

## The Growing Gap in Life Expectancy by Income: Implications for Federal Programs and Policy Responses

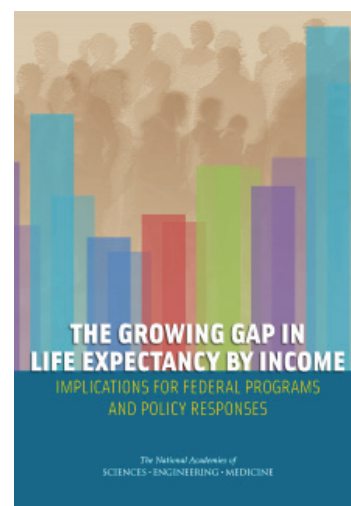
Life expectancy in the U.S. has risen significantly in recent decades, but as many studies have shown, this trend differs across segments of the population. Lifespans have been increasing more for people with higher incomes and more education than for those with lower incomes and less education. This trend is important by itself, but it also means that because they live longer, higher-income people will increasingly collect government benefits such as Social Security over more years than will people with lower incomes.

These gaps in lifespan and in benefits received are examined in the report *The Growing Gap in Life Expectancy by Income: Implications for Federal Programs and Policy Responses*, a report from an expert committee appointed by the National Academies of Sciences, Engineering, and Medicine. The report also considers the likely impact of some commonly proposed changes to entitlement programs. It examines which of these proposed changes would lessen the gap between high-income and low-income Americans in the distribution of lifetime benefits, and which would increase it.

### THE GROWING GAP IN LIFE EXPECTANCY

Research has shown that people with less education and lower incomes do not live as long as people with higher education and income levels, and that the gap is widening with time. This gap is confirmed by the committee's analysis, which compared the projected lifetime earnings and life expectancy of a group of Americans born in 1930 with a group born in 1960. Specifically:

**Life expectancy has grown significantly for men who earn the most money.** Men born in 1930 in the highest of five earnings levels who survived to age 50 could expect to live to be about 82 years old, on average. Men born in 1960 in the same earnings bracket can expect to live to be 89 years—a substantial gain in life expectancy.



**By contrast, life expectancy for men with the lowest earnings has not risen.** Male workers in the bottom of five earning levels who were born in 1930 and who survive to age 50 could expect to live to be 77 years old, on average. Men born in 1960 at the same earning level can expect to live to be 76—a slight decline in lifespan.

**Therefore, the gap in lifespan between the highest earners and the lowest earners has widened over time.** For men born in 1930, those who earned the most money could expect to live about 5 years longer on average than those earned the least. For men born in 1960, that projected gap widens to over 12 years.

**For women, the projections are less reliable but they indicate similar patterns; the gap in lifespan based on earnings has become even larger than for men.**

## **THE GROWING GAP IN BENEFITS RECEIVED**

Because their lifespans are lengthening, high earners are likely to receive benefits such as Social Security and Medicare over longer periods of time than low earners do—so the total lifetime benefits high earners receive from government programs has grown. To evaluate the effect of the widening life-span gap on benefits received, the committee simulated the levels of benefits received by a generation with the lifespans of those born in 1930 and compared them with the benefits received by a generation with the lifespans of those born in 1960. (The simulation kept all other characteristics across the groups the same, except for health and mortality.)

**The simulation found that for men born in 1930, lifetime entitlement benefits received after age 50 are roughly similar across income groups.** Even among those born in 1930, high earners have longer lifespans, so they tend to receive more from Social Security. But this is balanced by the fact that lower earners receive more on average from Medicaid, Disability Insurance, and Supplemental Security Income. Medicare benefits received are roughly the same across earnings groups.

**For men born in 1960, however, top earners are projected to receive significantly more lifetime benefits.** Men born in 1960 who are in the top earnings bracket are projected to receive \$132,000

more in lifetime benefits from entitlement programs than would those in the bottom earnings category.

**For women born in 1930, the top fifth of earners have lower average benefit levels than the bottom fifth.** Those in the bottom fifth receive \$129,000 more in benefits (mostly through Medicaid) than the top earners.

**But the lowest-earning women born in 1960 are projected to fare less well.** The distribution of lifetime benefits shifts to favor those in the highest earning bracket, who receive \$28,000 more than those in the bottom bracket.

Including taxes paid after age 50 in the analysis did not alter the conclusion that the changes in life expectancy are materially affecting the pattern of net benefits across different income categories.

