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From One Generation to the Next: Our Fiscal and Economic Legacy

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Panel Discussion with Lanhee Chen, Bill Gale, Heidi Heitkamp, and James Poterba

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Younger generations are coming of age in a culture of debt — saving less, accumulating greater personal and student debt — while also experiencing less economic growth and mobility than the post-war generation. In addition, these younger Americans will bear the burden of caring for aging parents who will face their own retirement security challenges and navigate a highly inefficient healthcare system. As Baby Boomers retire and our fiscal outlook worsens, what kind of fiscal and economic legacy will we be passing on to younger generations? A panel of experts will offer insights on ways to understand, mitigate and prepare for this complex intergenerational dynamic.

This panel discussion with **Lanhee Chen, Bill Gale, Heidi Heitkamp**, and **James Poterba** was conducted by Ylan Mui, reporter for CNBC, as part of the 2019 Fiscal Summit.

ANNOUNCER: Ladies and gentlemen, please welcome CNBC reporter Ylan Mui and her panel.

YLAN MUI: Thank you so much to the Peterson Foundation for hosting the important discussion today. As you guys know, the theme of the summit is "Building America's Future." This panel is going to be focused on the legacy that we are passing on to the next generation and what the next generation is able to build. What are their unique challenges and unique advantages in trying to secure their own retirements in the coming decades?

We have a very distinguished group of panelists that are going to be joining us for this discussion. We have Bill Gale. He is the head of the Retirement Security Project at the Brookings Institution. We also have Lanhee Chen. He is a fellow at the Hoover Institution. Former North Dakota senator, Heidi Heitkamp is joining us, as well as Jim Poterba, who is president of the National Bureau of Economic Research.

Their full bios, of course, are in your packets. And we want to let you know that you can join in our discussion as well. We will be taking questions via text, so you can text us your questions at 22333 and we will try to get as many of them answered as possible. But Bill, I want to start this conversation with you, because you wrote a paper called US 2050 that, really, I believe was part of the seed of the idea for this panel.
And that looked at the ways that millennials, in particular, are finding challenges and perhaps some advantages in saving for retirement. They're living longer. They are more educated than previous generations. But there's still a long list of obstacles that they face. Can you outline some of them for us?

BILL GALE: Sure. Thank you. Just to have everyone on the same page, when we're talking about millennials, we're talking about people born between 1981 and 1996. They're between 23 and 38. Now, the easiest way to summarize their wealth situation is that they're doing worse than any generation from before 2007, before the financial meltdown. They're doing better than the two generations that the Survey of Consumer Finances has surveyed since 2007. As you mentioned, they have this great advantage where they have more education than earlier generations and they're likely to be employed in physically easier jobs, white-collar jobs. So they'll be able to work longer. But they also face a long list of disadvantages. One advantage that they have that I should mention is that food is much better now than it was 30 years ago. And I tell my kids that all the time.

YLAN MUI: The innovation of avocado toast--

BILL GALE: Toa--

YLAN MUI: --will carry--

BILL GALE: --or eve--

YLAN MUI: --them through the next--

BILL GALE: --eve--

YLAN MUI: --through their senior years, their--

BILL GALE: --even beyond--

YLAN MUI: --golden years.

BILL GALE: --avocado toast, yes. So the obstacles they face fall in the category of lifecycle, jobs and the economy, all right? And those are pretty big categories. But in terms of the lifecycle, they came into the workforce at a time when the economy was in recession.

That will sort of scar them, scar their wages over time. There's some evidence of that in earlier decades. In terms of lifecycle, also, everything that we think of as marking stages of the lifecycle, millennials are doing later--buying homes, getting married, having kids. If you think about retirement saving as something that happens after people think about getting married, buying homes, having kids, then they'll start saving for retirement later. And if you know anything about retirement saving, you know that whenever you started you should've started sooner.

So they're disadvantaged in that way. And then and understand that only an economist would say this, but they're disadvantaged by the fact that they're going to live longer than current generations. So that's obviously a good thing in most context, but if you're trying to prepare for retirement that makes retirement harder.

BILL GALE: In terms of jobs, we have this shift toward defined contribution plans, toward do-it-yourself retirement plans, which puts more responsibility on workers. And generally, we have benefits and employment being less likely now than they have been in the past. And then lastly, let me tie this to the earlier session on fiscal policy. If we are entering a growth period, a period with less economic expansion and with low interest rates, it's going to be much harder to save for retirement than it had been in the past. So they have many advantages, but they have a lot of obstacles, too.

