

The Case for Reducing Poverty Among Seniors: Encouraging Savings for Retirement by People in Wisconsin

Projected Reductions in Wisconsin State Expenditures

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Executive Summary

In 2015, the State of Wisconsin spent over \$1.2 billion on major state programs for people age 65 and older. By 2030, annual expenditures are estimated to increase to over \$4.7 billion. Current Wisconsin workers risk entering retirement in poverty, with most households earning less than median income retiring with little or no savings. If future retirees can accumulate greater savings for retirement, the State of Wisconsin's direct expenditures could be reduced.

Increasing Savings for Retirees in 2030

If Wisconsinites earning at or below the statewide median income, who are currently age 50 through 55, save 3 percent of their income every year until they retire, they will have \$18,408 to \$39,676 more in savings in 2030 when they are into retirement ages. If they can save 5 percent of their income and achieve a higher rate of return, these estimates could be as much as \$49,303 more in savings. Based on the projected expenditures of four state-funded programs—Wisconsin Heating and Energy Assistance Program, Medicaid state expenditures, State Supplemental Income, and the Homestead Tax Credit—the State of Wisconsin's required expenditures for public programs would be reduced because these households would be able to sustain higher consumption for an increased number of years as they age.

Potential State Savings from Increased Savings: \$3.1 Billion

Increasing personal savings would reduce state expenditures in several ways. First, future retirees will be more self-sufficient because they will have more income drawn from their savings. Second, while some families will still be poor, the intensity of their need for support will decline. For example, a one-year delay in eligibility for people who currently earn \$15,000 to \$25,000 could result in a reduction of state expenditures of \$966 million in the year 2030 (in 2015 dollars). If all households currently earning up to \$40,000 saved 3 percent of their income through 2030, expenditures in 2030 could decrease by more than \$3.1 billion annually – mainly due to delayed eligibility for assistance programs. Households, especially those currently earning less than \$35,000 per year, are still expected to become eligible for some or all of these programs within one to seven years after retirement, but they will have more savings and will not need the safety net of programs as soon as they would without any retirement savings. In addition, households may benefit from increased autonomy and self-sufficiency at the start of their retirement, generating other benefits not included in this estimate.

Promoting Savings

These results illustrate that increased saving for retirement today leads to more assets for retirees and delayed entry to state-funded safety nets. This delay shortens the length of time that retirees would need assistance, thereby reducing required state expenditures. However, while today's low-income households can save, they will still have low incomes when they retire. Social safety-net programs are important for maintaining financial well-being as people age. Families and communities can benefit if Wisconsin can implement policies and programs that increase retirement savings and help reduce the cost of these programs.

Introduction

AARP commissioned this report to estimate the costs to states from seniors who retire without adequate savings. The nonprofit, nonpartisan organization has conducted similar studies in Utah and New Jersey. These studies affirmed that seniors who are not financially prepared for retirement will pose substantial fiscal costs upon states. If savings and asset accumulation remain at current levels for seniors, researchers estimate that New Jersey will spend \$7.19 billion per year in 2030 for elderly assistance programs. In Utah, state expenditures for new retirees are estimated to be \$3.7 billion over the next 15 years. We build on these studies to project Wisconsin’s expenditures on retirees in 2030. Additionally, we estimate reductions in State expenditures if Wisconsin residents ages 50 through 54 save and invest today.

Nationwide, the number of people 65 and older is expected to increase dramatically by 2030. This increase is largely the result of the baby-boom generation approaching retirement and an increase in life expectancy. Traditionally, retirees have relied on Social Security, defined-benefit pensions provided by employers, and personal savings to replace income and maintain consumption during retirement. Future retirees may not be as likely to be able to rely on defined-benefit pensions because employers are replacing defined-benefit pension plans with defined-contribution plans (401k and related plans). Households have not made up the difference with their own savings; savings rates are generally low, and close to 0 percent for people with incomes below the median. Seniors who are financially unprepared for retirement will pose substantial fiscal costs upon states. As the population ages, state expenditures on these programs will increase. Policies that can maintain the safety net, but potentially reduce expenditures, are important to consider.

Wisconsin’s Elderly Population is Growing

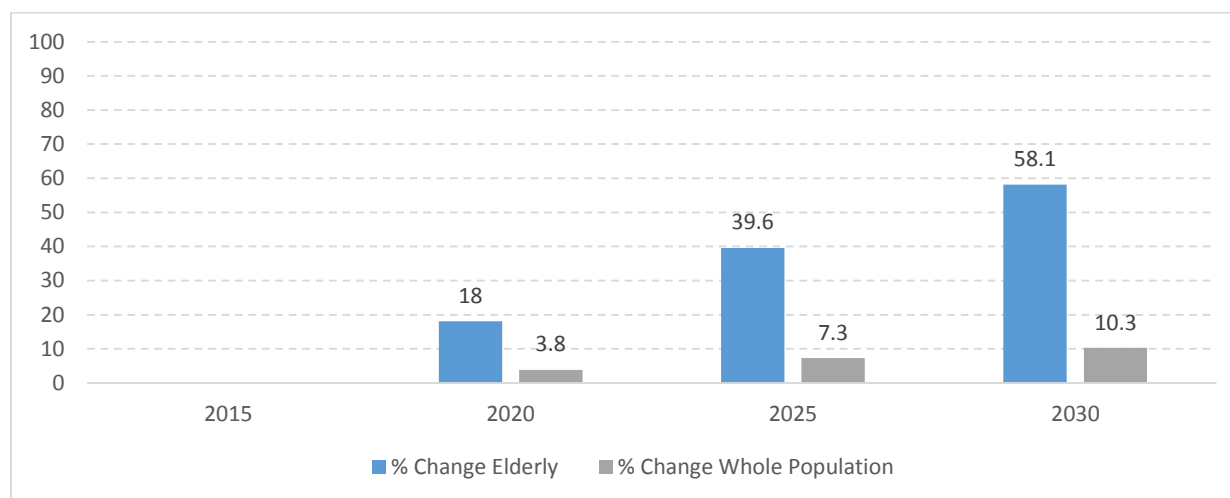
In Wisconsin, the number of households with at least one person older than 65 is expected to grow. Population projections from the U.S. Census Bureau and the Wisconsin Department of Administration (DOA) indicate that the percentage of people 65 and older relative to the rest of the population will also grow, and that Wisconsin is ahead of the national trend. According to DOA, an additional 529,400 people 65 or older will live in Wisconsin by 2030. This represents a nearly 60 percent increase from 2015. Based on existing program guidelines, the increase in seniors may lead to a substantial increase in the utilization of public programs to assist the elderly.