## **THE IMPACT OF REFORM OPTIONS**

Policymakers are considering changes to Social Security and other entitlement programs to correct a projected long-term fiscal imbalance and put the programs on firmer financial footing. The committee analyzed the impact of seven different reform options that have emerged from policy discussions, to determine the likely impact each would have on the gap in benefits received by high and low earners. (These options are intended for illustrative purposes and do not indicate the committee's preferences or recommendations.)

**Increasing the earliest eligibility age for Social Security from 62 to 64** would not generate significant savings for the Social Security system and would slightly widen the gap in benefits received between high-earners and low-earners.

**Increasing the normal retirement age for Social Security from 67 to 70** would generate substantial savings for the Social Security system by reducing the benefits received by everyone. This change would result in a 25 percent reduction in benefits received by the lowest-earning men and a 20 percent reduction in benefits received by the highest-earning men. However, because Social Security accounts for a larger share of total benefits for high earners than for low earners, this action would reduce total lifetime benefits from all programs proportionately more for the highest earners than for the lowest—modestly reducing the gap in lifetime benefits received.

**Raising both the earliest eligibility age and the normal retirement age under Social Security.**

Not surprisingly, the total effect is very similar to adding the effect of the two reforms individually. Since the changes in benefit amounts were much smaller for the earliest-eligibility age increase, the combined effect of the two policies is similar to the effect of raising the normal retirement age alone.

**Reducing the cost-of-living adjustment for Social Security and other benefits.**

Currently the annual cost-of-living adjustment is made based on the Consumer Price Index for Urban Wage Earners and Clerical Workers. An alternative proposal is to instead use the Chained Consumer Price Index, which takes into account substitutions consumers make in response to price increases—resulting in a smaller annual cost-of-living increase for benefits. This option would result in a slight narrowing of the gap between the highest earners and lowest earners, because it has the largest effect at the older ages to which more of the highest earners survive.

**Reducing benefits in ways that primarily affect higher income workers.** One option would be to change the Social Security income replacement

rate for income beyond the second “bend point” (currently \$4,917 of monthly earnings) from its current 15 percent to 10 percent. The committee’s analysis found that this approach is too modest to offset much of the increase in lifetime benefits accruing to higher income workers from the changing gradient in life expectancy.

Another option would lower initial benefits for the top 50 percent of earners. It would change the second bend point to the median level of income and not replace income above this point. This generates much larger savings for the Social Security system and narrows the gap in lifetime benefits between the highest-earning and lowest-earning men by about 30 percent; for women, it narrows the gap between the highest earners and the lowest earners by about 40 percent.

**Increasing the eligibility age for Medicare from 65 to 67.**

Like Social Security, Medicare faces long-term fiscal imbalances that result from population aging and also from rapidly rising per capita health care spending. Raising the eligibility age would result in a slightly larger decline in net benefits for the lowest-earning fifth than for the highest-earning fifth—thus slightly increasing the gap in benefits.

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**COMMITTEE ON THE LONG-RUN MACROECONOMIC EFFECTS OF THE AGING U.S.  
POPULATION-PHASE 2**

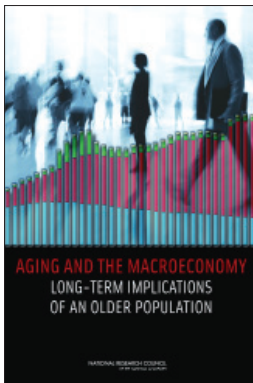
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**For More Information . . .** This brief was prepared by the Committee on Population (CPOP) based on the report *The Growing Gap in Life Expectancy by Income: Implications for Federal Programs and Policy Responses* (2015). The study was sponsored by the U.S. Department of the Treasury. Any opinions, findings, conclusions, or recommendations expressed in this publication are those of the authors and do not necessarily reflect those of the sponsor. Copies of the report are available from the National Academies Press, (800) 624-6242; <http://www.nap.edu/19015> or via the CPOP web page at <http://www.nationalacademies.org/cpop>.

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## ALSO OF INTEREST



*Aging and the Macroeconomy: Long-Term Implications of an Older Population*, a 2012 report from the Committee on Population, presents the fundamental factors driving the aging of the U.S. population, as well as its societal implications and likely long-term macroeconomic effects in a global context. The report finds that, while population aging does not pose an insurmountable challenge to the nation, it is imperative that sensible policies are implemented soon to allow companies and households to respond. It offers four practical approaches for preparing resources to support the future consumption of households and for adapting to the new economic landscape. The report is available from the National Academies Press at <http://www.nap.edu/13465>

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