YLAN MUI: And that's an interesting last point that you just mentioned, the low-interest-rate environment that we've been in for a decade now or longer at this point. Jim, you've done a lot of work around saving for retirement, around how the shift of 401(k)'s have changed behavior, have changed household wealth. What does this low-interest-rate environment mean for millennials?

JAMES POTERBA: Well, I mean, let me just remind everybody as we start that this links back to the early discussion this morning about the comparison of interest rates and growth rates. And, you know, one of the striking developments in the U.S. economy, the global economic of the last 15, 20 years, is this decline in interest rates which certainly was-- you know, was not foreseen.

And if you just think about, say, the market for Treasury inflation-indexed bonds, a safe long-term instrument that many people would say is a place, you know, for retirement-type saving, right, those interest rates on 30-year TIPS were around three and a half percent back at the turn of the century. That, remember, was a time when we were wondering what we were going to do when we ran out of Federal debt because we were running surpluses at the time. How the world has changed in 20 years. But, you know, those interest rates have come down by, you know, maybe 150 to 200 basis points over that time period.

It's a little harder to know what people expect to earn in the stock market. But if you look at forecasters' projections, it looks like a similar kind of decline may have taken place there in terms of long-run expectations. So what does that mean if you're trying to accumulate over a long period of time?

Well, you know, as Bill alluded to, you know, one of the great things that helps you build assets for retirement or for any long-term saving objective is the power of compound interest over many years. And when interest rates or rates of return are lower, that compounding works slower. You don't manage to gain as much from saving for many years.

JAMES POTERBA: And this turns out to have a dramatic impact on the capacity to save for the long term. So if you ask the question, say, "How much would you need to save every year to be able to replace 50% of your salary when you reach retirement age," and you do that in an interest rate environment which is, say, a 3% safe rate world versus a 1% world, the saving rate you need almost doubles when you lower the interest rate. And it goes up for two reasons. One is because you can't build up wealth as quickly when you're saving. And the other is, when you get to retirement, and you dry to draw the money down-- think about buying something like an annuity-- the rate of return you're going to get there is also lower. So your money doesn't last as long, as it were, when you get to retirement.

Well, the calculations I've done suggest that, you know, to think about saving for 30 years for your retirement at the kind of rates that people have saved at historically, it's very hard to see that adding up to an adequate retirement saving for the generation that faces rates of return like what we see today. Of course, rates of return may turn out to be different than what we see today. But if they are roughly what we see, and they continue for a long time, that's a real challenge.

YLAN MUI: So that's a pretty bleak picture that you guys have painted so far. Senator, you've done a lot of work in actually talking with millennials in some of the classes and workshops that you've led at Harvard. What is their outlook? What do they believe about their own retirements? What ideas are first and foremost in their mind?

HEIDI HEITKAMP: Yes. I want to add to the bleakness.

YLAN MUI: We promise there will be some sort of light--

HEIDI HEITKAMP: Yes, I--

YLAN MUI: --at the end--

(OVERTALK)

HEIDI HEITKAMP: --yes, well, I don't know where. But what I also would say is when you're younger, you feel a little more emboldened to invest in equities. And we're seeing less and less wealth going into public companies-- more and more private equity, more and more barriers to access to a great-- an investment with a greater rate of return.

So that's an issue that I dealt with when we were on the banking committee taking a look at, "What are those impediments?" I think the SEC is very concerned about making sure that we continue to have a robust opportunity for businesses and companies to go public, because when they go public that means that all of us, citizens of this country and across the world, can make those investments and share that wealth growth.

HEIDI HEITKAMP: And so just keep that-- I mean, not just interest rates, but taking a look at, "What are going to be the opportunities for investment in the equity markets?" But we did a program. I was invited to be a fellow at Harvard, but I didn't want to do it alone. And Gary Cohn had gotten to be a pretty good friend over the six years that I was a United States senator.
And I knew that he had also received an invitation. So we said, "How about we do it together?" But we don't want to do just, you know, "Here's our war stories about the horrible things that have happened and are happening in Washington, D.C."