Table 1: Increase in Wisconsin’s 65+ Population, 2015-2030

| Year | Population 65 and Older | Percent Increase from 2015 |
|-------------|--------------------------------|-----------------------------------|
| 2015 | 900,763 | - |
| 2020 | 1,063,930 | 18.1% |
| 2025 | 1,257,515 | 39.6% |
| 2030 | 1,424,320 | 58.1% |

Source: American Community Survey data for 2015, projections from Wisconsin Department of Administration.¹

Figure 1: Percent Increase in Wisconsin's Total Population and Population 65 and Older, Relative to 2015



Source: Authors' visual, American Community Survey data for 2015 baseline and Wisconsin Department of Administration projections.

427,300 Wisconsinites At Risk of Experiencing Poverty During Retirement¹ in 2030.

In Wisconsin, three in 10 households with a person older than 65 have incomes below 200 percent of federal poverty.² According to the Survey of Consumer Finances (SCF), less than 50 percent of all households contribute to a retirement account. Additionally, one in five households with respondents ages 55 to 64 reported no retirement savings and a mean net worth of -\$20,660. For 30 percent of households, Social Security and SSI are likely the only sources of income after retirement. Only three in five Americans believe Social Security is sufficient to meet retirement needs, and while Social Security is one of the most important programs to catch those in need, it is often not enough to meet the financial burdens facing retirees.

The Wisconsin Poverty Measure developed by the University of Wisconsin–Madison Institute for Research on Poverty, which accounts for Wisconsin-specific factors in estimating poverty rates, shows that the poverty rate in 2014 among seniors was 8.3 percent. At lower income levels, and certainly among households with incomes at or below the Wisconsin Poverty Measure of \$24,956 per year, retirees are unlikely to have access to any income outside of Social Security in retirement. Surveys show 65 percent of respondents from Wisconsin indicated that they had no private, non-employer-based retirement assets (such as IRA or Keogh accounts), and 60 percent said they had no investments in “stocks, bonds, mutual funds or other securities.”

¹ Based on Census official measure of poverty multiplied by the projected number of individuals over 65.

² According to the Census official measure of poverty. Income includes payments from Social Security. The SPM measures 42% of Wisconsinites age 65 and above live under 200 percent of poverty. SPM measurements account for value of medical expenditures, debt, and value of in-kind assistance such as SNAP.

Moreover, in 2015, 56 percent of survey respondents from Wisconsin reported they had never attempted to determine how much they needed to save for retirement, and the same percentage indicated they were worried about running out of money in retirement. Nearly 40 percent of respondents said they did not have a household budget, and only 8 percent said that the period “longer than 10 years” from now was most important for their household.

Individuals with the least retirement security may qualify for and utilize safety-net programs such as Medicaid, the Supplemental Nutrition Assistance Program (SNAP), and Wisconsin Home Energy Assistance Program (WHEAP). While in-kind assistance such as supplemental access to food and energy remain crucial bedrocks to the very poor, they are insufficient to ensure seniors can retire securely.

State Program Expenditures, 2015 and 2030

Although the Federal government supplements some of the expenditures on non-ready retirees, state expenditures are still significant. Safety net programs such as SNAP and WHEAP are among the largest used by older people in the state, but they are primarily funded by federal dollars. Other program expenses, such as Medicaid, SSI, and the Homestead Tax Credit (HTC), are incurred at the state level.

In 2015, Wisconsin expenditures on major elderly assistance programs were over \$1.2 billion. This amount includes the 59 percent federal share on spending on Wisconsin Medicaid, federal spending on energy assistance through the Low Income Home Energy Assistance Program (LIHEAP) block grant, and complete federal reimbursement of SNAP.

An increase in Wisconsin’s 65-and-older population will have substantial effects on state expenditures for these programs. In Wisconsin, the population of people older than 65 is expected to increase by 529,400 people from 2015 to 2030, bringing the total to more than 1.42 million. Additional increases in program costs, such as increased administration demand and increased health care usage, over this period also contribute to rising state expenditures. By 2030, Wisconsin may need to spend more than \$4.7 billion annually on major elderly assistance programs, assuming current program participation rates and savings remain constant. The largest increase in annual state spending occurs between 2025 and 2030, when 40 percent of expected growth in the 65-and-older population is expected to occur. In terms of costs, Wisconsin could increase its annual expenditures from \$3 billion in 2025 to \$4.7 billion in 2030.

Encouraging Household Savings Benefits Wisconsin’s State Budget

If low to moderate middle income (LMI) Wisconsinites ages 50 to 54 start saving for retirement, and do so every year until they retire around 2030, fewer seniors will retire poor and smaller state expenditures on safety net programs will be necessary.

If Wisconsin households with people 50 to 54 years old currently earning \$40,000 or less save 5 percent of their income annually in a retirement account and receive a 3 percent rate of return,

state expenditures could be as much as \$3.1 billion lower over the three years from 2030 to 2033, compared to this group not saving.

Methodology

We use national, state, and county-level data to project Wisconsin state expenditures. We then use the American Community Survey (ACS) income distributions for Wisconsinites ages 45 to 64 and apply this distribution to people ages 50 through 54 to estimate reductions in state expenditures due to household savings.

To estimate future state expenditures, we obtained the current number of participants enrolled in state programs and the average cost per elderly participant. We assume each program's participation rate remains constant and adjust average costs based on historical and projected growth in spending per participant. We also assume households fully retire, meaning people do not engage in work activities and rely on savings and Social Security benefits as the only cash income sources during retirement.

We use the ACS and the Survey of Consumer Finances (SCF) as the primary sources for national and state data on households' financial characteristics. Additionally, we rely on public data from the Wisconsin Department of Administration, Wisconsin Department of Health Services, and the U.S. Social Security Administration to estimate state expenditures on major elderly assistance programs.

Population and Population Growth

We use the ACS and population projections from the Wisconsin DOA as estimates for statewide populations through 2030. DOA data is publicly accessible and provides population estimates for people 65 and older from 2010 to 2040 in five-year increments. We use the 2015 ACS for population baselines in the year in which each program has the latest data. We divide the number of participants enrolled in each program by the total population to find each program's participation rate by age group. We assume this rate remains constant for each program through 2030.

Calculation of State Expenditures

We focus on programs for people 65 or older that are at least partly funded by the State of Wisconsin. For example, while FoodShare (SNAP) is a significant safety net for elderly Wisconsinites, we exclude SNAP expenditures because it is 100 percent federally funded. We focus instead on the Wisconsin Home Energy Assistance Program (WHEAP), State Supplemental SSI (SSI), state contribution toward Medicaid³ (hereafter Medicaid), and Homestead Tax Credit (HTC). Appendix A details our methodology for projecting expenditures by program.

³ Wisconsin's share of Medicaid spending was 41.2 percent in federal FY2015.

