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The Cost of Retiring in Virginia

***Estimating the Fiscal Benefits of a Work and Save
Plan on State Expenditures for Retirees***



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Summary

In the last several decades, what used to be a common and popular retirement program – the defined benefit employee-sponsored retirement plan, has slowly disappeared. What has taken its place is some form of defined contribution retirement plan, where employees are in charge of their financial futures and are expected to contribute much more to their own retirement. The result has increasingly been workers nearing retirement and discovering that they have insufficient resources to sustain themselves in retirement.

The federal government, all states, and many local governments offer an array of publicly funded assistance programs for retirees who qualify. The retirement population is expected to increase dramatically over the next several years as Baby Boomers reach retirement age. Given the increased number of retirees who will have insufficient resources to sustain themselves in retirement along with the increased number of retirees expected, policy makers need to pay close attention to the expected growth in publicly funded assistance programs for retirees.

This study examines the effect of individual financial preparedness

of Virginia's new retirees on direct benefit expenditures for selected programs over the next 15 years. We demonstrate that modest improvements in savings rates among the bottom tier of savers has the potential to 1) improve retirement readiness and 2) reduce the cost of publicly funded assistance programs for retirees.

Key Findings:

- 15% of new retirees in Virginia in the next 15 years will retire with \$201,000 or less in net worth, only half of which is easily accessible.
- Through 2030, the 5% least prepared retirees will cost the government an average of \$22,500 per year in Virginia.
- Through 2030, the total cost of government-funded retirement support is expected to top \$4.7 billion, and could reach as high as \$5.1 billion in Virginia.
- Medicaid will account for over 65% of the total cost of government-funded retirement support by 2030 in Virginia.
- A 10% increase in net worth among retirees could save taxpayers as much as \$326 million through 2030 in reduced costs of government-funded benefits to retirees in Virginia without sufficient resources.

Data & Methodology

Two primary data sources are used for the analysis in this report: Virginia specific data from the American Community Survey (ACS) and the Survey of Income and Program Participation (SIPP). Both data sources are household-level surveys containing a variety of demographic and financial data, collected and compiled by the United States Census Bureau.¹

An eight-step process was used to produce the analysis that follows in this report:

Step 1: Estimate the population of Virginians turning 65 years old in each year from 2015 to 2030 through the growth projections and death rate estimation.

Step 2: Estimate retiree assets and income distribution at the household level in the following ways. Estimating net worth was a function of cash + retirement accounts + real property value + home equity + age + gender + household type. Liquid assets was a function of net worth – real property value.

Step 3: Test the eligibility for each of four programs: Supplemental Security Income, Virginia

Medicaid, Supplemental Nutrition Assistance Program, and Low Income Home Energy Assistance Program. Eligibility tests were based on current program requirements, marital status, and total household income.

Step 4: Determine the total direct benefits for each program using marital status and program-specific information.

Step 5: Determine the cost of each program calculated in the following way: cumulated 65+ population * % of eligibility each year * benefits/individual in each year.

Step 6: Determine the total program costs calculated as the sum of the cost of each program by year.

Step 7: Determine the potential benefits from a Virginia Work and Save plan in the following way: increase income found in Step 2 by 10% and repeat Step 4, 5, & 6, and compare the results with Step 6.

Step 8: Provide the comparative analysis of the results from Step 6 and Step 7.

