

Before COVID-19 life-expectancy gains slowed among men

The pace of population ageing is fast in the United States but much slower than in many OECD countries. The number of people aged 65 and over for every 100 people of working age will rise from 28 today to 40 in 2050. This compares to 30 and 53 on average in the OECD.

Even before COVID-19, there has been a slowdown in old-age life expectancy in many countries from about 2010. This is particularly the case for men in the United States where the pace of longevity gains has been almost halved after the strong improvements during the first decade of the century. The current trend in longevity gains is much lower than in many OECD countries for both men and women. Longevity inequality has increased in recent decades while there is mixed evidence among OECD countries. It is a particular issue in the US as differential mortality offsets a large part of the redistribution towards low earners built into the Social Security pension formula.

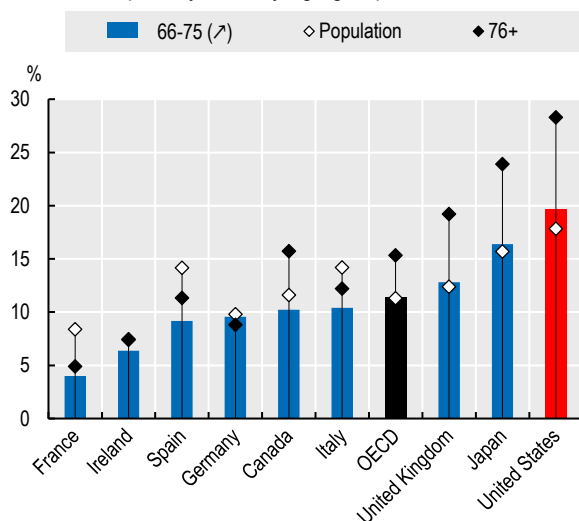
Excess mortality due to COVID-19 has had a larger impact on period life expectancy at birth estimates in 2020 than for the vast majority of OECD countries. Around 20% more deaths were recorded between January 2020 and August 2021 than would have been expected, both among the total population and those aged 65+, with the USA being the country with the highest fall in life expectancy at birth, at 1.6 years.

Old-age poverty rates and poverty depth are high

Current retirees on average have income around 94% of that of the total population, compared with 88% on average in the OECD. However, income inequality is one of the highest among all OECD countries, for the population as a whole, and particularly for the over 65s with a Gini coefficient of 0.411 compared to 0.309 on average in the OECD, with only three countries having higher old-age income inequality.

Poverty rates are high in the USA, especially after age 75

Relative poverty rates by age group, latest available



Source: [Table 7.2](#)

The current relative income poverty rate among older people is very high in the United States: 28% of those aged 75 and over have incomes below half of median household disposable income, the majority of them being women; this compares to 11% in the OECD on average. In the United States, the average income of those aged 66+ who are

relatively poor is very low at 38% below the relative poverty line. Such a poverty depth is second only to Mexico among OECD countries.

Future pension benefits risk falling with reserve fund depletion

As the Social Security pension scheme is not allowed to borrow, it will be obliged to cut benefits when its reserve fund is fully depleted so that total benefits can be covered by total contributions. This so-called 'fiscal cliff' balancing mechanism will come into force in 2033, one year earlier than had been forecasted prior to the COVID-19 pandemic. Previous estimations have turned out to be too optimistic as the "fiscal cliff" was originally forecast for 2057 when the long-term plan was developed in the 1980s. The nearly 25-year change in the timing of the 'fiscal cliff' is mainly due to the fact that economic and disability assumptions made in the 1980s were not realised. Unless policy measures are taken before the depletion of the fund pension benefits are expected to make a sudden drop of 24%.

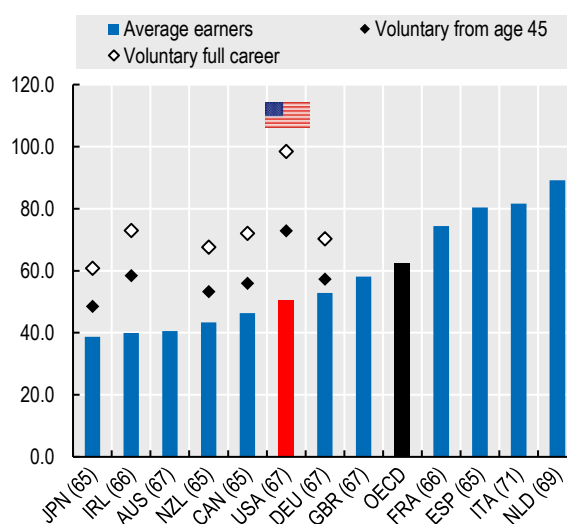
The threat of the 'fiscal cliff' might act as a strong discipline device, but it could generate adjustments that are not well shared across generations and entails a strong reliance on policy makers to make changes in pension parameters in the future. The United States was one of the earliest in legislating a retirement age increase to age 67, with legislation being passed in 1983, even though the actual increases did not start until 2003 and will not be completed until 2027. However, whilst a future age of 67 is still above the OECD average, seven OECD countries have introduced links between retirement age and life expectancy to accompany ageing trends and help share the burden fairly across generations.

Private pensions may therefore become more important

Private pensions play an important role in providing old-age income in the United States and represent 43% of total pension spending. The country has one of the longest traditions of complementing public pensions with voluntary private pensions. Over half of the working-age population (15-64 years) is covered by voluntary private pension schemes: 48% participate in occupational pension schemes and 20% in personal plans, with some having both.