Calculation of Reduction in State Expenditures from Increased Household Savings

Step 1 - Establish ACS 2015 Income Groups for 50-54 Cohort

We use ACS income distributions for Wisconsinites ages 45 to 64. We apply this distribution to people ages 50 to 54. We believe this is reasonable because most Americans experience peak earning in their 50s, suggesting incomes for older Americans remain constant or slowly decrease until retirement. We use this proportion to estimate household income eligibility for key public programs.

Step 2 - Calculate Returns to Savings

We take the midpoint for each of income groups to estimate average income within these groups. For each group, we estimate the total savings by 2030 if households save 3 percent or 5 percent of their income. We calculate returns to investment savings of 3 percent and 6 percent. These returns represent the average returns for investors of the federal MyRA program, a starter retirement account offered through the United States Treasury, and for clients of private sector retirement accounts, respectively. Private sector returns are estimated through target date 2030 (TD2030) funds offered to individuals planning to retire between 2028 and 2032. See Appendix B for accumulated savings by income group, savings percentage, and return on investment.

Step 3 - Aggregate Savings through 2030 and Establish Retirement Income

We calculate the compounded returns for each income group to estimate total savings. The annual sum is based on the percent of income saved in addition to the returns on investment. The total sum establishes the amount of assets available to households during their first year of retirement. For the examined income groups, Social Security is assumed to be the only sources of income during retirement, unless the individual also qualifies for additional government benefits.

Step 4 - Estimate Retirement Consumption

Consumption choices during retirement are based on how much the household has to spend and how much of pre-retirement standards of living are maintained. For example, many households spend less when they retire due to lower transportation expenditures and other costs. We use a replacement rate of 70 percent, which means the average retiree will maintain 70 percent of pre-retirement consumption in retirement. Post-retirement consumption is used in most models of retirement spending. This is due in part to lower household size (grown children leaving the household), lower debt and mortgage payments, and decreased expenditures related to work activities.

Consumption is defined as the difference between annual income and the amount saved in each year. Our model assumes that retirees will consume based on the replacement rate multiplied by pre-retirement consumption. Retirees will consume at this level until retirement savings are

exhausted.⁴ When savings are exhausted, retirees will then tap into the above-mentioned benefits until they are deceased, based on standard life expectancy tables.

An example of our model includes retirees who fully retire in 2030. In 2030, these households will have the sum of pre-retirement savings and their annual Social Security income available. These households will have annual consumption equal to 70 percent of their pre-retirement annual consumption. For all households, annual consumption with a replacement rate of 70 percent exceeds the annual Social Security benefit. Consequently, households will begin to spend down their accumulated savings. In 2031 and each consecutive year, households will have the sum of the remainder of savings, reinvested with a 2 percent rate of return, and annual Social Security benefit available to spend. Over time, savings will decrease and approach zero, making households eligible for certain programs.

Step 5 - Comparison of Cumulative Savings and Program Eligibility Requirements

We compare the amount of remaining savings and the annual amount of Social Security income each year after retirement against consumption during retirement. As savings decrease, households previously ineligible for programs will meet the income and asset thresholds. We then quantify the number of households with program eligibility by finding the number of estimated households in 2030 who fall into each ACS income group. The spend-down of savings will make the entire ACS income group eligible for programs, and thus increase state expenditures.

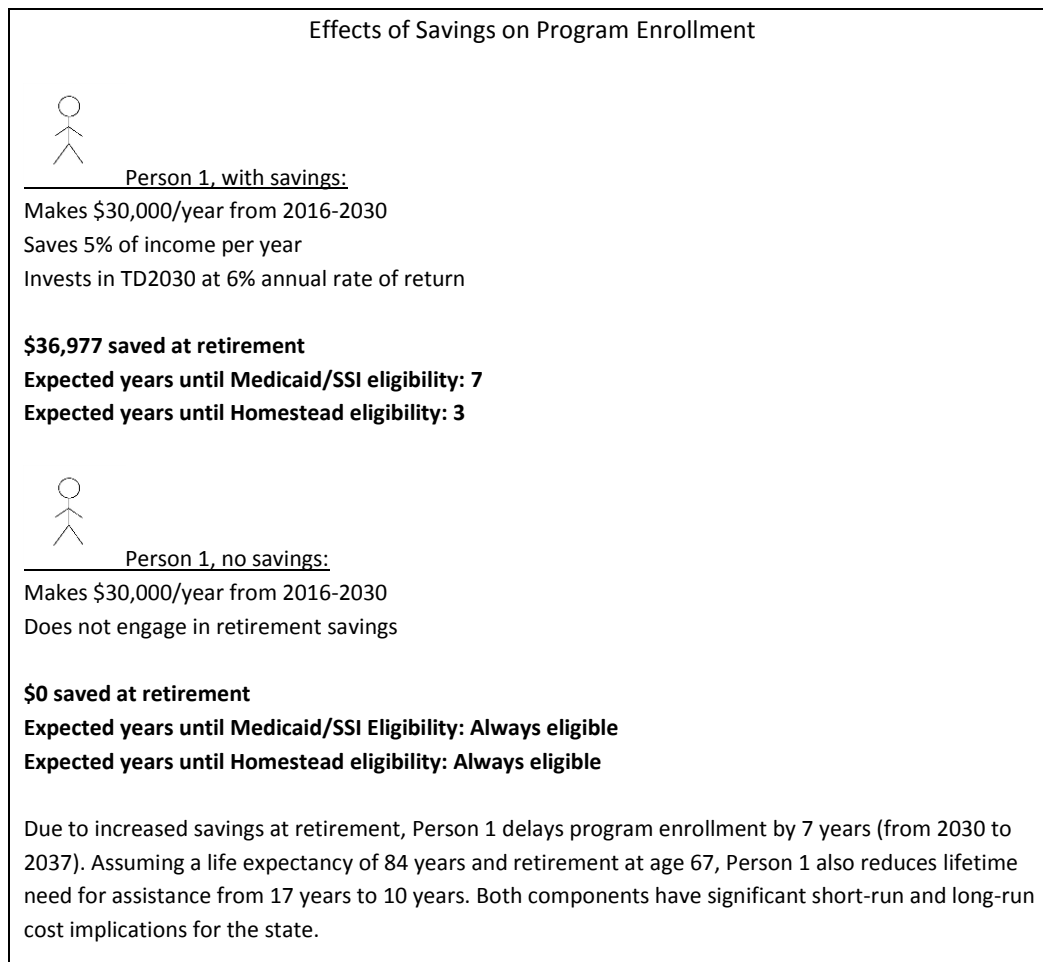
Step 6 - Estimate Reductions in Expenditures

We measure annual reductions in state expenditures as the forgone costs of providing benefits to households that no longer meet income and asset tests for programs as a result of savings. Reductions in state expenditures are derived from both delayed eligibility for programs as well as the reduction in the number of years that participants may receive assistance. The first component suggests that retirees will spend down their savings and meet program eligibility after some period of years. The second component suggests, assuming life expectancy remains constant, that the intensity of need for assistance over a retiree's lifetime is reduced as a result of savings. A figure is provided below to illustrate the effects of both components. We assume that expenditures such as Medicaid spending for people 65 or older are equally distributed by age; we acknowledge that delaying eligibility may not result in significant cost reductions if most expenses are incurred for the oldest seniors.⁵

⁴ We assume all retirees will invest their retirement assets into a low-risk general savings account the year they retire. These accounts will provide a 2 percent return on the full retirement assets and are compounded annually.

