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ISSUE BRIEF

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Raising the Retirement Age for Social Security

When the Social Security program began paying monthly benefits in 1940, workers could receive unreduced retired-worker benefits beginning at age 65. This age is known as the Normal Retirement Age (NRA). The law was changed in 1983 to increase the NRA gradually beginning in 2000, from age 65 to age 67, recognizing that longevity had increased greatly.

Raising the NRA further could significantly improve Social Security's financial status. Some reform proposals include an accelerated increase of the NRA to 67 and/or an increase in the NRA beyond age 67. Depending on its timing and magnitude, such a change could go a long way toward restoring the Social Security program to long-range actuarial balance (i.e., solvency for 75 years) and sustainability. This issue brief examines the potential impact of raising the retirement age.

Background

Social Security's Board of Trustees projects that, under their best-estimate assumptions, the Social Security (Old-Age, Survivors and Disability Insurance, or OASDI) trust funds will become exhausted almost four decades before the end of the 75-year projection period used for measuring the program's long-range financial status. These financial problems are partly due to the fact that individuals are living longer now than they did in the past and receiving Social Security benefits for a longer period of time. One way to reduce expenditures — and thereby improve Social Security's financial status — is to increase the Normal Retirement Age, or NRA.

The NRA is the age at which retired workers can begin to receive unreduced Social Security benefits. For 60 years, starting in 1940, the NRA was 65. The monthly benefits payable to workers who elect to receive benefits before the NRA are reduced to compensate for the resulting longer payout period.

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Currently, benefits can be payable as early as age 62, and the proposals to increase NRA often keep the earliest retirement age at 62.

In 1983, Congress enacted increases in the NRA, partially recognizing the fact that life expectancy has increased substantially since 1940. As a result, current law provides that the NRA will gradually increase to age 66 for workers born in 1943 (who will reach age 66 in 2009). The NRA will remain at age 66 for 12 years and then gradually increase to age 67 for workers born after 1959 (who will reach age 67 in 2027 and later). These increases are summarized in the table below.

Year of Birth	Social Security Normal Retirement Age
1937 and earlier	65
1938	65 2/12
1939	65 4/12
1940	65 6/12
1941	65 8/12
1942	65 10/12
1943 through 1954	66
1955	66 2/12
1956	66 4/12
1957	66 6/12
1958	66 8/12
1959	66 10/12
1960 and later	67

Demographic and Health Changes

In 1940, when Social Security began paying monthly retired-worker benefits, workers who survived to age 65 had a remaining life expectancy[1] of 12 years for men and 13 years for women. In 2001, life expectancy at age 65 was 16 years for men and 19 years for women. In other words, since Social Security began paying monthly benefits, life expectancy at age 65 has increased 4 years for men and 6 years for women. Moreover, Social Security's Board of Trustees anticipates further significant increases in life expectancy over the 75-year projection period that is used to determine whether the program is in close actuarial balance.

To further complicate this situation, studies have shown that the average age of retirement in the United States decreased until the mid-1980s. The combination of living longer and retiring earlier means that Social Security must pay out benefits for a longer period of time, while payroll taxes are collected for a shorter period.

Studies have also shown that past increases in life expectancy include additional years of healthy and unhealthy life, with the years of healthy life being dominant. It is unlikely that reductions in the average age of retirement in the latter decades of the 20th century could have been a result of poorer health among persons approaching NRA. Moreover, earlier retirement has combined with increased years of healthy life to create an even healthier retiree population today than would have resulted from either change alone.

The U.S. Department of Health and Human Services (DHHS) estimated that total life expectancy at age 65 increased 0.6 years from 1990 to 1998[2], with a corresponding increase of 0.3 years of healthy life.[3]

DHHS identified further increases in the length and quality of citizens' period of healthy life as the first of two overarching goals for national health policy during 2000-10.[4] To monitor progress toward meeting this goal, DHHS has instituted programs for measuring and tracking changes in the average period of healthy life on an annual basis. It may be reasonable to expect that future increases in the period of healthy life will be measurable and significant components of future increases in life expectancy.

Approaches to Raising the NRA

To restore Social Security to long-range actuarial balance, some have called for increasing the NRA beyond age 67 and/or accelerating the scheduled increase to age 67. Such proposals include the following:

- **Ad hoc increases to the NRA.** Increasing the NRA could add additional years of solvency to the trust fund by providing benefits for fewer years or by reducing workers' benefits if they retire before reaching the NRA. For instance, gradually raising the NRA to age 70 would eliminate up to half of the long-range actuarial deficit. A faster increase in the NRA to age 73 would nearly eradicate the deficit.