Estimates of New Retirees

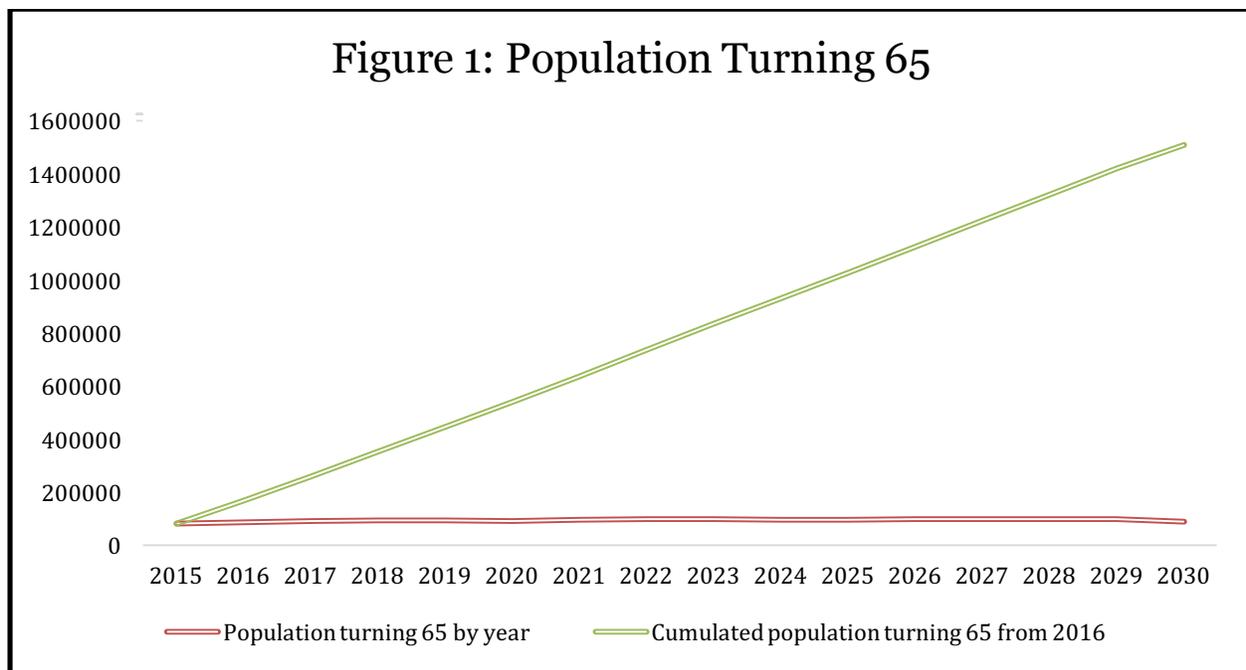
Virginia can expect growth with a relatively stable upward drift in the retirement population over the next 15 years. In 2015, more than 80,000 Virginians reached age 65, becoming eligible for a large number of retirement benefits. That number will climb to 96,000 in 2021, peaking at 98,800 in 2022 before settling around 90,000 by 2030.

The cumulative growth of retirement-age Virginians over the period under analysis accounts for more than 1.5 million additional retirees over the future 15 years.

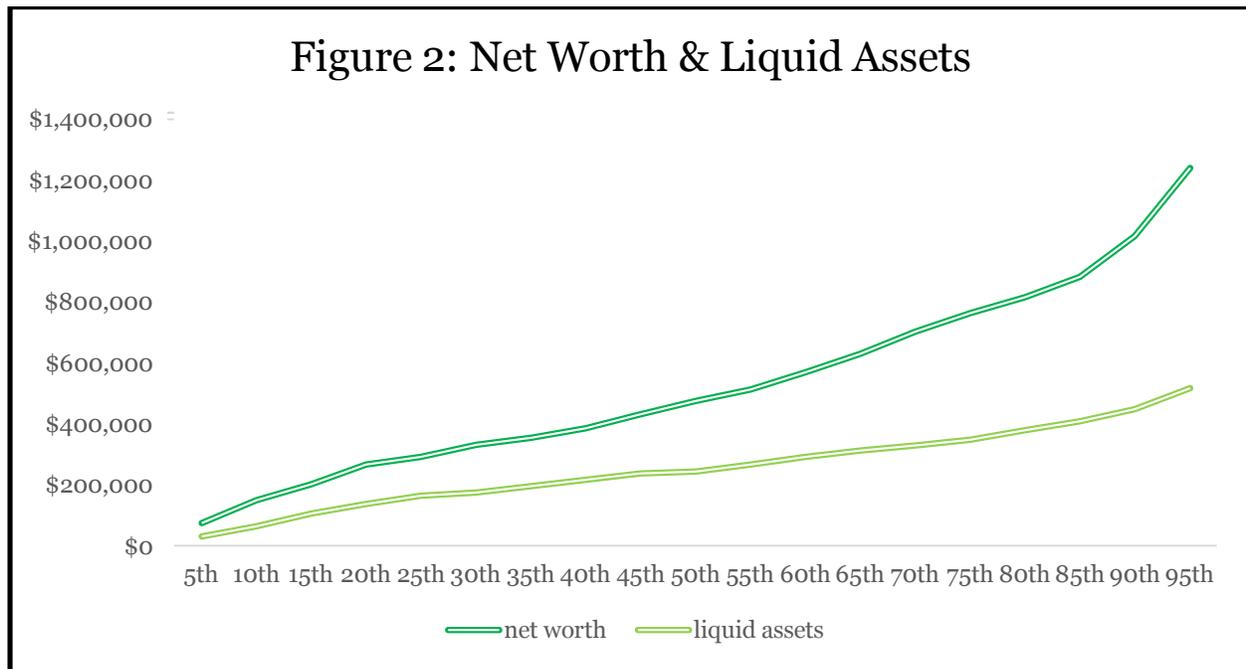
The proportion of Virginia's population that is 65 and older is growing more rapidly than other