⁵ The Centers for Medicare & Medicaid Services reports spending per enrollee for age groups 45-64, 65-84, and 85 and older. These age brackets are too large to determine how Medicaid payments are distributed by age within our 2030 to 2035 analysis. The interaction between Medicaid and Medicare as payers for dual-eligible beneficiaries also leads us to believe using the average Medicaid for individuals age 65 and older is reasonable for our calculations.

Figure 2: Illustration of Interaction between Household Savings on Program Enrollment and State Expenditures



Source: Authors' illustration, based on projected savings by ACS income group.

Findings

Annual State Program Expenditures Will Reach \$4.73 Billion in 2030

Wisconsin's annual state expenditures will increase as the state spends more on Medicaid, WHEAP, SSI, and the HTC. Expenditures for all programs are expected to increase as the number of elderly participants increases and as a result of adjustments to benefit amounts. While the state will spend more on each of these programs, the majority of expenses can be attributed to spending from Medicaid. In 2016, expenditures on elderly recipients of Medicaid reached \$1.32 billion. In 2030, Wisconsin will spend \$4.6 billion per year on Medicaid for seniors. The following table reflects state expenditures for each program through 2030.

Table 3 Annual Expenditures on Elderly Assistance Programs 2016 to 2030 (In thousands)

| Expenditures by Year | State Total | Medicaid | SSI | WHEAP | Homestead Tax Credit |
|-----------------------------|--------------------|-----------------|------------|--------------|-----------------------------|
| 2016 | \$1,365,302 | \$1,322,187 | \$683 | \$10,420 | \$31,988 |
| 2020 | \$1,964,286 | \$1,909,859 | \$778 | \$16,489 | \$37,131 |
| 2025 | \$3,109,336 | \$3,035,137 | \$920 | \$28,359 | \$44,896 |
| 2030 | \$4,734,826 | \$4,622,210 | \$1,042 | \$46,739 | \$52,020 |

Source: Authors' computations from program data, expenditures reported in 2015 dollars.

While Medicaid spending is considerable for both federal and state governments, Medicaid has consistently had lower growth rates in spending when compared to private payers.⁶ From 2007 to 2013, growth in payments per Medicaid enrollee was lower than growth in national health expenditures per capita, consumer price index for medical care, and private insurance per enrollee spending. Additionally, the Kaiser Family Foundation estimates equivalent low-income adults covered under Medicaid would have experienced costs up to 25 percent higher if covered by private insurance. We examined whether these national statistics were driven by a national trend or if they were skewed by high-expenditure states. A Tufts University study compared expenditures between private payers and Medicaid in Massachusetts, which has among the highest health care costs in the nation. The authors found that Medicaid beneficiaries were more likely to use emergency room, ambulatory, and nursing facility services but had lower annual spending for most services compared to private payers. One implication is that a focus on lower cost, preventive care for people 45 to 54 years old, and initiatives to decrease national health care costs may decrease overall state expenditures on the elderly in the future. Another implication is that promoting regular visits to a primary care doctor rather than reliance on emergency room services for primary care can reduce state expenditures even if national health care costs continue to increase. The table below summarizes Medicaid enrollment and expenditures through 2030.

Table 4: Medicaid State Expenditures, Enrollee Costs, and Enrollment 2016 to 2030

| Expenditures by Year | Medicaid Total (In thousands) | Cost Per Aged Participant | Elderly Participants |
|-----------------------------|--------------------------------------|----------------------------------|-----------------------------|
| 2016 | \$1,322,187 | \$7,644 | 172,962 |
| 2020 | \$1,909,859 | \$9,687 | 197,150 |
| 2025 | \$3,035,137 | \$13,025 | 233,204 |
| 2030 | \$4,622,210 | \$17,513 | 263,931 |

Source: Authors' computations from Kaiser Family Foundation, expenditures reported in 2015 dollars.

Medicaid expenditures are increasing due to the increase in the number of elderly participants, national increases in health care costs, and the increase in health care costs of participants as they age. The Centers for Medicaid & Medicare Services (CMS) projects the average growth rate in Medicaid spending at 6.1 percent per year and Medicare at 7.6 percent annually through 2025. Both program trends are in line with the expected growth in health care spending, as health care expenditures are expected to compose over 20 percent of all gross domestic product (GDP) spending by 2025. CMS attributes increases in Medicaid spending to the increasing enrollment of the baby-boomer cohort shifting the Medicaid demographic profile. Increased elderly

⁶ After controlling for the greater health care needs posed by Medicaid participants.

enrollment, particularly by dual-eligible (Medicare and Medicaid) participants, is expected to shift spending toward prescription, acute, and long-term care services. The cost per aged participant will rise as a consequence of increased national health care costs and higher utilization of costly long-term care services.

Additional Savings and Implications

Starting a pre-retirement savings plan will allow households earning above \$20,000 per year to accumulate assets that can supplement post-retirement consumption. While retirees will still rely on Social Security and SSI for most of their retirement cash needs, these savings are not insignificant. For example, if households earning \$30,000 per year saved 5 percent of their income and received a return of 3 percent each year, they would have an extra \$28,600 entering retirement. For households earning \$40,000 per year, they may have up to \$49,300 in additional savings by 2030. This allows households to retire with an additional \$242 per month. When we include Social Security benefits, households earning \$40,000 per year can have \$1,700 per month to meet retirement needs.

