging world. There's just nothing you would trade back. Would you trade back public health? Would you trade back the emancipation of women? Would you trade back urbanization on the planet? And the good news of this, the choices that we make in order to get these longer lives, so overwhelm the negative side of it. And I also think we should give ourselves some slack. You know. We are

really the first generation that is dealing with the big problems that relate to aging, the big fiscal social problems that begin with aging. You know it took us 7,000 generations to get here. If we haven't figured it out right now while the first wave of crises are happening, it's just because humanity hasn't faced it before. You know. It's something we can tackle with the top of our intelligence and, of course, that's the driving reason for this conference. So what are some of the things that have helped people live longer? I just want to tick through these really quickly because they relate to the bigger argument. You know the first is the conquest of infectious disease. You know, that was just the world's biggest killer for most of those 7,000 generations. People tended to get sick and die four days later. You know. You could think of life two ways. You could think of it the way it used to be, which is an on/off switch, or you can think of the way it is today, which is a dimmer switch. You know. We're on the dimmer switch and the crises we face around planning for this older world all relate to the fact that we're on the dimmer and not on the on/off switch anymore. There's been a huge decrease in violent death. That's been covered pretty well in some literature recently. But there's also been, you know, a huge, huge kind of free medicine that the world has gotten in the form of public health, and public health has done more to extend life than any other kind of medicine you can imagine. You know. Think of any pill. Think of anything in the newspaper. Anything you would take to extend your own lifetime. It doesn't even compare to having clean water, breathable air or sewage systems. Those are the ingredients for longer health for everybody. And the most global product in the world might be health information. As soon as it's released its disseminated all over the world without barriers, and people have access to it. It is not hindered by, you know, patents or copyrights in the way that lots of other information that people are more slow to digest is. And it comes in ways that are surprising. When you have a literate society you have this society that's given itself the best

medicine in terms of getting access to good health practices and it doesn't just come through the medical literature that you get. It comes when you pick up a can of soup, a stick of gum. It comes when you turn on the TV. One out of twelve minutes on television is about health, health news. Only crime and politics get more coverage. But when you turn away from the news and you turn to a soap opera, you know, or reality show, Housewives of pick your place, what's on that people are talking about health issues and they're scripted by people who are literate on health issues. So even in the slums of Rio there might be a Telenovela where, you know, a beloved uncle is dying and the relatives are talking about the health crisis at the bed side. That's health information, which is useful information. And even if you are not literate, if you have proximity to literate people, then you get the benefit of the health information that they digest. You know we often hear that, you know, cities are more productive places because of the network effects that happen in cities. But they're also productive places in terms of creating longer life spans because of the network effects of better health, better health information, healthier people. Cities used to be the most dangerous places in the world, now they are healthier than the countryside from much of the world. And when people are healthy they make other people healthy. Education it turns out is the best preventative medicine. John C. Reilly, the health historian, notes that even in a very, you know, what can I say, countries early in their development cycle educating mothers has a profound effect on the mortality of their children. Educated mothers decrease infant mortality seven to nine percent every year, every generation that the mothers get educated. And yesterday- any of you follow the health news that comes from "Lancet" or "JAMA" or anything like that? There has been a kind of a cascade of fantastic news on the aging front recently. You know the biggest health scare when it comes to aging is this fear that we are going to live in a land that is overwhelmed by dementia. A few months ago in "The New England Journal" there was an

article about how the biggest health care expense in the United States is going to be the care of older demented people. But just in the last two weeks there was an interesting study that showed that ninety year olds today are more cognitively fit than ninety year olds were twenty years ago. This is good news. This is incredible good news. And another study that longer work also keeps people more cognitively fit. Now I wonder whether this is a study sponsored by industries that pay older people low wages, that they can compensate them with health. You know, and I should mention that this study was also conducted in France where they fight bitterly to retire early so the older workers who work past retirement might have been a super class of people in France, which would make them more like average Americans or Japanese. And today, well it was just yesterday, I guess, I saw the most hopeful study on aging as it relates to dementia that I've seen in a long time, maybe perhaps ever. And it combats a feeling that even exists among aging researchers. I just spoke to a group of brain researchers and neurologists and I can't tell you how heated the debate was about whether people should even be allowed to live longer lives or that we should be pushing towards longer life, because the fear of people living longer with dementia was so strong among these researchers, and they simply didn't see in their own work, some of those who took the shorter life argument simply didn't see the advantage of having longer lives with people who are going to be saddled with dementia longer. But the "Lancet" published a longitudinal study from the U.K. yesterday that compared older populations of three large municipalities starting from 1984 and going through the present, and it found that dementia in the older population in these three communities had dropped from, you know, for the over sixty crowd, from 8.3 percent to 6.5 percent. That's a 24 percent decrease in the incidents of dementia over time in the U.K. There was a very strange footnote to the study, which was that the older cohort that lived in demographically older cities had a higher rate of dementia than older cohorts