We wanted to do something that would actually communicate to the next generation that they need to be involved, not only in the climate debate, not only in debates on social issues; they need to be involved right now on fiscal issues, whether that's Social Security and Medicare, whether that's healthcare. We could go through the whole list.
And so we did a program called The Real State of the Union. And it was pretty much economics based. And the good news is that we started out in a small conference room and we ended up in a large lecture hall. Because the interest among students was so great on, "What does this mean for our future?" We did a competition, which has gotten some national attention, on Social Security. And when we started, we thought, "What are the young people, millennials--" they're not even millennials-- but, "What are the students talking about right now in terms of their impressions on Social Security?"

Guess what? They don't think they're going to get it. They don't think the program is viable enough. And I think they were pleasantly surprised when we ran the numbers and said, "No, you may not get it to the same extent, but there will be something there because there's failsafes in the system that will protect the Social Security program."

The bad news is that more and more of them will become more and more dependent on Social Security. The public as a whole is going to retire with only Social Security. I always say there's three legs of the retirement stool-- home equity, your defined benefit plan and Social Security. Defined benefit plans now have moved into defined contribution with potential for personal kind of savings.

Guess what? Forty percent of the people couldn't afford a $400 hit to their budget. Do you think they're saving for their retirement? The answer is no. And so they're losing that opportunity for early investment, creating more and more pressure on the Social Security system.

HEIDI HEITKAMP: So we ran a competition and said, "Okay, here it is, you solve this problem," and came up with an incredible range of very, very competitive ideas. We intend to continue this discussion with young people, make Social Security relevant. I'd just give you one insight because I thought it was so interesting. They said, "How about if we took all the student debt in America and we refinanced it through the Social Security system? You'd get a greater return on investment in the Social Security system. And guess what? You actually could lower student interest rates." But the reason why I really liked that idea was it created that linkage between, "I don't have to worry about my retirement, my Social Security, because it's so far into the future," and now, "We've got a real interest in what does that Social Security system look like?"

And I think we're going to have a redefinition about that social safety net. But I will tell you this, that as much as what we preached about Social Security, I don't even worry about Social Security. I worry about affording healthcare. And if I scared the hell out of them anywhere, it was what was happening in demographics in terms of utilization of the healthcare system and how that was driving debt and deficit.

YLAN MUI: Lanhee, Senator Heitkamp touched on a number of issues, which I know you have deep expertise in. But I just want to start with sort of the-- one of the broad points you made, which was, there seems to be a lack of confidence in the current social safety net, and obviously a lot of debate, particularly on the Democratic side, about what that safety net should be re-envisioned to include.

We're hearing a lot about universal childcare. We're hearing a lot about universal healthcare. We're hearing a lot about free college tuition. We're not hearing a lot about retirement, about re-envisioning Social Security. What are your thoughts on that? Are there creative policy ideas that you think are worth exploring?

LANHEE CHEN: Well, we're not hearing about it, in part, because it's not fun to talk about the challenges that we face. And in the political system, you have a misalignment of incentives. There's always a incentive to talk about, "what I can get now," versus, "what I might have to sacrifice for later." And I think that this misalignment is really kind of what's driving the political dialogue. And I think, you know, you're seeing it now in this presidential election that's coming. There is a lot more interest in, you know, "What are the different things that we can do to add to the social safety net," without real regard as to what that will mean in terms of implications for the future generations, not just, by the way, the next generation, but generations beyond that as well.

LANHEE CHEN: So, I think some of it has to do with the fact that in politics you have this misalignment. And so, you know, we're definitely seeing that. And in campaign season, we can expect that to accelerate. What is interesting is the degree to which the interest in fiscal restraint or fiscal discipline has essentially left both parties.

And you see that in spades in the political discussion. Usually we would expect one of the two parties to espouse positions that include a little bit more around, you know, thinking responsibly about what comes next. And, you know, we don't really have that at this point in time. So, I think some of it has to do with the nature of politics.

Some of it has to do with a shift in where I think the modern Republican Party, the modern Conservative movement is with respect to this question of fiscal discipline. You know, in terms of ideas, I mean, I think it's quite clear that both Social Security and Medicare face tremendous challenges. In the case of Medicare, you know, the latest trustees' report, I think, has exhaustion of the Part A trust fund in 2026.