Small increases in monthly income during retirement can reduce hardships, such as reductions in daily meals or energy usage, but are unlikely to allow households to meet their needs during retirement. For instance, the Consumer Expenditure Survey (CES) conducted by the U.S. Department of Labor found that the average annual expenditures for people 65 and older was \$43,800. Among the CES respondents who were 65 and older, those 75 and younger spent \$6,214 on food, \$16,465 on housing, and \$5,715 on health care, or nearly 65 percent of post-retirement expenditures. When we examine all households, those in the bottom 10 percent of income reported annual expenditures of \$23,705. In the bottom 20 percent of income, expenditures increased to \$25,244, suggesting that the minimum requirement expenditure to live is at or above \$20,000. Households earning below the median income are likely to access public benefits during retirement as the accumulated savings at all interest rates are insufficient to meet retirement needs. For instance, households currently earning \$40,000 can expect to accumulate \$49,300 at the start of retirement. Assuming these households are among the 50 percent of U.S. households without a retirement account, and not accessing any public assistance benefits, these households can sustain themselves for at most 3 years into retirement. This suggests that public assistance programs will continue to be an important component of post-retirement security.

Table 5: Savings at Beginning of Retirement (2030) by Income Level

| Income Group | \$7,500 | \$20,000 | \$30,000 | \$40,000 |
|----------------------------------|----------------|-----------------|-----------------|-----------------|
| 3% Yearly Savings: MyRA | \$4,289 | \$11,437 | \$17,156 | \$22,874 |
| 3% Yearly Savings: TD2030 | \$5,547 | \$14,791 | \$22,186 | \$29,582 |
| 5% Yearly Savings: MyRA | \$7,148 | \$19,062 | \$28,593 | \$38,123 |
| 5% Yearly Savings: TD2030 | \$9,244 | \$24,651 | \$36,977 | \$49,303 |

Source: Authors' computations from ACS (1-Year 2015), savings reported in 2015 dollars.

It is important to note that families currently earning less than the federal poverty level are unlikely to benefit from additional savings.⁷ Households with minimal savings are unable to

⁷ Federal Poverty Level in 2015 was \$15,930 for two-person households.

meet the minimum balances, or may lose money to service fees associated with higher-yield retirement accounts. Consequently, their smaller savings earn smaller returns. In addition, households with savings close to asset limits for programs such as Medicaid and SSI will spend down their savings to meet eligibility requirements. For these households, the benefit from programs are greater than the monthly benefit received from savings. The table below details income and asset tests for each program. We assume all households in the \$7,500 income group and some households in the \$20,000 income group will spend down savings to meet eligibility almost immediately after retirement. We assume all households in the \$7,500 income group will spend down savings prior to retirement and will always maintain eligibility for assistance programs.

Table 6: Program Eligibility: Income and Asset Thresholds

| Program | Income Threshold⁸ | Assets Threshold |
|----------------|--|--|
| Medicaid | \$572.45 for Household Size of 1 \$865.38 for Household Size of 2 | \$2,000 for Household Size of 1 \$3,000 for Household Size of 2 |
| WHEAP | 60% of state median income | None |
| SSI | \$572.45 for Household Size of 1 \$865.38 for Household Size of 2 | \$2,000 for Household Size of 1 \$3,000 for Household Size of 2 |
| HTC | \$24,680 | \$24,680 |

Source: Medicaid program manual, Department of Revenue and Department of Administration; accessed November 2015.

Reduction in State Expenditures through Household Savings

The state may reduce expenditures on elderly assistance programs as a result of household savings. The reduction in state expenditures is the result of two components. The first component is delayed eligibility for assistance programs, as savings would temporarily allow most households to remain above the income and asset limits for various programs. Almost all LMI seniors will become eligible for programs within seven years, meaning the state may be able to put off assistance payments for that period of time. The second component suggests that retirees would receive benefits for a shortened period of years over a retiree's lifetime, assuming life expectancy remains constant. Both of these components are derived from household savings reducing the intensity of financial burdens faced by retirees. This presents savings for state expenditures as retirees are able to sustain themselves for a greater number of years over their lifetime.

We find significant reductions in state expenditures in 2030 if LMI Wisconsinites were to save and invest at least 3 percent of their income today. These savings are the result of delayed eligibility for assistance programs, particularly from Medicaid and SSI. State savings due to delayed eligibility are likely to continue until most LMI seniors become eligible for programs within 7 years.

⁸ Medicaid and SSI exclude income from Social Security. HTC includes income and assets from Social Security and other in-kind assistance benefits.

Table 7: Expected Years Until Eligibility, Medicaid and SSI (2030) by Income Level

| Income Group | 3% MyRA | 3% TD2030 | 5% MyRA | 5% TD2030 |
|---------------------|----------------|------------------|----------------|------------------|
| \$7,500 | - | - | - | - |
| \$20,000 | 5 | 6 | 9 | - |
| \$30,000 | 3 | 3 | 5 | 7 |
| \$40,000 | 2 | 3 | 3 | 5 |

Source: Authors' computations from ACS (1-Year 2015), income reported in 2015 dollars.

We extend our projections from 2030 to 2035 and examine the impacts of additional savings if current Wisconsinites, age 50 to 54, were to save and invest at various rates. If all households age 50 to 54 were to save 3 percent of their income, and received the MyRA rate of return of 3 percent, then households with incomes between \$20,000 and \$40,000 would delay eligibility for Medicaid and SSI for 2 to 5 years. With savings of 5 percent and a rate of return of 6 percent (TD2030), some households will delay eligibility for 5 to 7 years, with those with incomes at \$20,000 never becoming eligible. While this may seem counterintuitive, as we would assume households with lower incomes would delay program eligibility by a fewer number of years than households with higher incomes, we offer two explanations.

One explanation is that Social Security benefits provide a progressive transfer to the lowest income groups in terms of our replacement rate model. Poor households with low lifetime earnings will receive a Social Security benefit that is higher than their consumption during retirement. Consequently, households within our \$20,000 income group will receive a Social Security benefit at or above their estimated post-retirement consumption, meaning they will be unable to decrease their savings to meet eligibility without significantly increasing their replacement rate. This explanation would not apply to our \$7,500 income group because they would not accumulate significant savings at any of the savings and interest rates we examine. Consequently, households within the \$7,500 group will either always meet the eligibility tests for all programs or immediately spend down their minimal savings to acquire eligibility.

Another explanation is that the replacement rate of 70 percent, which is a standard rate for retirement and behavioral economic studies, does not reflect the hardships and circumstances facing more vulnerable LMI households. We adjust our model to assume a replacement rate of 100 percent for households in the \$20,000 income group and find significant deviations for delayed eligibility. At a replacement rate of 100 percent, households within the \$20,000 income group will delay eligibility for programs for 1 to 3 years. It is important to note that while we assume immediate state expenditures for Medicaid, this may be an overestimation if Medicaid expenditures for our observed population occur later in life (for example, nursing home care the last year of life).

Despite increased savings levels, eligibility for HTC and WHEAP are not significantly affected. For instance, the lowest income group will always remain eligible for all of the observed programs. Additionally, all income groups will always retain eligibility for WHEAP due to its relatively generous income eligibility test. There are some reductions to state expenditures from delayed eligibility for HTC. However, these reductions only occur if households currently

earning above \$30,000 were to save 5 percent of their income. Delays range from 1 year to 3 years, and only for households on above the median of our LMI groups.