Private pensions could play a larger role in the future

Future net pension replacement rates, %



Source: [Table 4.5](#)

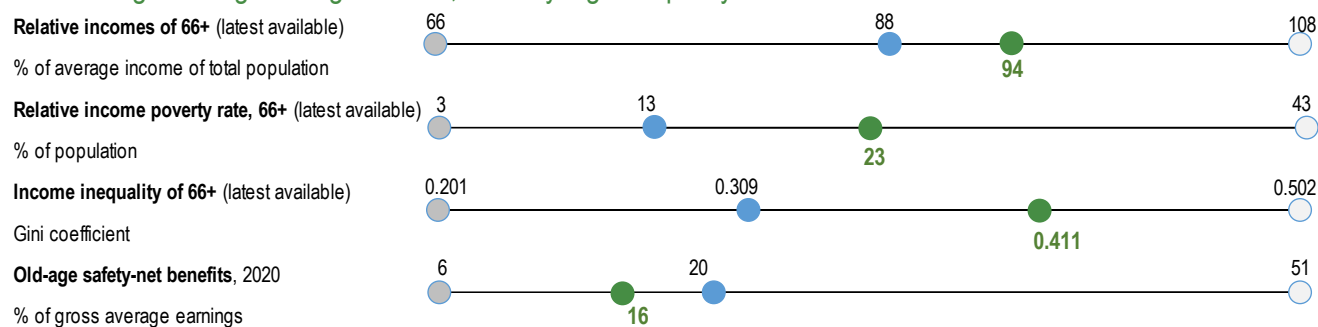
The future net pension replacement rate from mandatory schemes for a full-career average-wage worker equals 51% against an OECD average of 62%. This increases to 96% in the US if voluntary contributions at 12.25% of gross wages are made throughout the whole career. However, accounting for contributions from age 45 only leads to a projected net replacement rate of 73%. Moreover, these numbers are based on annuitising accumulated pension assets at retirement age, which would automatically adjust pension benefits to life expectancy but currently rarely happens. In fact, low annuitisation

exposes older people to large risks of outliving their assets while insulating the pension provider from managing longevity risks.

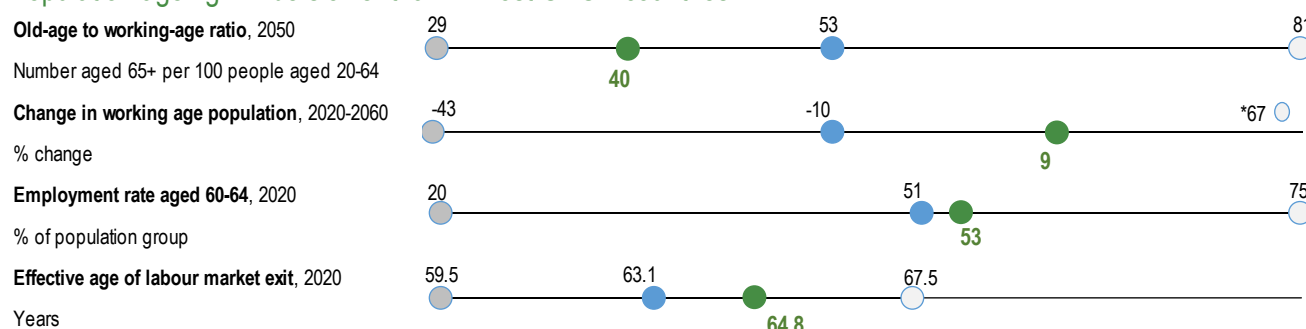
The United States is one of ten OECD countries that treat the self-employed in the same way as private-sector workers for mandatory pensions, meaning that the self-employed pay the contributions as both employee and employer. The self-employed therefore receive exactly the same pension in retirement as dependent employees with the same taxable income, compared to only 75% on average across the OECD for full-career average earners.



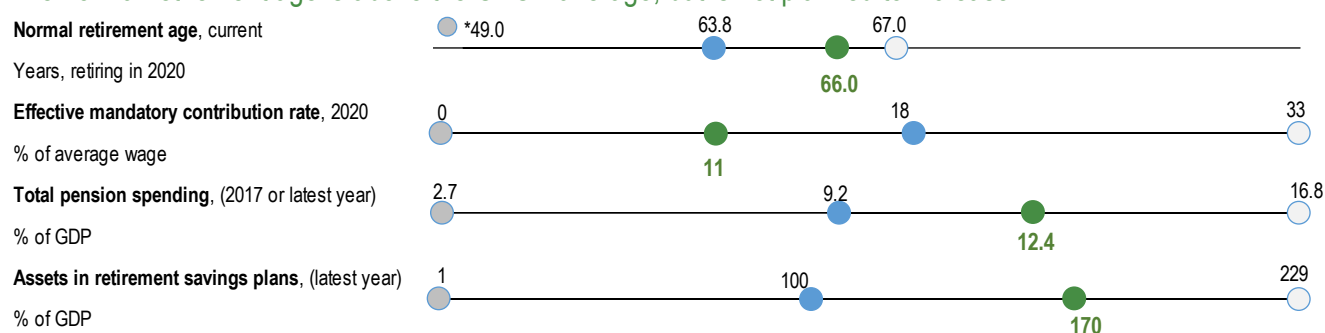
Relative high average old-age income, but very high inequality



Population ageing will be slower than in most OECD countries



The normal retirement age is above the OECD average, but is not planned to increase



Lower replacement rates from mandatory pensions than in the OECD on average