And, you know, that's a big challenge. Twenty twenty-six is not that far away. You know, with Medicare, I think we've tried to do some things. There were some things in the ACA. There were some things in a subsequent piece of legislation called MACRA that tried to change the incentives and the alignment around how physicians are compensated, to begin to shift away from compensation for volume, which is what we've been doing in the Medicare program for decades, to compensation based on the value of care provided.

But those steps ultimately are still subject to the political process, right? Politicians can still come in and say, "We said we were going to do that, but we're just kidding. We don't actually want to do what the ACA said. We don't actually want to do what MACRA said we had to do." And that's why, if you look at the latest trustees' report on Medicare, for example, you will see two scenarios.

You will see the scenario under current law, which is what we expect should have. And then there is the alternative scenario, which paints a grotesque picture of where Medicare is headed. And the reason that alternative scenario is there, because anticipation of the fact that politicians are going to have a really tough time adhering to what they said they were going to have to adhere to when it came to changes to the Medicare program.
It's a very long way of saying that I think in politics, a lot of it comes back to where we're aligned in terms of incentives. And there are very few incentives right now to consider some of the questions that you and others on this panel are considering.

YLAN MUI: One of the, I guess, sort of common solutions that-- from a policy perspective at least-- is to simply, you know, raise the age for drawing Social Security benefits, right? Raise it to 70 or whatever age you might like. If millennials are working and living longer, why is that not a viable policy solution or perhaps even a political solution?

(OFF-MIC CONVERSATION)

JAMES POTERBA: One of the challenges with doing something which I'll call the blunt instrument, like just pushing up the retirement age, is that there's a lot of heterogeneity in the U.S. population in the way in which mortality rates have evolved over time. If you do something like split the-- you know, between, say, the men in the U.S. born in 1912 and men born in the late 1930s, the men in the late 1930s on average live longer.

They benefited from lots of changes in healthcare and living standards and approaches. But the vast majority of the improvement in average life expectancy comes in the upper half of the earnings distribution. In fact, if you look at the bottom 50%, ranked by kind of lifetime earnings-- so you're getting some measure of how they did over their whole life course-- there's very little increase in life expectancy in the bottom half.

The top half is experiencing changes four, five years over this time period. So, striking differences. When you do something like just change the normal retirement age, what that has the effect of doing is, you know, it's for everybody, altering the benefit flow that they're going to get per year. So one of the challenges here, and it requires some more creative policy design, is, "How do you recognize that for some individuals, their health circumstances may not enable them to work longer, whereas for others--" and, you know, many of the kind of folks who are represented in this room, right-- "working to-- working a few years longer is actually something which not only might not be too difficult, but many people would like to do?"

So, I think the challenge with that kind of a reform is to try to figure out, "How do you recognize the reality of these disparities in health and mortality status as people reach older ages, while at the same time, you know, recognizing the fiscal challenges that we face?"

HEIDI HEITKAMP: You'll never find a 66-year-old woman or man on a drilling rig in North Dakota. What we're talking about here, you know, it-- the equities of that, given how people work and what they-- what part of their kind of physically they expend in work, really makes a huge difference.

And do you create a bifurcated system where you say, "Well, you know, Heidi Heitkamp, your husband's a doctor and you're a lawyer, so you guys can work till 70. But your mother was a school cook and she does-- she gets her Social Security at 55."

HEIDI HEITKAMP: I mean, you know, there's equity in that. And there's logic in that. It's just not the system we have. And I think it's not practical to think that we're going to get there. I think there's other things you can do to basically save, if we're going to have that language, Social Security, without disruption of kind of this society safety net for people who have worked hard their whole life, who can't work beyond 65, and honestly couldn't find a job doing what they're doing beyond 65.

LANHEE CHEN: Yes, I mean, I think Social Security's actually a relatively easy one--

HEIDI HEITKAMP: Yes, I do, too.

LANHEE CHEN: --to solve.

JAMES POTERBA: Yes, I agree.

LANHEE CHEN: You know, I mean, we kind of know--

(OVERTALK)

LANHEE CHEN: --we know the inputs--

HEIDI HEITKAMP: --it's math.

LANHEE CHEN: --we know the outputs.

JAMES POTERBA: It's math.