The potential reduction in state expenditures in 2030 exceeds \$3.1 billion, even with modest savings by incoming retirees. The annual reductions in spending from 2030 to 2035 is reflected in the table below.

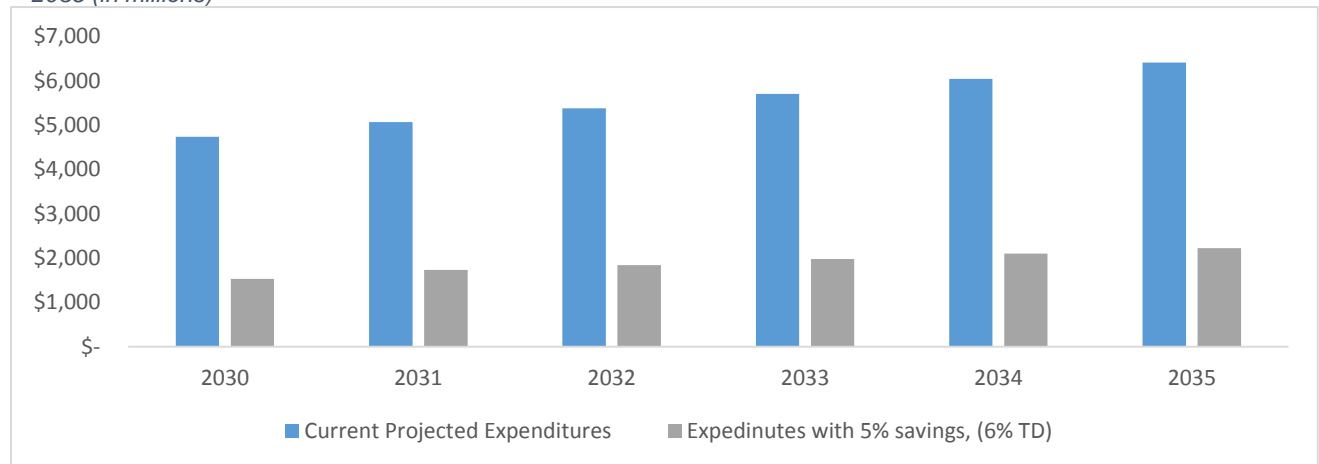
| Year | 3% MyRA | 3% TD2030 | 5% MyRA | 5% TD2030 |
|-------------------|-----------------|-----------------|-----------------|-----------------|
| 2030 | \$3,177 | \$3,203 | \$3,177 | \$3,203 |
| 2031 | \$3,307 | \$3,338 | \$3,307 | \$3,338 |
| 2032 | \$3,367 | \$3,508 | \$3,508 | \$3,539 |
| 2033 | \$1,120 | \$3,720 | \$3,720 | \$3,720 |
| 2034 | \$1,188 | \$1,188 | \$2,525 | \$3,946 |
| 2035 | \$0 | \$1,260 | \$1,260 | \$4,186 |
| Cumulative | \$12,159 | \$16,217 | \$17,497 | \$21,932 |

Table 8: Reduction in State Expenditures from 2030 to 2035 by Savings and Investment Rates (In millions)

Source: Authors' computations, reductions reported in 2015 dollars.

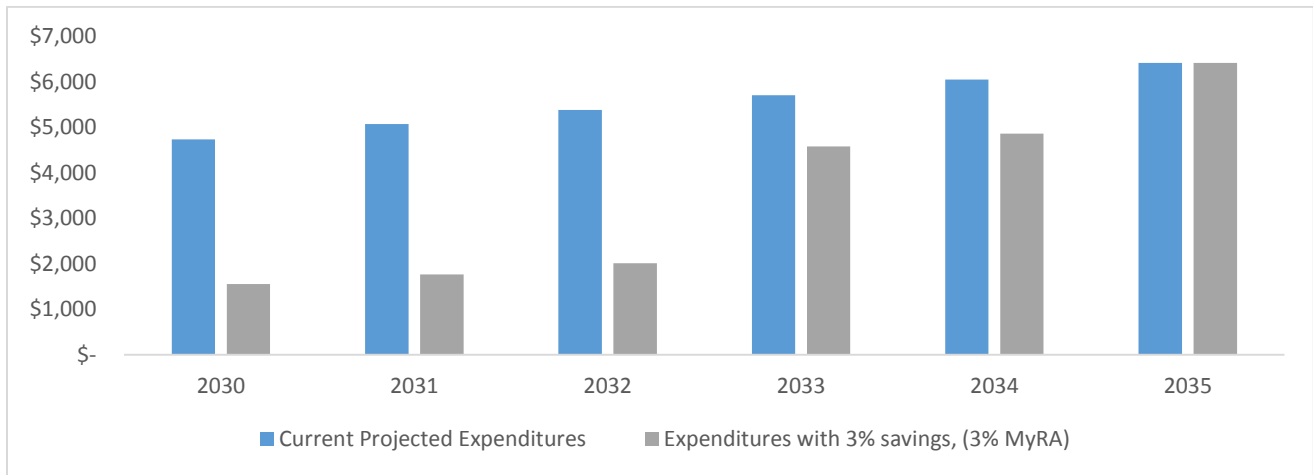
There are significant reductions to state expenditures from encouraging household savings. Wisconsin may reduce its expenditures by \$12.1 billion to \$21.9 billion between 2030 to 2035, depending on household savings and investment rates. It is unlikely to observe additional reductions due to delayed eligibility beyond seven years as most households would become eligible for programs by then. We find that household rate of return on investment, rather than the percentage of income saved, impacts state reductions more from 2030 to 2033.

Figure 3: State Expenditures at 5% Savings at TD2030 Rate Compared to Expenditures with No Savings from 2030 – 2035 (in millions)



Source: Authors' visual, values reported in 2015 dollars.

Figure 4: State Expenditures at 3% Savings at MyRA Rate Compared to Expenditures with No Savings from 2030 – 2035 (in millions)



Source: Authors' visual, values reported in 2015 dollars.

From 2033 to 2035, the percentage of income saved and the rate of return received both are important in reducing state expenditures. We see increasing reductions in savings in certain years, particularly if households save 5 percent of income and receive a rate of return of 6 percent, due to increases in program enrollment. For example, in 2034, Wisconsin will serve people who retire in 2034 and seniors who retired prior to 2034. Increased savings will delay eligibility for programs for a greater number of years, which means new retirees are not eligible for programs and seniors who retired in previous years have not tapped into benefits yet.

