

POLICY CHALLENGES WITH THE RETIREMENT OF THE BABY BOOM GENERATION: AN INTERVIEW WITH MR. BILL NOVELLI, CEO OF AARP

On March 23, 2007, Jessica A. Defenderfer and Scott A. Olson had the opportunity to sit down with AARP's CEO, Bill Novelli, to discuss the upcoming policy challenges associated with the retirement of the baby boom generation, the role of the U.S. government in addressing these policy needs, and the responsibility of AARP in crafting effective public policy.

POLICY PERSPECTIVES: In 2011, the first wave of America's 76 million baby boomers will turn 65. Can you narrow down the ... biggest challenges facing this group and the policy implications associated with these challenges?

BILL NOVELLI: Yes, I can. First of all, a lot of these baby boomers—perhaps as many as half of them—have not saved enough for retirement, and ... they are going to be challenged in terms of retirement security. ... [This] has implications for continued work, implications for basic retirement security, and it has implications for health care reform. [I]n this country, [because of] the way our health care system operates, you cannot have retirement security without proper health care. When you get to be 65, you have Medicare; but ... many people between ... the ages of 50 to 64 do not have proper health care. ... [Second], the old concepts of retirement are fading fast. That is not to

say that there are not still people who want to go play golf and sit on rocking chairs; but for the most part, the idea of retirement is changing and people are, in essence, reinventing what they mean by retirement. And the boomers are definitely going to reinvent retirement—that is a gigantic population cohort. They have transformed every aspect of life as they have gone through the life cycle; and I think we can expect that they will do the same in retirement. They are going to be better educated; they are going to be healthier than previous generations; and for those who can afford it, they are going to be doing a lot of different kinds of things.

... [L]et [me mention] ... what retirement security consists of from a policy standpoint. It consists ... of four things: one is Social Security. Second, as we define it, is pensions and savings combined, and the reason we combine them is that pensions are changing very rapidly in this country. So the pensions of our parents—my parents—are different from the pensions of people today because companies are moving away from these defined benefit plans to defined contribution plans like 401(k)s. ... [T]he result of that is that responsibility is on the employee not the employer. [T]he employee has got to invest that money, and the employee has to make wise financial decisions. The employee has to essentially treat savings and pension money as the potential nest egg. ... [A]nother thing that is related to that is that we have a terrible savings rate in America; we have a negative savings rate. ... [S]o the question is: what are the policy implications for that? How do we change that? So you have got Social Security, and then you have got pension and savings combined, and then you have got earnings from work. ... [M]any people are going to

Bill Novelli joined AARP in January 2000 and currently serves as CEO. Prior to joining AARP, Mr. Novelli was President of the Campaign for Tobacco-Free Kids and, before that, was the Executive Vice President of CARE, the world's largest private relief and development organization. Earlier, Mr. Novelli co-founded and was President of Porter Novelli, now one of the world's largest public relations agencies and part of the Omnicom Group. He holds a B.A. from the University of Pennsylvania and an M.A. from Penn's Annenberg School for Communication. Mr. Novelli also pursued doctoral studies at New York University.

want to work into their retirement years, and they will benefit from continued earnings; and many people will have to work into their retirement years, and they will have earnings. ...[T]he fourth policy implication is: how do you have adequate health care in retirement? ...The Social Security system in this country is going to come under tremendous pressure, and there are a couple of reasons for that: one is we are not saving the money, we are not using the Social Security surplus money to pay down debt or in some other way prepare for the future. Instead, Congress is spending it as general revenues so the Treasury gives an IOU, in effect—a treasury bond—to the trust fund, and Congress takes the money and spends it. [I]n about 2017, it is estimated the surplus will be gone, [and] ... you will have more money going out for the first time in decades than is coming in. And then the trust fund has to begin drawing down the interest, and then the principle, and that money does not exist so the government has to get it somewhere. So they can get it, they can print more and raise inflation, they can raise taxes, they can cut benefits, but they are going to be in a difficult policy situation unless we do something soon. [T]here are a lot of policy implications around Social Security, especially for [young people], but certainly for middle-aged people as well.

POLICY PERSPECTIVES: In your opinion, what is the ideal role of government in providing for the economic and health care needs of mature citizens?