LANHEE CHEN: Right, it's math. Medicare is a little more challenging, because it does involve a fundamental change in the way that services are provided, what our expectations are around that. But also because, you know, to a certain degree, as much as we want to think healthcare consumption is rational, it really isn't, right? People make healthcare decisions, it's a very personal sort of thing. And so those decisions end up being, I think-- there are a lot more factors involved in what's going to happen--

HEIDI HEITKAMP: But--

LANHEE CHEN: --in the Medicare program.

HEIDI HEITKAMP: But if I can just lay out-- the problem with healthcare, and I'm not just talking about Medicare and-- we've got to talk about Medicaid, because Medicaid is also--

LANHEE CHEN: Absolutely.

HEIDI HEITKAMP: --a huge component of this, as we look at older – oldest (?) - needing healthcare and nursing homes that's going to be Medicaid-supplied. So you look at all this. Our healthcare policy is ass-backwards. We only talk about how we're going to pay for it. We don't talk about what we're paying for.

HEIDI HEITKAMP: And so if you said, "What's the right healthcare policy for America," "Keep people healthier longer." "And what can we do to make that happen?" And if we're able to do that-- 14% of the people in this country who have four or more or five or more chronic conditions, account for 40% of healthcare costs-- we've got to go where the money is, where we're expending costs, and then take a look at how we can be more efficient, how we can-- how can we keep those people healthier in this system?

YLAN MUI: And--

(OVERTALK)

BILL GALE: If I can bring this back to millennials--

YLAN MUI: Yes.

BILL GALE: --for a second? The key issue--

YLAN MUI: They need healthcare, too.

BILL GALE: The key issue for millennials with Social Security, and to some extent with Medicare, but definitely for Social Security is that the baby boomers have basically escaped the benefit cuts or tax increases that we all know are coming.

MULTIPLE VOICES: Yes. Yes.

BILL GALE: The youngest wave of the baby boomers, now 55, typically when we talk about privatization or reform plans they-- we typically talk about people younger than 55. So by conventional standards, the baby boomers got all the way through their lifecycle without having to deal with the ultimate Social Security reconciliation.

That means for millennials that their burdens are going to be bigger than they otherwise would have been if baby boomers had been subject to this. So, on the millennial point, I think when we talk about Social Security we mean an issue that the millennials have. For Medicare, it's a little different because if we reformed medical practices, it would affect current beneficiaries. So boomers will still be affected by that. But in terms of--

YLAN MUI: Well, I--

BILL GALE: --Social Security, the millennials are going to get hit on the head.

YLAN MUI: Well, I think that each of you sort of touched on a very important point about the millennial generation in talking about how personal healthcare decisions are, how life expectancy varies by demographic group. And that is that millennials are not of monolithic, you know, demographic group, that there's incredible diversity within the term "millennial" of economic status and of racial background. And that has a dramatic impact on their wealth accumulation.

BILL GALE: Yes. The millennials are diverse in two ways. One is the distribution of wealth is-- follows the same distribution that other generations have. And it's gotten more unequal among 25 and 35-year-olds over the last 20, 30 years. And the other thing that really stands out about the millennials is what you mentioned, the role of minorities.

There are many more people who identify as non-Hispanic white in -- as not non-Hispanic white in the millennial generation than in earlier years. And that has many implications. It has big implications for wealth accumulation, because there's a very large literature that says that even controlling for things like income, education, age, marital status, minorities tend to have less wealth accumulation than whites do.

And so you're talking about a generation that is majority minority, or will be. That has a first order of implication for wealth accumulation. And I apologize for continuing to pile on to the problems that the millennials have, but the minority representation in the millennial generation is one thing that really stands out in that generation.

JAMES POTERBA: If I could, I mean, one--

YLAN MUI: Sure.

JAMES POTERBA: --one thing, which maybe this is a ray of sunshine on this panel, but, you know, in talking about the Medicare/Medicaid versus Social Security, I also worry more about the healthcare side of this. And the reason historically has been that healthcare costs in the U.S. have been rising faster than the general price level.

So if you looked back prior to about 2010, the rate of growth of healthcare cost was at least a percentage point, sometimes even more, higher than the broad increase in prices. And what that means is when you look out over 30, 40, 50 years and you've got the federal government tied to providing this service bundle, which is increasing at real cost, that's a real challenge to be able to finance. For the last eight or nine years, we've actually seen a sort of slowing of health cost growth. And it looks like it's now much closer to just the general CPI. One of the big challenges, and frankly it's an uncertainty, is whether that's going to continue, right, whether we've been-- whether these are effects of ACA, whether other changes in the private side have basically come on board, and what the potential implications are of medical innovations.