Conclusion

State expenditures on elderly assistance programs will continue to grow as costs increase and as the baby-boom generation approaches retirement. Currently, Wisconsin spends more than \$1.2 billion each year on major state programs. Three in 10 elderly Wisconsinites live under 200 percent of the federal poverty level, and additional research shows that those earning under the median income have little to no resources saved for retirement. If current trends continue, Wisconsin stands to spend more than \$4.7 billion per year in 2030. We find that increases in savings of 3 percent to 5 percent can provide some future retirees additional income during retirement and reduce by as much as \$3 billion—more than half of the projected increase—the state's expenditures on benefits in 2030.

While additional savings are important for retirees, the reduction in state expenditures from 2030 to 2035 is a result of a delay in retirees accessing state programs. State expenditures may be lower from 2030 to 2035, but they are expected to increase as more retirees spend down savings and gain eligibility for programs. Almost all households earning under the median income will become eligible for programs within seven years after retirement. Regardless, delayed access to programs will provide the state significant cost savings after 2035 as it reduces the number of years that retirees would need to access assistance programs during their lifetime.

It is understandable that saving is difficult for those who earn below median income. In addition to economic vulnerability, these individuals may lack access to traditional savings avenues such as defined-contribution and defined-benefit plans.

Policy Considerations

To achieve the savings to state expenditures outlined in this report, savings rates among households below the median income must increase substantially from the status quo. Savings policies include:

- Portable plans for workers to save that are not employer-based
- Incentives for automatic enrollment into savings plans
- Tax incentives for savers, especially larger catch-up balance exclusion for people 45 and older
- Support for employers to enroll low-wage employees in savings plans, such as MyRA
- Tax credits for low-income retirement account savers
- Removal of asset tests for state programs, which could discourage savings
- Promotion of financial literacy
- Expanded support for programs that promote financial capability and inclusion in communities

We recognize that the ability to save is tied to employment opportunities, costs of living, financial literacy, and other factors. While our study assumes access to employment, we realize that employment is not always an available and viable option for certain populations in Wisconsin. Retiring without savings disproportionately affects vulnerable populations—the same populations that have fewer employment opportunities available to them. Differences in education level, ability, individual and familial circumstances, and many other aspects may make access to the aforementioned resources and preparation for retirement increasingly difficult for vulnerable populations. As the NCFS shows, many Wisconsinites are focused on making ends meet on a weekly basis. Concerns about retirement readiness are perhaps overshadowed by more immediate financial demands. Yet, this study has shown that savings increase retirees' overall well-being in retirement, and reduce state expenditures on public programs. Our findings lead us to conclude that state lawmakers should consider policies to increase access to retirement savings vehicles with automatic enrollment.

It would be irresponsible not to mention that the importance of individual savings should not be overshadowed by the importance of state investment in LMI populations. Our report shows the clear and demonstrated need of the growing elderly population for supplementary services and income, given the low savings rates reported by LMI households in Wisconsin and across the United States. Even significant increases in personal savings will not replace the need for state-funded services for elderly populations in Wisconsin.

Increasing savings among low- and middle-income families is a difficult task, and policymakers must come together to ensure every senior can retire with dignity. If current conditions do not change, more than 427,300 Wisconsinites risk retiring in poverty in 2030. While increased savings will not make these seniors financially independent during retirement, it will increase their monthly incomes and delay their need for state assistance programs. In addition to

improved outcomes for LMI seniors, Wisconsin stands to significantly reduce expenditures on major elderly assistance programs if workers are able to save more for retirement today.

Appendix A

Generally, we project costs for each state program by multiplying expected costs per participant by the number of expected participants in the given year. We use the latest available data from each program to establish the known number of participants over age 65 and the costs per elderly participants. We average past costs per participants and assume this costs stays constant through 2030. We also find program participation rates by dividing the number of elderly participants by the total elderly population. We assume participation rates remain constant and multiply this rate by the population in subsequent years to find the estimated number of participants. We then multiply the number of participants by the costs per participant to estimate costs for each program.

WHEAP Projection

WHEAP benefits are disbursed through two core assistance categories: heat and energy. Heating benefits are paid through the federal Low Income Home Energy Assistance Program (LIHEAP) block grant and are thus not included in our state cost calculations. State funds are used exclusively to pay for energy benefits. Only energy numbers were used in our calculations.

Projections are based on data received from a public records request from the Wisconsin Division of Energy, Housing, and Community Resources. The data contained the number of elderly participants from 2010 to 2015, as well as individual benefits received for both heating and energy assistance for all participants. We calculated an annual cost increase rate from 2010 to 2015 and assume this stays constant through 2030. We match the average increase in cost to the population growth rate calculated from Department of Administration population projections from 2015 to 2030. We assume a constant program participation rate throughout the report, which may make these estimates more conservative.

WHEAP Expenditures, Enrollee Costs, and Enrollment 2015 to 2030

| Expenditures by Year | WHEAP Total | Cost Per Aged Participant | Elderly Participants |
|----------------------|--------------|---------------------------|----------------------|
| 2015 | \$9,143,136 | \$134.54 | 67,960 |
| 2020 | \$16,489,265 | \$205.88 | 80,092 |
| 2025 | \$28,359,166 | \$299.57 | 94,665 |
| 2030 | \$46,739,051 | \$435.91 | 107,222 |

Source: Authors' computations from WHEAP data, expenditures reported in 2015 dollars.

SSI Projection

Wisconsin provides a supplemental monthly benefit for recipients of federal SSI. To qualify, individuals must be low-income seniors, blind, or disabled. We use the current Wisconsin payment of \$132.05 per household and multiply this by the number of expected household participants. We assume this payment remains constant as the payment amount has not changed since 1974. It is beyond the scope of this paper to predict changes to payment levels. However, all costs are calculated in 2015 dollars and cost-of-living adjustments for inflation would not impact the real costs measured here.

State SSI Expenditures, Enrollee Costs, and Enrollment 2016 to 2030

| Expenditures by Year | SSI Total | Cost Per Aged Household | Elderly Participants |
|----------------------|-------------|-------------------------|----------------------|
| 2016 | \$682,698 | \$98.67 | 6,919 |
| 2020 | \$778,172 | \$98.67 | 7,887 |
| 2025 | \$919,762 | \$98.67 | 9,322 |
| 2030 | \$1,041,765 | \$98.67 | 10,558 |

Source: Authors' computations from Wisconsin Department of Health Service and U.S. Social Security Administration data, expenditures reported in 2015 dollars.

State Contribution toward Medicaid Projection

We use and build on estimated percent increases in Medicaid spending from estimates provided by the Centers for Medicare & Medicaid Services (CMS). CMS estimates that the national increase in Medicaid spending will be 6.1 percent from 2016 to 2024. The growth in spending is largely attributed to increased enrollment due to population aging and federal subsidies for Medicaid expansion. We assume the CMS growth rate remains constant through 2030 and multiply this increase by the state costs per aged participant for each year of the analysis. We then multiply this by the expected number of participants to find total state Medicaid spending.