BILL NOVELLI: Government has a big role to play, but it is only one of the actors. We have to also think about employers, and we have to think about individuals. To give you my opinion—and I will say AARP's opinion—we need to have universal health coverage. We need to have everybody covered as a matter of policy. And as a matter of ... moral imperative, if you will. And [universal health coverage] is a very difficult thing to do in this country; and if we did it and we did not do anything else, it would not really be sufficient because the health care system does not work; it is enormously inefficient. [I]f you covered everybody, you would now have everybody insured dealing with an inefficient system that would not have changed. [S]o the government's role ... is to figure out how to have universal coverage and to figure out how to set up a system that people can thrive in that

employers can thrive in because right now employers are really hurting; they cannot compete with the current system. [G]overnment has the biggest job. ...[E]mployers have a job as well in terms of watching out for their employees and playing a responsible role within the system. And individuals have a job of personal responsibility: taking care of their health, consuming health wisely. And so we have to fight this out in such a way that the policies impact on all three of those.

POLICY PERSPECTIVES: Has the U.S. made any positive strides towards anticipating this demographic shift that is going to occur and the challenges that will come with the boomers?

BILL NOVELLI: I think we have taken some minor steps, but I would say that we have not made any major policy strides to prepare for this.

POLICY PERSPECTIVES: What are some examples of the minor steps that we have taken?

BILL NOVELLI: We have tinkered with some policies that would encourage people to work longer. That would be a good example. We have put drug coverage into Medicare—that is more than minor; that is a good step forward—and that is going to make a huge difference in terms of keeping people out of hospitals, out of nursing homes, [and] able to work longer. Those are good steps forward. The big steps we have *not* taken—to make social security solvent, to fix the health care system, and to deal [with] long-term care. The long-term care in this country is a mess. So all of these huge issues—all these huge problems—are out there in front of us while we have got this tidal wave of boomers coming into retirement.

POLICY PERSPECTIVES: AARP, the Business Roundtable, and the SEIU have started a new campaign, Divided We Fail, to create a bipartisan political climate that will create solutions to health care and financial security policy. In your opinion, what is the role of private and nonprofit organizations in influencing policy?

BILL NOVELLI: First of all, those organizations, including AARP, have a very important role to play in terms of advocacy; so advocating for change and that

is what *Divided We Fail* is. And then, as part of that, we have got an obligation as organizations to model the kinds of behaviors we are advocating; but I would say the principle role is advocacy. And all three of those organizations can influence different audiences and different constituencies.

POLICY PERSPECTIVES: What steps are you taking to successfully influence these policies?

BILL NOVELLI: We are taking steps now to essentially create public demand for change. We have got good research showing that the public is very worried. They are worried about being able to afford health coverage; they are worried about losing their jobs and losing insurance coverage because those two are linked; they are worried about not having enough savings and having to work until they are 90 years old. Older people are worried about their children; they are worried about the generation coming and their grandchildren. And we have done a lot of research among young people—people 18 to 49—and we see that they are worried also. There is a high degree of angst out there at all age levels, all adult age levels, there is a lot of concern about saving enough; about portability of coverage; about keeping coverage; about being able to afford to retire; or if you are middle aged or younger, afford to have a family or buy a house. So there is a lot of concern out there at this point. *Divided We Fail* aims to take that concern and turn it into demand. We are going to collect stories; we are going to help people raise their voices; we are going to help them to be activists. Because you need consumer demand, you need public demand to motivate policymakers to change. [P]art of that is a campaign strategy so that each of the political candidates—certainly the presidential candidates, but also other candidates for other offices, senatorial candidates, House candidates, even gubernatorial candidates—in each of those cases (with an emphasis on presidential ones) to really set up kind of a no-escape strategy with them. They should not be able to go into a meeting anywhere in the country, to campaign anyplace without somebody saying to them: What is your plan to fix health care? What are you going to do about Social Security? Do you have any thoughts about long-term care? How are we going to finance it? Those kinds of questions, so that they will be forced to come

up with programs and policies and defend them and then to be accountable for them if they are elected. So that is what *Divided We Fail* is about.

POLICY PERSPECTIVES: It sounds like this strategy is mirroring the campaign that you did with Medicare Part D, creating demand among your constituents that prescription drug coverage was necessary.