- **Pay benefits for the same number of years.** The NRA could be indexed so that life expectancy at the NRA remains constant over time. For example, life expectancy at age 65 (weighted between men and women and rounded to the nearest whole year) is now 18 years. Based on expected increases in longevity from the Trustees Report, the NRA would have to increase by about one month every year or two for life expectancy at NRA to remain 18 years. This method would decrease system costs over time, because the payout period for benefits would remain the same while the period over which payroll taxes would be paid would increase. However, the savings would not be sufficient to restore actuarial balance. Actuarial balance could be restored by an initial ad hoc increase to the NRA followed by indexing to changes in life expectancy.

- **Keep the ratio of retirement years to working years the same.** The NRA could also be indexed so that the life expectancy at NRA increased at the same rate as the period from age 22 to NRA, generally when payroll taxes are paid. This method, which was recommended by a majority of the members of the 1983 National Commission on Social Security Reform, would increase the NRA a little more slowly than maintaining a constant life expectancy at NRA, and therefore would reduce program costs to a lesser degree. This method implicitly recognizes that some portion of the increase in life expectancy at NRA may reflect years of unhealthy life during which workers could not continue working.

- **Adjust the NRA to maintain actuarial balance.** If Social Security were restored to actuarial balance by an ad hoc increase to the NRA or by some other change or combination of changes, actuarial balance could be maintained by automatically adjusting the NRA as necessary to achieve this goal. An adjustment of this nature could also be combined with automatic adjustments to the payroll-tax rate or benefit amounts to maintain actuarial balance. These issues are discussed in greater depth in the issue brief *Automatic Adjustments to Maintain Social Security's Long-Range Actuarial Balance.*

Impact of Raising the NRA

Proponents of raising the NRA contend that their proposals address Social Security's long-range financial problems while responding to changing demographic factors. In fact, raising the NRA could have both positive and negative consequences. Raising the NRA could:

- **Delay the retirement of baby boomers.** The oldest members of the baby-boom generation will be eligible for Social Security retired-worker benefits beginning in 2008. Raising the NRA would reduce the financial impact of having several million workers retire and collect Social Security benefits by encouraging them to retire at later ages and/or reducing the level of their benefits.

- **Increase work after retirement.** More workers aged 62 or older would remain in the labor force if the NRA were raised because the monthly benefit payable at age 62 would be smaller (reflecting larger actuarial reductions). This would encourage part-time work by the elderly, potentially making greater use of older workers and increasing gross domestic product (GDP). However, some employers may continue to provide incentives for older workers to retire from their jobs. In that case, employees over age 62 who had not yet attained the NRA would have to rely more on other sources of income for their retirement security. For individuals who cannot work longer, retirement income may be lower.

- **Disproportionately affect low-wage workers.** Many low-wage workers will not be able to work until a higher NRA because they tend to be in poorer health, have fewer skills and work in more physically demanding jobs. An increase in the NRA would disproportionately affect these workers to the extent that they claim early-retirement benefits with reductions greater than those under current law. Moreover, low-wage workers rely most heavily on income from Social Security to provide their retirement income. Proposals that might alleviate these problems would be (1) to liberalize the current "vocational factors" that are used currently to define disability for workers at ages 40 or older or (2) to provide an alternative definition of disability for workers unable to perform their customary jobs once they reach some specified age. For example, this alternative definition of disability might apply beginning at age 62 and provide an unreduced benefit beginning at age 65. This would ensure that a worker who qualifies under only the alternative definition of disability would be no worse off than a non-disabled worker before the 1983 Amendments.

- **Preserve disability benefits and benefits of current beneficiaries.** One interesting advantage of increasing the Normal Retirement Age is that it does not reduce disabled-worker benefits, whereas direct reductions in Social Security's benefit formula would reduce these benefits. Raising the NRA would most likely be phased in slowly, so that it would not affect current retirees, beneficiaries and even some near retirees (e.g., workers over age 55).

- **Affect other governmental programs.** Increasing the NRA would raise the Social Security disability program's costs, because the change would encourage impaired workers younger than NRA to file for disability benefits in order to avoid increased actuarial reductions associated with claiming early-retirement benefits. (A much larger impact on disability program costs would result from paying disabled-worker benefits longer – i.e., until the new, higher NRA – but that cost is exactly offset by lower costs to the retirement program.) Raising the NRA might raise the Supplemental Security Income (SSI) program's costs, because SSI benefits are reduced by Social Security benefits received, and changes in the levels of Social Security benefits would result in changes in the reductions in SSI benefits. It could increase costs for workers' compensation and unemployment insurance if significant numbers of older people choose to work and thus become eligible to receive those benefits.