Medicaid State Expenditures, Enrollee Costs, and Enrollment 2016 to 2030

| Expenditures by Year | Medicaid Total (In thousands) | Cost Per Aged Participant | Elderly Participants |
|----------------------|-------------------------------|---------------------------|----------------------|
| 2016 | \$1,322,187 | \$7,644 | 172,962 |
| 2020 | \$1,909,859 | \$9,687 | 197,150 |
| 2025 | \$3,035,137 | \$13,025 | 233,204 |
| 2030 | \$4,622,210 | \$17,513 | 263,931 |

Source: Authors' computations from Kaiser Family Foundation, expenditures reported in 2015 dollars.

Homestead Tax Credit Projection

To project expenditures, we use a 2015 informational paper prepared by the Wisconsin Legislative Fiscal Bureau. The paper provides summary data on the number of elderly participants, average credit that elderly participants receive, and the annual percent change in average credit from 2004 to 2013. To project the cost per elderly participant, we calculated the average percent increase in costs for the past decade and multiplied this number by the projected number of elderly participants. We assume the percent increase in cost and the participation rate of elderly participants remain constant through 2030. The total annual spending is the projected cost per elderly participant multiplied by the projected number of elderly participants in each year.

Homestead Tax Credit Expenditures, Enrollee Costs, and Enrollment 2015 to 2030

| Expenditures by Year | HTC Total | Cost Per Elderly Claimant | Elderly Households |
|----------------------|--------------|---------------------------|--------------------|
| 2015 | \$30,729,955 | \$450 | 68,319 |
| 2020 | \$37,130,795 | \$460 | 80,694 |
| 2025 | \$44,895,640 | \$471 | 95,377 |
| 2030 | \$52,019,762 | \$482 | 108,028 |

Source: Authors' computations from Legislative Fiscal Bureau, expenditures reported in 2015 dollars.

Appendix B

The following tables detail the accumulated savings of each income group based on the percentage of income saved and the rate of return received. We chose the federal MyRA return and the average expected return of traditional TD2030 accounts because they are the most accessible options for LMI households. For instance, MyRA allows LMI households to contribute up to \$15,000 with no fees or risk of losing money. Higher-yield accounts may end up costing LMI households more in fees than benefits gained from their annual rate of return. Participants can expect an annual rate of return of 3 percent for MyRA accounts and a return of 6 percent for TD2030 accounts based on historical averages.

Accumulated Savings for \$7,500 Income Group Based on 3 Percent Income Savings, 2020 to 2030

| Year | MyRA Return | TD2030 Return |
|------|-------------|---------------|
| 2020 | \$1,228 | \$1,344 |
| 2025 | \$2,648 | \$3,142 |
| 2030 | \$4,289 | \$5,547 |

Source: Authors' calculations, savings reported in 2015 dollars.

Accumulated Savings for \$7,500 Income Group Based on 5 Percent Income Savings, 2020 to 2030

| Year | MyRA Return | TD2030 Return |
|------|-------------|---------------|
| 2020 | \$2,047 | \$2,240 |
| 2025 | \$4,413 | \$5,236 |
| 2030 | \$7,148 | \$9,244 |

Source: Authors' calculations, savings reported in 2015 dollars.

Accumulated Savings for \$20,000 Income Group Based on 3 Percent Income Savings, 2020 to 2030

| Year | MyRA Return | TD2030 Return |
|------|-------------|---------------|
| 2020 | \$3,275 | \$3,584 |
| 2025 | \$7,061 | \$8,378 |
| 2030 | \$11,437 | \$14,791 |

Source: Authors' calculations, savings reported in 2015 dollars.

Accumulated Savings for \$20,000 Income Group Based on 5 Percent Income Savings, 2020 to 2030

| Year | MyRA Return | TD2030 Return |
|-------------|--------------------|----------------------|
| 2020 | \$5,459 | \$5,974 |
| 2025 | \$11,768 | \$13,964 |
| 2030 | \$19,062 | \$24,651 |

Source: Authors' calculations, savings reported in 2015 dollars.

Accumulated Savings for \$30,000 Income Group Based on 3 Percent Income Savings, 2020 to 2030

| Year | MyRA Return | TD2030 Return |
|-------------|--------------------|----------------------|
| 2020 | \$4,913 | \$5,376 |
| 2025 | \$10,592 | \$12,567 |
| 2030 | \$17,156 | \$22,186 |

Source: Authors' calculations, savings reported in 2015 dollars.

Accumulated Savings for \$30,000 Income Group Based on 5 Percent Income Savings, 2020 to 2030

| Year | MyRA Return | TD2030 Return |
|-------------|--------------------|----------------------|
| 2020 | \$8,188 | \$8,960 |
| 2025 | \$17,653 | \$20,946 |
| 2030 | \$28,593 | \$36,977 |

Source: Authors' calculations, savings reported in 2015 dollars.

Accumulated Savings for \$40,000 Income Group Based on 3 Percent Income Savings, 2020 to 2030

| Year | MyRA Return | TD2030 Return |
|-------------|--------------------|----------------------|
| 2020 | \$6,550 | \$7,168 |
| 2025 | \$14,122 | \$16,757 |
| 2030 | \$22,874 | \$29,582 |

Source: Authors' calculations, savings reported in 2015 dollars.

Accumulated Savings for \$40,000 Income Group Based on 5 Percent Income Savings, 2020 to 2030

| Year | MyRA Return | TD2030 Return |
|-------------|--------------------|----------------------|
| 2020 | \$10,917 | \$11,947 |
| 2025 | \$23,537 | \$27,928 |
| 2030 | \$38,123 | \$49,303 |

Source: Authors' calculations, savings reported in 2015 dollars.

Appendix C

This report operates off several economic and demographic assumptions that may vary across the state. These assumptions were made for the purposes of consistent statistical analysis. Our assumptions are as follows:

- Population growth is consistent across income groups
- No observed income groups in this study are currently considered to have retirement assets
- Constant earnings from 2015 to 2030
- All figures are in 2015 dollars
- Full employment for all observed income groups
- Physical ability to work until retirement age
- All observed individuals qualify for and claim Social Security benefits at full retirement age for their age cohort
- Life expectancy of 84 years and retirement age of age 67 (full retirement age for Social Security)
- Uniform behavior in retirement – that households know eligibility requirements for public programs and will spend savings assets down to become eligible
- Spending on state programs is distributed evenly based on the age of the elderly beneficiary (there is no increase in use at end of life)

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