You know, the arrival of these million-dollar drugs, which basically are sort of knockouts for some diseases where we previously didn't know much what to do. So I think that there's probably more uncertainty around what the future trajectory is for healthcare cost growth. And that's a really important driver for thinking about these long-term sustainability issues.

HEIDI HEITKAMP: You also have a huge demographic problem with the growing number of people over 65, high users of healthcare, a much higher percentage than someone who is a child. And we're going to double the component of America that's older, oldest, people over 85 who are huge users of the healthcare system.

If we do not tackle this trend in healthcare, we are going to be hugely-- the millennial generation will experience this. But we also-- and these guys know better than I do-- have this huge transfer of wealth that's going to happen between the baby boomers to people who are privileged.

So if you were privileged as a baby boomer, your child is more likely to be privileged if we transfer wealth. And that's why there's a lot of discussion about a wealth tax. How do you equalize that? Baby boomers will be the first generation in our history that inherited from our parents and borrowed from our kids. Shame on us. And we've got to figure out how we can burden that generation with the costs that we've incurred, whether it's delayed maintenance on our infrastructure, which is another huge transfer of wealth to-- or debt to the next generation, or whether it's taking a look at healthcare challenges.

YLAN MUI: The audience members participated in a poll during the break. It's poll number two, in which they were asked what they believe is the largest challenge for future generations. The options were retirement, healthcare, low economic growth and student debt or personal finance.

I don't know if we have that poll or the results of it perhaps up on screen? Looks like healthcare. They agree with the panelists, healthcare being one of the largest or the largest concerns amongst the audience as it relates to future generations. But I also want to talk about student debt and personal finances. That ranked third, I guess, tied with retirement security, but it is something that is unique to the millennial generation that they'll have to be dealing with as they try to buy a home, buy a car, start their adult lives, start adulting as the kids say, apparently, you know, and save for retirement. So these are sort of compounding their financial obligations. So, do you guys have thoughts on the ways that student debt is also happen affecting their ability to secure their economic future?

BILL GALE: Well, let me say a few things. I think it's a real issue. I don't think it's as bad as it is sometimes made out to be, for several reasons. One is that millennials have less consumer debt than earlier generations. So if you look at their total debt for similar age groups in the past, it's not that different.

The second is that student debt, when it's used well, is financing the purchase of human capital, which will then turn into future wage earnings, which will then allow people to pay things back. The problem, as my colleague Adam Looney has documented very extensively, is a lot of the student debt build-up was because of for-profit schools that generated no economic value for the students.

BILL GALE: So they came out either with a degree or without one. The had a lot of debt, but no added skills. And then the other thing that concerns me about student debt is even when it's used to finance human capital investment, it comes back to this delayed lifecycle issue that I was talking about earlier. If student debt payments stop people from getting married, which you read-- a phenomenon that you read about on social media, just stop them from buying houses, have kids, starting retirement saving, then it will have ramifications throughout their lifecycle. I think it's an important issue. It's a complicated issue. But I have this inherent economist desire to push back against some of the more inflammatory comments--

HEIDI HEITKAMP: If I were doing--

BILL GALE: --about student debt.

HEIDI HEITKAMP: --this list, I would've included housing costs. That's a huge problem for millennials. Because where they can get a job, housing costs won't-- never mind-- I mean, if you're in San Francisco, how much do you think it'd cost you to even think about a mortgage at this point? I mean, you've got to have $100,000 before you can even buy a house. And so a good job--

LANHEE CHEN: Add a zero to that.

HEIDI HEITKAMP: Yes. But what I mean--

(OVERTALK)

HEIDI HEITKAMP: I mean down payment, never mind, yeah. So housing costs, when you look at this creep, which we don't talk enough about, this creep of disposable income that is being used to pay rent is being used for housing costs. Because, again, the low interest environment has masked some of this as it relates to mortgage lending. But housing is a huge program. And we need to start having a very serious conversation about housing--

JAMES POTERBA: But this is also a place where the heterogeneity-- in this case, geographic heterogeneity-- turns out to be very important, which is that one thing that we're seeing in these younger generations is, they-- the educated members of those generations are concentrating increasingly in a small set of superstar cities.