who lived in younger cities. And I think that probably gets to the power of the networked effects of good health. I don't know, it's a mysterious finding in a way. Now, while our brains might be staying fitter, other parts of our body are losing control. Almost right next to the news item on that study was a report on Japan that said that adult diapers in the next few years are expected to outsell baby diapers, and they're bigger. So the diaper manufacturers are retooling to serve that audience where very soon 40 percent of the Japanese population will be over 65. Another thing to keep on your watch is extreme old age. I've been to Washington several times to conferences where people are making the case that human beings will soon live to be not just 125, but 1,500 years old. You know it could happen. You know the model for that is the increase in processing power--where's my timer by the way? Where? Let's see, I just want to know. How am I doing? Okay. And, you know, you don't want people just working for 40 years if they're living to 105 and certainly not if they're living to 1,500 years old. So that's how I describe in a way how individuals age that's very different than how places age. Places age usually because people are getting older, but a much more powerful driver is shrinking family size. And I think this is one of the dynamics that is deeply overlooked in the literature on aging because as people get older places get older. But places can get older even if people don't get older and that changes the nature of the place. There is only one industrialized country in the whole world that's having children above the replacement fertility rate. Anybody know what that is? Israel. Israel is the only country. Every other industrialized country in the world is having children below replacement level and so is China, of course, because of the one child per family policy. Not only that, if you go anywhere in the world, even in fecund Africa or in the, you know, the countries we think of are as flush with youth such as those in the Middle East, if you look at the squares. In Egypt, for example, you see lots of young people. Family size is about half of what it was a

generation or two ago. Now that doesn't mean the world population is going to go down. Even as the median age of the world climbs from 29 to 39, which it will do by mid-century, the world will be adding billions to its population. The U.N. now estimates as of last week we will add four billion people to the planet by the end of this century. And you can count on the median age going up, and up, and up even as we add those people. And part of it, of course, is that people are surviving longer and that adds to the population dynamic. I want to shift now and talk about the global dimension of aging, which is something we talked about in our phone conversations.

Before I wrote the book "Shock of Gray" I wrote a book called "China, Inc." "China, Inc." described how the big changes in China changed the rest of the world. And the big change in China, when I wrote the book, seemed to me the migration of 150 million, now 250 million people from the countryside to the city. And I noticed when I was writing that book that as part of that migration one thing that happened is you created the biggest age divide that has ever existed in the history of the world. You kind of had an age of apartheid system where the old people were left back in the countryside, and the young people migrated to the cities. And I was wondering was that part of, you know, a massive form of global age arbitrage where the older industrialized countries were arbitraging away many of the costs that come with being an older place. The social safety net costs, the tax costs, the wage costs, and then moving them to a place that's younger and in effect driving the change in the age dynamic in the place that money went to.

And when you look back at the literature of why China started the one-child policy. It might interest you to know that it wasn't to avert a Malthusian nightmare where China thought it would have not enough food. It was because Deng Xiaoping looked at the tiger countries and the power house countries in East Asia and he saw that their economic miracles came with a contraction of fertility, and he wondered whether China could engineer that in reverse and thus save not only

the state, the cost of educating and feeding big families, but also put that burden on families at the same time making those burdens manageable. So you would invest a lot more in one child than you would in, you know, the ten children of the hero mother that Mao idolized. And has that happened? Has China created an environment where families are investing in their children, and those children are serving the rest of the world, and industrial clusters are moving away from advanced industrialized countries that have high burdens from age-related costs? You know. I think it has happened. And it's happening, and another thing happened too, which was when Chinese families moved to the city, when Chinese young people moved to the city they started having families, and they brought their older parents to the cities to take care of their one child. And so when a Chinese worker was hired you didn't just get the Chinese worker. You got their parents too in order to provide the social safety net. Well, now China is through that one generation or two generations of the one-child policy. And the children who first made that journey are not willing to be that grandparent. China has a--even though the Chinese economy is slowing, wage inflation is very high in China, around 15 percent. That's because Chinese workers know they don't have parents to provide those services for their families anymore, and they need to go out and purchase them. And that creates, you know, its own aging dynamic because, you know, the families that are in the city are creating educated children. Those educated children spend time going to school. They spend time investing in their career, and if you look at a city like Shanghai, they're not even at one child per family. They're at one child per two families. And that's why Chinese labor is contracting so much. So what's going to happen in China? Well, one of the Chinese Minister's told Sri Mulyani, the Indonesian woman at The World Bank, whose number two at The World Bank, that China expects to outsource 85 million jobs out of China, 85 million jobs. Where were those go? They'll go to other places, probably