BILL NOVELLI: We are taking that success process, and [what] we ... learned in terms of how to reach out to people, from our campaign to fight against private accounts out of Social Security in 2005. ... [W]e can learn from those experiences and apply them now. [O]ne of the lessons we learned was that even though ... we are a membership organization of people 50 and older, you cannot just talk to people 50 and older. You have to talk to younger people as well. So we conduct our research among younger people, we test our message among younger people. And what we say has to resonate among all generations.... And we are doing other things as well. When you do a program like this, you have to have mass media and advertising. But you also have to go to the grassroots, and we will be doing all those things.

POLICY PERSPECTIVES: Consistently, we hear the concept of “strengthening” Social Security and Medicare. I think people have different definitions of what that means. What is AARP’s position on strengthening Social Security?

BILL NOVELLI: What it means is [that] we have to make Social Security solvent for decades to come. The Social Security Administration uses a 75-year horizon. So it would be good if we could do policy change that would make the program solid for 75 years. Others want to do an indefinite horizon, which I think is folly. But what this requires is that we ... strengthen the current program.... [W]e have to get it back into balance, back into solvency—and this requires additional revenues and benefit adjustments. The most important benefit adjustment is that we have to take longevity into account; people are living longer, that means they will draw on Social Security longer. [T]here are two essential ways: one way is to raise the retirement age. It used to be—when Social Security began—when people retired, they would live two years on Social

Security and die. Now you retire at 65 and you live to 83 or 85. So you are talking about 20 years of drawing down Social Security on average. And we have to take that into account. [T]he second way to do it is to do what they call longevity indexing. Some countries do this now. They estimate how long somebody will live; they do actuarial calculations, [and] then they spread your payments out so you get the same amount of money over a longer period of time. So that is another way that is reducing benefits just as raising the retirement age is reducing benefits. So our view is: we need to increase revenues and we need to adjust benefits. And this can be done in balance so that it is fair, it is equitable, [it] takes low-income people into account, and it spreads the pain.

POLICY PERSPECTIVES: You launched a campaign with Social Security in 2005. What were the political challenges that you came across? Were you able to overcome any of them? Do you expect for them to arise again?

BILL NOVELLI: The first political challenge was that the president of the United States put forward a plan that we felt was unworkable and that we did not agree with. But we are talking about the president; the man with the “bully pulpit.” And so that was a challenge right off the bat. He put it on the agenda; he laid out the program; he got the attention; he got the headlines. [D]ealing with that was a big challenge. [W]e dealt with it in several ways: one is we acted very quickly. We began to counter [the president’s] message very, very early. So it was not like he had six weeks or six months to get the message out before we responded; we responded immediately. A second big challenge was younger people were essentially interested in these carve-out accounts because they did not believe that Social Security was going to be there otherwise. And so that was another challenge, to figure out how to deal with that attitude or that perception they had. And I guess the third big challenge was to communicate a message about what would work. [T]hose were the three challenges we faced. And I think we met all three. Now, we won the battle, but we did not win the war. The war is solvency, and we are not there.

POLICY PERSPECTIVES: Do you see any other challenges that will arise with solvency?

BILL NOVELLI: There are a number of political challenges. [One] political challenge is that we are in stalemate right now. The Democrats do not want to do anything for a variety of reasons: They do not trust the White House; they do not think they can do it without the White House; in my view, they do not want to do this and give Bush credit; in other words, do it on Bush’s watch. [T]hey have got other things to worry about, Iraq being a perfect example. So there is no real appetite among Democrats to ... fix Social Security; they would just as soon fix it under a Democratic president. And on the other side, the Republicans were saddled with the Bush plan; not many of them loved it. But the congressional Republicans went along with it.... And so you have this political stalemate. Meanwhile the clock is ticking; the boomers are moving into their retirement years. Next year, the boomers will begin to draw on Social Security, because the oldest boomers will be 62, and that is when you begin to draw early retirement benefits. So, the challenges are not policy; the challenges are politics.

POLICY PERSPECTIVES: You have observed in some of your writings that the burden of saving for retirement, paying for health care, and supporting aging parents falls much more heavily on individuals today than it has in the past. In your opinion, what has caused this shift?