Virginia's retirement population is estimated to increase by 30% by 2030

components of the population. Currently, Virginia has approximately 1.4 million people over the age of 65. The United States Census Bureau estimates that nearly 24% of Virginia's population will be 65 or older by the year 2030, an increase of 30% from 2012².



Estimates of Retiree Assets



Source: Regression results from Survey of Income and Program Participation (SIPP) 2008 wave 10 data using all households where the reference person is 55 to 65 years old. Net Worth = Cash + Retirement Accounts + Real Property Value + Home Equity + Age + Gender + Household type (sample size = 505). Liquid Assets = Net Worth – Real Property Value.

The relationship between net worth and liquid assets is particularly important to retirees. Pre-retirement years are often spent accumulating net worth, with the goal of converting the net worth as needed into liquid assets to meet the basic needs of daily living in retirement. Those with smaller net worth have less to convert to liquid assets to meet the basic needs of daily living, and are thus more likely to be dependent on public programs for assistance.

Additionally, for many Virginians the primary source of net worth is their own home, making liquid resources beyond the value of their home particularly important for providing ongoing income during retirement.

Our model suggests that nearly all Virginia retirees enter with at least some net worth. According to Figure 2, the bottom 15% of retirees enter retirement with \$201,000 or less in net worth, \$106,000 or less of which is in the form of liquid assets. These

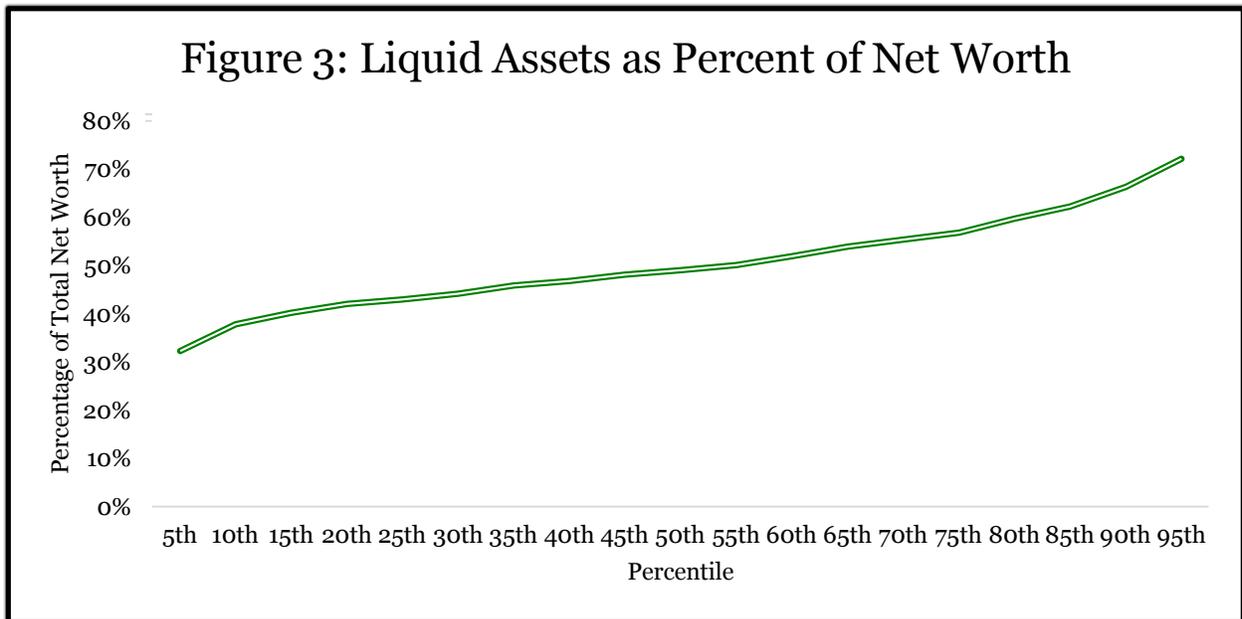
individuals begin retirement with a small base, with less than half of it in reasonably accessible forms, such as in cash or savings.