Southeast Asia. Probably Indonesia where this whole dynamic will reboot. And you get this kind of wash/rinse repeat cycle where you get increased urbanization, education, hopefully better health, higher longevity, and then it moves to the next place, and that way you get more good news from this aging dynamic, which is the rolling of prosperity as the aging dynamic moves from one country to another. And if you look at the rapidity in which this change happens, it tends to happen in the next place far faster than it happened in the last place. So it took Japan 40 years to go from being the youngest country in the world in 1952 demographically to being the oldest country today. It will take China about ten years to make that same path, so these dynamics change real fast. How are we going to address this new world? I just want to go through a few things on this. I know we're not here to talk about big, you know, the big social programs like Social Security, Medicare and so on, but they do inform people's need for income, and, you know, I think a lot of the damage done to people that's reflected in the survey that joins this report is, you know, from the changes in the pension plan. I've seen a lot of kind of early activity for a Neo Pension Movement in the United States where you can replicate through private sector instruments, what people lost with the diminution of the defined-benefit plan. Some interesting proposals are allowing individuals to attach themselves to large state employee plans and get the actual actuarial benefits of being in a large pool instead of making yourself an actuarial class of one with your own retirement plan, and I think that's kind of interesting. I think we need to expand financial literacy. We're going to talk about that in this conference. You know. The work of Olivia Mitchell at Wharton is very interesting. Even a modicum of financial literacy increases retirement savings three-fold over a lifetime. I know we're going to talk about employment and the employment challenges for older workers. As you may know unemployment rate for workers 50 plus is near all-time highs. The job search time is very long, it

says 40 months in the survey. I've seen as high as 51--I mean 40 weeks. I've seen it as high as 51.5 weeks, nearly a year. And, you know, there are a lot of factors that go into it. Part of it is this arbitraging a way of labor. Another part of it is combating arbitrage labor with technology in the American workforce, which dis-employees people. I think a really interesting trend for you all to watch is what happens to the older workforce as the liquefaction of assets becomes more common. And by that I mean programs like Airbnb, car-sharing programs, chauffeur sharing programs, which allow people to take what exists in their home and make them into businesses. And what will small business lending do to facilitate those businesses? I hate to say, I have friends now in Chicago who are renting out rooms in their home and they're making, you know, \$250 a day with the rooms in their home. You know, are we going to turn into a country of that? We may. And then one last point I wanted to raise, which is about immigration, because Governor Stein brought it up. The demographic fears of the United States do propel the immigration debate. You know, we say we are a younger country not because of our fertility rate, but because of immigrants who come in, and that's true. That's why the United States is doing better than European Countries on demographic shifts. But there are some trends in immigration that are worth paying attention to. One of them is what happens when you bring in young immigrants? What happens to the next wave of immigrants who come in? There's been a shift in immigration in the last couple of years, the largest group of immigrants in the country-- you may know this already, is no longer Mexicans coming into the United States. There's actually a reverse migration back to Mexico among Mexican's in the United States. The biggest group coming in are Asians and Pacific Islanders. And they come in very often as skilled workers or as college students who end up as immigrants to the United States, and who do they bring in after they establish themselves here as Americans? They bring in their parents. The

biggest group of immigrants might be the Asians, but the biggest group of immigrants among the Asians are Asians over 60 years old. That's incredible. And so we do not have a world of social services that is equipped to deal with an aging immigrant population. We don't have the language skills. We don't have NGOs that can reach out to these communities. And they will be an increasingly large part of the community. Just a final word then. You know, we're facing two big challenges on the aging front for older people. One is the shrinking and challenge of social safety nets, and these are the fiscal challenges. A deeper challenge is the diminution of the family. Right now among women over 40 we have the highest percentage of women ever in the history of the United States who have no children. We have very low fertility among families that even do have children. The single child is a common place. The childless adult is a common place. We are one generation away from millions of Americans having no brothers or sisters, no cousins, no uncles and aunts. We expect families to pitch in when other safety nets fail. But who is that family? You're going to turn around and find not either that family is not there or the children you need at age 95--by the way, if you and a spouse or a partner reach age 65 together there's a 50/50 chance one of you will get to 95. If you turn around at 95 and you're expecting your 75-year-old children to help you, you might find that you're in a care home together. That is if you have those children. So what's the challenge of all of us? The challenge of us all is to figure out, you know, how do we be each other's family? I was really encouraged in the survey to see how many people turned to friends for support. You know. We need a way in order to handle the diminution of family to be each other's family, to be each other's friends. Thank you so much.