BILL NOVELLI: There is a great book on this called *The Great Risk Shift* by Jacob Hacker. What has caused this shift is the pension changes primarily. Pensions have gone] from defined benefits where you pay into a pension and your employer matches ... and the employer invests the money. [T]hen the employer pays you a set amount of money over your lifetime in retirement. That is the old way. The new way is you have 401(k)s or IRAs or whatever. You pay in; your employer *may* match. Half the people in the country do not have access to those plans, and the individual is responsible for making investment decisions. [S]o the primary risk has sifted because of the change in pensions. Also, boomers themselves have created problems by having children later and by having their

parents live longer. [M]any boomers are in a situation where they have children living at home and have aging parents that they are caring for. [I]f you have got both of those, or either one of those, it is harder to save for retirement. [A]lso, I think the savings ethic is eroding in this country. We have become a plastic society. [S]o you combine all these things and you have got more and more pressure on individuals.

POLICY PERSPECTIVES: In light of this, should the government play a bigger role in relieving these burdens, or are the private and nonprofit sectors better equipped to deal with these issues?

BILL NOVELLI: The government can play an important role, but it does not have to be a bigger role. The government has to take responsibility for setting up some kind of a universal 401(k) or some other way for people to save at the workplace.... They have to also make sure that pensions are adequate for people and that employers take responsibility. These are not new government responsibilities; these are old government responsibilities. They have to fix Social Security, to bring it back into balance, to bring it back into solvency. Again, not new—it is a responsibility the government has had since 1935 when [Social Security] began. I think government has to also focus on the entitlement programs other than Social Security—Medicare and Medicaid—and the way to do that is to bring health care costs under control. You always have this debate in this country about big government versus small government. [People] start with ideological frameworks, and they try to cram solutions into there, when actually we would be a lot better off if everybody could just pragmatically say: What is the problem? What is the evidence-based approach to solving this problem? It might be more government; it might be less government. [I]t is the ideology that, in my view, often gets in the way of pragmatic problem solving.

POLICY PERSPECTIVES: You have also written that AARP is perhaps the best-positioned organization in the U.S. to lead America towards a better state of health care and financial security. Why do you think AARP is in this position?

BILL NOVELLI: Several reasons: Number one, because we are a big organization, and we have resources. [T]he reason we are a big organization is that our members like what we have to offer them. [T]here are more and more people coming into their fifties and therefore more and more opportunities for us to increase our membership. So we are at a kind of a sweet spot in the demographic picture right now. [T]hat leads to two things: one is members—and older people tend to vote in high proportions. As you may know, last November, 52 percent of all those who voted were 50 or older; and 25 percent of all those who voted were AARP members. So you have got that political weight. The second thing is we have resources because we have got a lot of members, and they pay dues, and we can take those dollars and apply them to lobbying and driver safety programs and social change initiatives. So that is one reason why we are in a good position. Another reason why we are in a good position is that we are totally nonpartisan. We do not support a party; we do not support a candidate; we support issues. [T]hat is a critically important position to be in if you are going to affect change. [T]he third thing is that we have high credibility among the public—both among members and nonmembers. On an issue like Social Security, the credibility that we have is way above the Congress', way above the president's, way above any corporate sector. [T]he same thing goes for Medicare as well. So if you combine numbers of members who vote, resources, nonpartisanship, and credibility, that is a potent formula.

POLICY PERSPECTIVES: How does AARP envision moving into the future?

BILL NOVELLI: We want to continue to grow—50 million members is a goal; and it is a reasonable goal; it is a stretch goal, but it is also a goal that is achievable given the demographics that are out there. We also ... want to be international, which we are working on. We want to be larger in terms of members. We want to be more diverse. We want to increase our Hispanic members, our African American members, our Asian American members—so it is not just large, it is also to reflect the face of America. ... We want to be stronger in our state offices, which are growing in strength very, very nicely. We want to do a better job of achieving our key objectives; and our key objectives are economic

security, health and health services, and then what we call “livable communities;” in other words, enabling people to live independently longer. And to me, we are sort of on a roll. Things are going well for AARP, for obvious reasons: We have worked hard, we have grown, [and] we have got the demographics going for us. So for me, I envision that all of those things are achievable.