Retirees between the 20th and 70th percentiles have somewhere between 40% and 55% of total assets in liquid form, while retirees in the lower 20th percentile have less than 40% of total assets in liquid form. Retirees in the 70% percentile and higher have more than 55% of assets in liquid form, with those in the 95th percentile and higher more than 70% of their assets in liquid form.

The median newly retired Virginian has accumulated

\$477,000 in total net worth, of which \$243,000 (or just over half) is in the form of liquid assets. Our model shows substantially more net worth and liquid assets on the whole concentrated in the upper tier of newly-retired Virginians.

Virginians in the 85th percentile for liquid assets have accumulated an estimated \$882,000 in net worth, of which \$408,000 (or just under half) is in the form of liquid assets. Virginians in the top 15% of retirees begin their retirement stage of life with 74% more liquid resources than those newly retired Virginians in the bottom 15% of retirees.



Estimates of Program Costs

We estimate program cost in two ways, a Base Model and a Work and Save Model. For the Base Model, we combine the results from the net worth model and the asset calculation with income projections to estimate total benefits from the four programs selected for this analysis. For the Work and Save Model, we combine the results from the net worth model and the asset calculation with income projections, and then increase this by 10% as a proxy for the benefits of a Virginia Work and Save plan, and then re-estimate total benefits from the four programs selected

for this analysis. The comparison of the two models allows us to estimate the fiscal benefits of a Work and Save plan on the four programs selected for this analysis, and on the expected cumulative outlays through 2030.

While administrative costs are typically shared 50%-50%, the federal government pays 100% of Supplemental Security Income benefits, 50% of Virginia Medicaid benefits, 100% of Supplemental Nutrition Assistance Program benefits, and 100% of Low Income Home Energy Assistance Program benefits.

Table 1: Selected Public Programs (Maximum Benefits)

Supplemental Security Income	\$8,796
Virginia Medicaid	\$11,624
Supplemental Nutrition Assistance Program	\$1,860
Low Income Home Energy Assistance Program	\$675

Note: Virginians 65 and older may also be eligible for real property tax relief in most Virginia cities and counties, and may also qualify for additional personal property exemptions or deductions on their state income tax. Because these programs are not systematically available, they were not included in this analysis of program costs.

Base Model

Most Virginians 65 and older are eligible for some form of public assistance. For the base model, the total outlay through 2030 is \$4.7 billion. We evaluate the four government supporting programs listed above. For new retirees who qualify any one of these four programs, we assume that Medicaid increases by 3.51% for aged group³ (Basic Assumption). The increase rate of other programs is consistent with the inflation rate of Virginia (1.5%).

The bottom 5% of retirees, in terms of retired preparedness, cost an average of more than \$22,500 per year, with the very least prepared topping \$22,955 per year in costs to Virginia. In table 2 and Figure 4, we can conclude that Medicaid is the most costly program out of these four supporting programs, costing government more than \$3.1 billion.