HEIDI HEITKAMP: Uh-huh (AFFIRM).

JAMES POTERBA: Those superstar cities are the places where housing costs have gone through the roof, as it were. And it does mean that for-- you know, for those who are earning a lot, they're actually finding that their bundle of goods they're purchasing is quite expensive.

JAMES POTERBA: But it also raises a whole set of issues about what's happening in the rest of the country, both in terms of the job opportunities-- and some of the very interesting work our labor economists colleagues have been doing suggests that, you know, the job opportunities for people, especially those with middle or low skill levels in the non-urban areas have been changing in ways which are a real challenge going forward. It's speaking back to this, you know, heterogeneity and what's out there.

YLAN MUI: Well, another issue sort of unique to the millennial generation is the changing nature of work and of their work in particular. We've seen the rise of the gig economy. We see so many workers not eve-- not having-- forget about the pension, right, forget about defined benefit, but not even having a 401(k) plan. They're independent contractors.

I mean, obviously, it makes it more difficult for them to save for retirement. How should that change the way that policymakers design solutions for workers who don't have the security of knowing that they have a company that's backing them?

LANHEE CHEN: I think policy is still not nimble enough when it comes to understanding what the concerns and issues are relating to this transitional or gig economy that we have, in the sense that I think that policy, public policy and public policymakers are still used to thinking of people's career opportunities in a sort of old-school kind of box.

Now they don't necessarily think that people will go to a company and stay for 25 years. But they still have this sort of large-- in my mind, either large corporate mindset, or to the extent that it's sort of a small business mindset, it neglects the fact that I think-- neglects an understanding, I think, of the fact that people might have several different opportunities that they're using to make ends meet.

And that regulatory problem to me is even more acute at the state level than at the federal level. Because at the state level is actually where the rubber hits the road on a lot of this. And there's a failure to recognize and understand that if you're not designing tax policies in particular-- policies around retirement savings, an other area that's related to that, healthcare can be wrapped into that as well-- if you're not understanding that that's how people are earning a living now, it's going to be very difficult then to continue to say, "Well, you know, we have policies that assume you're going to have a defined contribution plan from a single employer. And that single employer's going to handle your healthcare costs or some component of your healthcare costs. And by the way, maybe that employer's going to be large enough to offer you a suite of options when it comes to healthcare in the same way with retirement security," you know, the notion that everyone should have a 401(k).

LANHEE CHEN: Well, if you work multiple jobs, you're probably-- you know, no single employer's contributing to a 401(k) for you. So, I think that there is still a lack of understanding about this. You know, a lot of policymakers are getting up the learning curve. But certainly in conversations that I've had, I think there's a lack of nimbleness in our policy system. And that's showing in terms of challenges in dealing with people who work in the gig economy.

BILL GALE: So, I think that's exactly right. And I would just phrase it slightly differently, which is that it's becoming increasingly apparent that it would be better to have a system, a system where retirement and healthcare and other benefits were not linked to a job. Having said that, it's also true that it's incredibly difficult and mind-bending to think about how we'd get to a system like that, given that we started with a system where retirement and health go through the job.

YLAN MUI: And is the federal--

BILL GALE: But I think that's--

YLAN MUI: --government the de facto provider of that system?

BILL GALE: It wouldn't have to be. Just moving from one system to the other is quite complicated, in both retirement and the health--

JAMES POTERBA: And--

(OVERTALK)

BILL GALE: --area. But I do feel like if we were designing a system now, we would not link retirement--

MULTIPLE VOICES: Right. Yes.

BILL GALE: --plans or healthcare plans to the place of employment.

JAMES POTERBA: Yes. I mean, one thing that arises anytime you're trying to ensure risks, whether they be health risks or unemployment risks or things like that, you know, if you think about just going out and buying an insurance policy in the open market for yoursel-- by yourself, right, there's a huge problem called adverse selection, which is the people who want to buy those policies tend to be the high risks.

And if you're on the other side of that, the insurers are going to be very cautious about selling that, right? Historically, the workplace, especially if you're large enterprises, large firms, because you could group together lots of people who were not mixed into that pool because of their health status or whatever, you could kind of get some insurance. And that's why group health insurance, for example, worked well, which is that it provided a way of allowing individuals to buy policies in which they weren't suffering from this problem of adverse selection as (?) they worked there.

