

Dow 15,000 and the retirement crisis ahead

By Matt Miller

The Dow's cracked 15,000 and the S&P is at record highs, so it's time to pop open the champagne and celebrate, right?

Well, absolutely, if you've got a bunch of money in the stock market.

Which means first you'd have to be an American with savings.

Which means you're a rare American, indeed.

"Dow 15,000" is the perfect time to take stock of an unappreciated part of our national predicament. Yes, we face a jobs crisis, a schools crisis, an immigration crisis, an infrastructure crisis, an inequality crisis and a college affordability crisis (just to name some current favorites).

But the sleeper crisis, the Next Big Shoe To Drop, is the retirement crisis.

By definition, a retirement crisis begins with a savings crisis. Consider: According to research summarized recently by the New America Foundation, "nearly half of Americans (43.6%) do not have enough savings to cover basic expenses if they were to lose their source of stable income. These 132.1 million 'liquid asset poor' Americans include many members of the middle class and upper middle class: more than a quarter of households earning between \$55,465 and \$90,000 per year — the entire range of which is above the median household income of \$50,054 — have less than three months of liquid savings. Over 30% of all households do not have a savings account at all."

Let's emblazon these facts on our collective psyche. Millions of families who earn more than the median income have less than three months of savings put aside. Millions of people with less money are living paycheck to paycheck. Families who at least owned their own houses have had their net worth eviscerated by the housing meltdown, which blew out the backstop on which countless Americans depend.

A 2011 study found that half of American families couldn't put their hands on \$2000 within 30 days if an emergency struck. As the authors wrote, that \$2000 amount "reflects the order of magnitude of the cost of an unanticipated major car repair, a large copayment on a medical expense, legal expenses, or a home repair."

How do we think these families will fare when they're not just grinding their way through a short-term squeeze but eventually trying to support themselves in retirement at anything close to their standard of living when they were working?

John Edwards turned out to be sleazy in the end, but the man had a point: we've become "two Americas."

This divide in moods and fates is never clearer than at times when markets hit new peaks. Some of us rejoice. Most of us barely notice. The "good news" is irrelevant. A decade of hype about "the ownership society" hasn't changed the fact that the vast majority of Americans have precious little saved or invested. Instead, years of wage stagnation, plus soaring prices for the ingredients of middle-class life (such as care or college tuition) has made the crunch—and the disconnect between the two Americas — stark.

People will say we need to become thriftier, as Asian nations are. If you're young, that's good counsel. If you're 59 and undersaved or 62 and unemployed it's a little late for Ben Franklin-style homilies.

The entire social and fiscal debate ignores this monster of an issue, but it's only a matter of time. The kids are moving back home when they graduate and can't find work. Soon, grandma and grandpa are going to be moving in, too. There's a reckoning ahead that policymakers and the news media haven't begun to think clearly about — or focus the public on.

What's the answer? A good place to start is New America's report "Expanded Social Security: A Plan To Increase Retirement Security for All Americans" by Michael Lind, Steven Hill, Robert Hiltonsmith and Joshua Freedman. The authors show that the two private legs of the famous "three-legged retirement stool" — pensions and savings — won't come close to delivering adequate retirement income. (The third leg, of course, is Social Security).

So they'd add a new universal flat benefit to Social Security to supplement the earnings-based benefit that exists now. This new flat benefit would roughly equal the poverty line; when combined with the existing system, the average worker would have 60 percent of his or her working-age income replaced, versus 40 percent today. One way to fund it would be through a chunk of the proceeds from the value-added tax that's almost certainly coming in an aging America. Canada, Japan and Luxembourg apparently do something like this today.

The New America plan is a rare Washington example of an attempt to move the boundaries of debate so they're more equal to the magnitude of the challenge. There are details to debate and refine. But combined creatively with steps that might make traditional Social Security more generationally fair, Social Security "Part B" could become a touchstone in the coming conversation that even a soaring Dow can't help us avoid.