- **Affect employee benefits.** A higher NRA also could increase the costs of certain employer-sponsored pension plans (e.g., Social Security offset plans and plans with supplemental benefits). However, when members of the baby-boom generation begin to retire in large numbers, employers may find themselves with too few workers. Thus, employers may want to implement retirement strategies to encourage older employees to work longer. Ways to accomplish this include raising retirement ages and reducing early-retirement subsidies in pension plans. These changes would reduce employer pension costs. However, employers would have to assess the desirability of an older workforce. Moreover, although health is improving for older Americans, workers may not wish to continue working to advanced ages.

- **Reduce benefits.** Increasing Social Security's NRA while retaining the current early-retirement provisions constitutes a benefit decrease relative to current law, because after such a change individuals would be eligible to receive benefits at the same ages, but at a reduced amount at each age. However, it might still occur in the context of an increase in the total value of lifetime benefits, because the period over which benefits would be paid might continue to increase.

Raising the Early Eligibility Age

Under present law, workers must wait until the Early Eligibility Age (EEA), currently 62, to be eligible to receive retired-worker benefits. At present, most non-disabled workers start to draw their Social Security retirement benefits at age 62 or shortly thereafter. Retired-worker benefits beginning at exact age 62 are 70 to 80 percent of the full retirement benefit, depending on the worker's NRA, to compensate for the resulting longer payout period. If the NRA were raised to age 70, then the benefit commencing at age 62 would be only about 57 percent of the full retirement benefit (depending on the early-retirement reduction factors used), which could be inadequate for retired workers and would be especially inadequate for non-working spouses, who receive only about half of the worker's benefit.

In response, some proposals would raise the EEA in addition to raising the NRA. This would result in many workers receiving larger monthly benefits, thus alleviating problems with benefit inadequacy, particularly at very old ages when workers may be less able to supplement their benefits with earnings from work. However, raising the EEA could adversely affect individuals with low incomes, who, as noted above, tend to have poorer health and rely most heavily on income from Social Security. This option, however, would improve Social Security's financial condition by providing more revenue to the program through increased payroll taxes. At present, the reduction in benefits for early retirement compensates only for the fact that the recipient gets benefits for more years. The reduction does not fully compensate for the fact that Social Security gets tax revenues for fewer years. It also does not reflect the impact of Social Security's 35-year benefit-computation period and the fact that earnings after age 60 are not indexed for changes in national average wage levels. All of these effects combine to subsidize early-retirement benefits relative to normal-retirement benefits. The subsidy increases as the number of years early retirement precedes normal retirement increases, e.g., if the EEA remains at 62 while the NRA moves to age 70 or beyond. Raising the EEA along with the NRA would mitigate this problem.

Underlying Questions

Significant reductions in Social Security's expenditures could be achieved with a higher NRA. However, Congress should consider the following questions before raising the NRA:

- What are the net savings to the Social Security trust funds of adopting a higher NRA? To what extent will savings in retirement costs be offset by additional disability costs? What will be the effect on beneficiaries of a higher NRA?

- What will be the effect on the economy as a whole?

- How is the public reacting to the already adopted increases in the NRA, which began taking effect in 2000? How would they react to further increases in the NRA? How would they react to increases in the EEA?

- To what extent have increases in life expectancy been accompanied by corresponding improvements in workers' health? Is it reasonable to expect individuals aged 67, and perhaps older, to work?

- Will jobs be available for workers at these older ages?

- What impact would a change in the EEA have on labor markets? What impact would a change in the EEA have on employer-sponsored benefit plans?

- How would Medicare and employer-sponsored benefit plans be affected by a change in the Normal Retirement Age?

Endnotes

[1] Life expectancies cited in this issue brief do not reflect any expected future improvements in mortality.
[2] *Health, United States, 2002* [online]. Hyattsville, MD: National Center for Health Statistics (Table 28, p.116), 2002. Website: (http://www.cdc.gov/products/pubs/pubd/hus/tables/2002/02hus028.pdf)
[3] *Healthy People 2000 Final Review* [online]. Hyattsville, MD: National Center for Health Statistics (Table 8, p.150), 2001. Website: (http://www.cdc.gov/nchs/data/hp2000/hp2k01.pdf)
[4] *Healthy People 2010: Understanding and Improving Health 2nd edition* [online]. Washington, DC: U.S. Government Printing Office (Goal 1, p.8), 2000. Website: (http://www.health.gov/healthypeople/document/tableofcontents.htm#under)

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