JAMES POTERBA: The same thing is true for the government if it's providing care, insurance for everybody, right? One of the reasons Social Security is able to kind of what-- do what it does, is it's offering you a payout which lasts as long as you live, but it's not offering you the chance to opt out if you think that you're going, you know, die relatively soon or, you know, you don't want to do that deal.

I think that what you're hearing from both Lanhee and Bill is, you know, thinking creatively about how, as you change the long-tenured connection between workers and firms, you replace that. I mean, the government is one possible actor which could offer that. And I think that may explain some of the demands you alluded to earlier for a tighter social safety net coming from the government. But it's not necessarily the only way. And it may be something where creative policy design can come to the rescue.

HEIDI HEITKAMP: But you have to look at this problem in the context of the economy that we have today. And what do I mean by that? If you look at health savings accounts and if you look at retirement benefits as the single-largest tax expenditure, right, so if you look at benefits that we give in the tax system, who takes advantage of those?

Again, it's people who can afford to take advantage of them. We can afford to put money in a health savings account beyond, you know, what somebody would if it was just employer-based. Somebody who can't afford a $400 hit to their budget is not going to take $400 and put it in a health savings account. And if they did, I would say, "You're crazy if you're going to a payday lender." We have to recognize this problem in the context of the kitchen table issues that families face.

And we can't simply say we're going to create, because we have. We have created tons of products, and maybe too many products in the federal system, that encourage you to save. The people who can afford to save are saving. The people who can't afford to save are not. And the people who can't afford to save, guess what? They're a growing percentage of our population.

YLAN MUI: I want to sneak in one quick question from the audience, turning back to Social Security. We talked about the idea of, you know, raising the age cap. The question is, "Why not raise the tax cap from $128,400--"

(OVERTALK)

--you know, why is that not being talked about? Would that solve the problem?

HEIDI HEITKAMP: It actually--

YLAN MUI: Would it solve the solvency problem?

HEIDI HEITKAMP: It actually is being talked about. The Larson plan has a doughnut hole, you know? And I asked him about that. I said, "Why did you doughnut hole this?" He said, "Because there's, you know, retirees who fit within that doughnut hole." He thought it was more practical.

But most people are now talking about eliminating the cap. So I don't think that that is-- and then also, application of the tax system to unearned income, which is my pet peeve. It is being talked about. I would expect that any plan that we came up with to save Social Security would take a very serious hack at the cap.

YLAN MUI: One final question for our panel in our final minute here, which is, "If we had to invest in one thing today in order to help the next generation be more secure in their golden years, what should that thing be?" Healthcare?

LANHEE CHEN: Yeah. You know, the question is, what would you invest in when it comes to healthcare, right? I mean, is it an innovation problem? Is it a problem of understanding about consumption in the healthcare system? You know, I'd argue one of the biggest challenges we have in our healthcare system is a lack of consumer information about price and quality, right?

So I'd certainly invest more in getting people more information to be educated consumers. So, I think there's a whole number of different things you could potentially invest in. But yes, I'd say healthcare is probably the single biggest challenge that the next generation's going to face, healthcare costs and healthcare access.

BILL GALE: You can put together the standard list of things we need-- more infrastructure, more-- better healthcare, social policy investments, more research and development-- but there's only one thing that will save the planet. And that's dealing with climate change. So if I had to choose one thing, I would focus on that.

HEIDI HEITKAMP: Fiscally, I would solve the problem of Alzheimer's and Parkinson's. I'd cure Alzheimer's and Parkinson's. They are going explode our budget. They are going to create huge cost shifts between my generation and my children's generation.

JAMES POTERBA: You're going to say this is self-serving, but I'd focus on education. I think that, you know, the aftermath of the financial crisis, we've seen many flagship state universities and the community colleges have become much more expensive because of cutbacks in state support for some of those places.

And the student debt discussions notwithstanding, for many, many, many people investing more in education is the key to getting them to a more secure career and a more wage path over time. I think trying to make that pathway, not necessarily at elite institutions, but, you know, in a more broadly accessible way, something which works well is a really important part of the future financial security.

YLAN MUI: Great. Some creative ideas. Definitely great discussion from our panelists. Thank you so much for joining us.

MULTIPLE VOICES: Thank you. Great.

* * *END OF TRANSCRIPT* * *