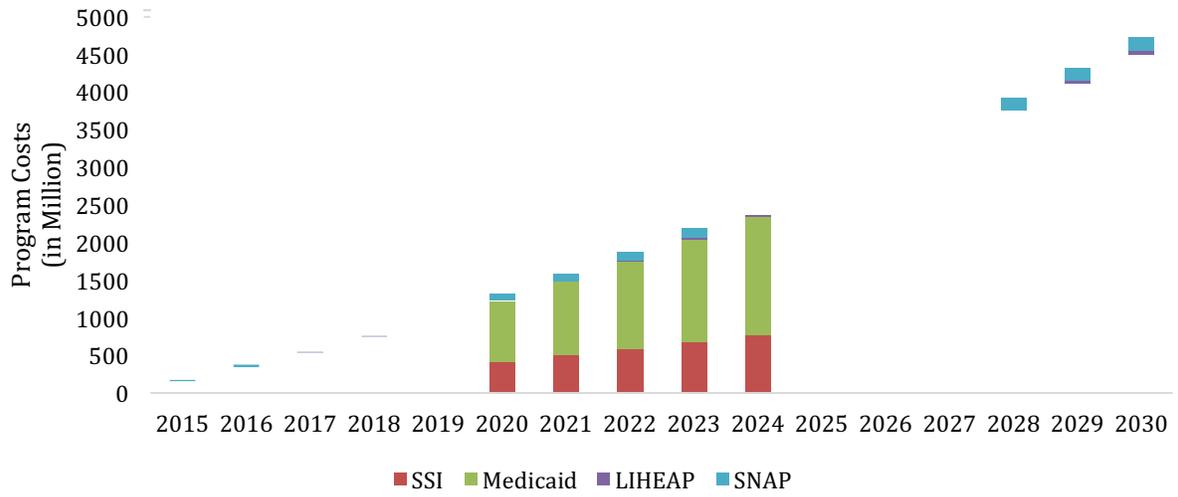
Table 2: Base: Program Costs of Four Major Programs Through 2030 (Basic Assumption)

	SSI	Medicaid	LIHEAP	SNAP
2015	\$59,350,479	\$101,444,933	\$1,777,374	\$15,917,375
2020	\$421,923,931	\$795,466,005	\$12,635,395	\$88,949,984
2025	\$864,249,630	\$1,797,247,961	\$25,881,764	\$143,223,875
2030	\$1,367,039,525	\$3,135,676,134	\$40,938,861	\$178,082,725

Through 2030, new retirees entering program eligibility will be eligible for \$4.7 billion in program benefits. The Social Security Income (SSI) costs over \$1.3

billion, approximately 30% of overall spending. The Medicaid costs over \$3.1 billion, approximately 66% of overall government spending.

Figure 4: Program Costs through 2030
(Base Model with Basic Assumption)



Work and Save Model

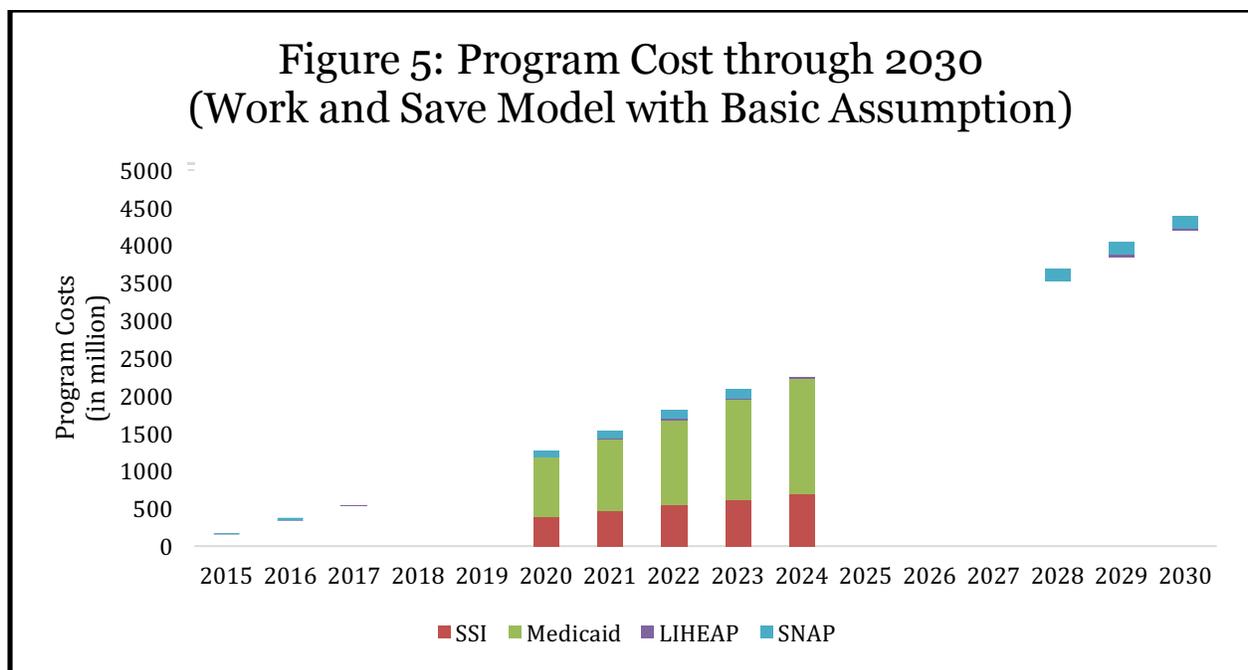
For the Work and Save plan model, the total average outlay through 2030 is around \$4.4 billion. Medicaid is still the most costly government supporting program and costs \$3 billion, approximately 70% of overall spending. SSI is the second costly program and costs government \$1.1 billion, approximately 25% of overall spending. The 5% bottom