[Applause]

Questions? Too sobering? Let me ask you all a question. How many of you--okay think of your parent who has the most brothers and sisters. How many of you come from families where you

have fewer brothers and sisters than that parent? Okay. Now think of the parent with the fewest brothers and sisters. How many of you have fewer children than your parent with the fewest brothers and sisters? Okay. How many of you have parents with college degrees? I should have asked that first because that changes, because you're probably a generation ahead on this curve. How many of you have children who you think there's a 50/50 chance will have no children? Okay. That's unusual. How many have children who you think will have fewer children than you have children? Yeah, that's interesting. That's interesting. Well, that's the shape of the world. You know. That's the shape of the world, and among educated people that progression happens really, really fast. You know China right now is educating more people and higher at than the United States and India put together. And that's why, you know, for the big well educated richer municipalities they're not even at one child per family. You know. There at this one child per two family level, and that's how you get the diminution of the family. But as part of that package you also get children who are allowed to invest in their education and invest in their careers, postpone their fertility, have fewer children because they're starting later. And when they have children, they have children just like them and their fertility window is also small. And you know, it is one of the elements of a more prosperous world, of a more valuable workforce. But it is also kind of an inevitable dynamic. Yeah.

So you hear

[inaudible]

powerful policy makers, what would--sorry. If you had an audience with, you know, whoever are the most powerful policy makers here in Washington D.C., and you could recommend one or two things to address the challenges of aging, what would they be?

I think two things. One is we really need good retirement strategies for people that come out of the private sector. You know some instrument that replicates the defined benefit plan structure with a private instrument that you can opt in or maybe have the chance to opt out, because opting out is harder than opting in. You know. That's number one, and I think that's huge. I think that's huge. Another is I think you need a way to allow people, you know. This--the most challenged group of workers in the Country arguable is this 50 plus worker. And the 50 plus worker faces, you know, two fates. One, they can reinvest in their career, and often they bet, you know, the ranch on with the resources it takes to reeducate themselves, and so they go into debt. And it may or may not work out. It's very risky. so how do you get workers to that age 50 so that they have the resources where they can reinvest in themselves? What are the tools that we have in order to get people a pot of money that can reinvest in themselves? The 529 Plan allows you to do it, it's unreal. It's underutilized for people on themselves, and maybe there's other instruments for that. The other fate they face is turning into a contingent worker. You know somebody who doesn't get the salary. When people reenter the workforce--it's in the survey, they come in at a vastly reduced wage. You know between 20 and 50 percent less than they got before. You know. So I think that, you know, the work force separates into two pots. One is the worker who's kind of washed up and in danger at age 50 and the other who has accumulated enough knowledge late in their career to be more valuable in the workplace than they've ever been. So our challenge is to make sure that people when they reach what's considered late career, which shouldn't be late career, it's almost mid career, should be as valuable as they possibly can, so kind of retraining programs are really important in that giving people the resources. Denmark does a very, very good job in this constant retraining of the workforce. In Japan--you know the countries that have the highest workforce participation among older workers are the ones that are the most under

pensioned in the industrialized world. In Japan and South Korea they have the highest workforce participation. And what happens there is you retire as a man, maybe increasingly as a woman, in Japan, you go home, you sit at home for awhile while your wife looks sideways at you and calls you nasty things like stinky trash and dead leaves, and then you get a call from your employer who says how would you like your old job back and you say yes. And the employer says, well you'll be your family, you'll have your friends back and everything, and you say yes, yes, yes. And then he says, and by the way, we'll pay you half as much. And that they still have among the highest workforce participation among older workers. And I think for Americans either we have to prepare for that eventuality or, you know. We have to ward it off with what I talked about before, which is the value of workers. But, you know, one way I think that, one thing that really hurts American workers, and we talked about this just before the conference started, is the kind of posttraumatic stress that that 50 plus worker faces when he loses the job or she loses the job. It's terrible. I think you lose several months of your job search just because you're traumatized and feel betrayed, and feel worthless, and are facing a future and don't want to be dependent. And not only does that just stop you because it's demoralizing, but it really blocks you from reentering the workforce at a lower wage early enough. You know. So if--I don't know how to do this exactly, but if you had a way to prepare people for that shock, or to warn them of that shock, or to council them through that shock, you would be doing a huge service. There's some interesting work at The University of Chicago right now, a sociologist, Kate Cagney, who talks about kind of economically devastated communities where this 50 plus group and retirees are particularly vulnerable because people start migrating out of the towns. Houses go into foreclosure. And there are marked effects on public health. Widespread depression,

comorbidities with depression, and that adds, you know, to the social costs of this displacement.

I don't know. That's just something.

Yeah, could I just ask you to expand on that first recommendation? You sounded like you thought about it for amount. Why did you say, "From the private sector"?

I just think, you know. I prefer not to, you know, okay, to show my colors. I'm for single payer health plan. I think, you know, big, gigantic group pensions are a great idea. I just think the political will to push it back, you know, into a more, you know, public vehicles or publicly supported vehicles is just not there. We're not going to pour more money into Social Security or hook up those programs. You know. I don't know. I guess that's just kind of real politics, yeah.

Thank you everyone.

[Applause]