retirees in Virginia cost an average of more than \$20,700 per year. The very least prepared continue topping \$22,955 per year in costs to Virginia.

Through 2030, new retirees entering program eligibility under the Work and Save plan model will be eligible for \$4.4 billion in program benefits.

Table 3: Work & Save – Program Costs of Four Major Programs through 2030 (Basic Assumption)

	SSI	Medicaid	LIHEAP	SNAP
2015	\$59,350,479	\$99,494,069	\$1,555,202	\$15,611,271
2020	\$397,530,074	\$780,168,582	\$11,055,971	\$87,239,407
2025	\$755,866,020	\$1,762,685,500	\$22,646,543	\$140,469,570
2030	\$1,109,830,051	\$3,075,374,670	\$35,821,502	\$174,658,057



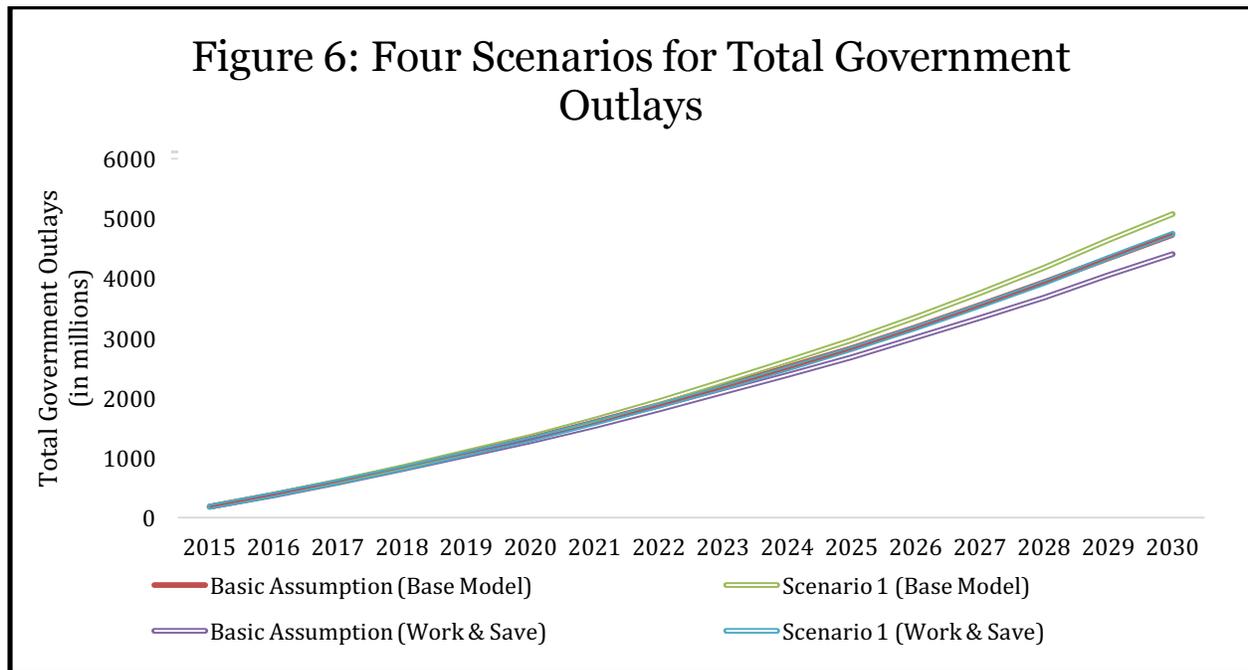
The Growth Effect on Government Programs

In Table 4, we show estimates for total sum of program costs for both the Base Model and the Work and Save Model based on a conservative cost measure (Basic Assumption) and a more aggressive alternative cost measures (Scenario 1). In Scenario 1, we assume that the increase rate

of Medicaid is 4.2%⁴, the Virginian total increase rate through 2010 – 2014. The increase rate for other programs, SSI, LIHEAP, and SNAP are still the same as the Virginia’s inflation rate). We then estimate the difference between Base Model and Work & Save Model.

Table 4: Cost Summary and Comparison Using Basic Assumption and Alternative Scenario

	Base Model		Work & Save Model	
	Basic Assumption	Scenario 1	Basic Assumption	Scenario 1
2015	\$178,490,161	\$179,166,396	\$176,011,022	\$176,674,251
2020	\$1,318,975,316	\$1,351,325,826	\$1,275,994,035	\$1,307,722,420
2025	\$2,830,603,231	\$2,966,870,128	\$2,681,667,634	\$2,815,314,014
2030	\$4,721,737,244	\$5,073,429,017	\$4,395,684,281	\$4,740,612,751



Discussion

Between 2015 and 2030, the costs of governmental programs are expected to top \$4.72 billion and could reach a total of \$5.07 billion in alternative spending. With an increase of 10% in retirement assets, Virginia could save as much as \$326 million in program costs over this time. For these individuals, asset increases would amount to \$83,985 over the course of their working careers. Increases in net worth thus have the potential to significantly reduce government spending.

Medicaid, which provide health insurance to the poorest population, is estimated to cost the most in supporting elderly benefits. In 2030, an estimated

155,300 new retirees will become eligible for Medicaid coverage, with average costs projected to amount to around \$20,000 per person.

Virginia will experience a modest stable upward growth in the retired population over the next 15 years. Expected shortfalls in household net worth will translate into expected real increases in costs associated with existing public programs included in this analysis. This analysis shows that modest increases in savings – such as through a Work and Save plan – for a large proportion of retirees can yield substantial savings to the cost of public programs.

How to Cite This Report

The Cost of Retiring in Virginia: Estimating the Fiscal Benefits of a Virginia Work and Save Plan on State Expenditures for Retirees. 2016. Jia Yu and Quentin Kidd. Wason Center for Public Policy, Christopher Newport University, Newport News, Virginia.

NOTES

¹ For a complete description of the detailed methodology we followed in this study, see: **Retiring Poor in New Jersey: The Projected Expenditures on Government Programs for Older Adults**. 2016. Karen A. Zurlo, Sarah Shin, and Hyungsoo Kim.

² See: http://www.aoa.acl.gov/AoA_Programs/HPW/Behavioral/docs2/Virginia%20Epi%20Profile%20Final.pdf

³ See: <http://kff.org/medicaid/state-indicator/average-growth-in-annual-medicaid-spending-from-fy2000-to-fy2011-for-full-benefit-enrollees/?currentTimeframe=0&selectedRows=%7B%22nested%22:%7B%22virginia%22:%7B%7D%7D%7D>

⁴ See: <http://kff.org/medicaid/state-indicator/growth-in-medicaid-spending/?currentTimeframe=0&selectedRows=%7B%22nested%22:%7B%22virginia%22:%7B%7D%7D%7D>