

# **It's About Time: Raising the Retirement Age for Social Security**

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# POSITION STATEMENT



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## ACTUARIES ADVOCATE RAISING SOCIAL SECURITY'S RETIREMENT AGE

### OVERVIEW

**THE AMERICAN ACADEMY OF ACTUARIES BELIEVES THAT THE TIME HAS COME** for the United States to address Social Security's long-term financial soundness. For two decades, Social Security's trustees have been telling the public – annually – that the system is not in actuarial balance. What does that mean? At some point in the foreseeable future, absent corrective legislation, the program will be unable to pay timely benefits in full.

Over the years, actuaries have evaluated numerous proposals to prevent this from happening. Among the very many options that would alleviate the imbalance, one rises to the top of our list: raising Social Security's retirement age. As life expectancy increases, the percentage of workers' lives spent in retirement continues to grow, while the number of working years stays relatively constant. Inevitably, Social Security's costs will exceed what its scheduled financing will support. This is primarily a demographic problem that demands a demographic solution.

### SOCIAL SECURITY NEEDS A COURSE CORRECTION

Our Social Security system, enacted in 1935, has certainly withstood the test of time. Having paid benefits to over 100 million retired and disabled workers and their families, Social Security has indisputably had a positive impact on our society.

It's also indisputable, however, that the system has required occasional adjustments to continue functioning well. The last time was in 1983, following a period of slow economic growth and very high inflation that had drained the trust fund. Without the 1983 legislation, timely benefit payments could not have been made starting in July 1983. The law was changed in April, and just in time.

According to Social Security's 2008 trustees' report, released in March, the program won't face a 1983-type crisis for many years, but the program's cash flow is projected to move into the red in 2017, the first of several critical dates cited by the trustees. While reasonable people can debate the significance of 2017 or even 2041 (the projected date of trust fund exhaustion), the underlying financial picture is not in dispute. Social Security needs a course correction to continue fulfilling its mission.



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## SOCIAL SECURITY'S RETIREMENT AGE SHOULD BE RAISED

Some people believe that concerns about Social Security's financial soundness are entirely attributable to the baby boomers, who began claiming Social Security retirement benefits just this year, with millions more to come over the next two decades. But the baby boomers are only part of the problem — and a temporary part. Long after all the baby boomers have departed, Social Security's income will cover only about three-fourths of its cost. This permanent imbalance is partly attributable to increasing longevity. As beneficiaries live longer, their total expected benefits increases. Without action, Social Security's income won't keep pace with these ever-increasing benefit obligations. Social Security's retirement age is part of the problem. While Social Security's financial soundness could be restored in many different ways, we believe that any solution package should include increases in the retirement age.

The Social Security Amendments of 1983 raised the normal retirement age from 65 to 67 over three decades. But

it's frozen at 67 for all workers born after 1959. We shouldn't stop there. Holding the retirement age constant is a certain prescription for future financial problems. Raising it to reflect increasing longevity would contribute to solving those problems.

The American Academy of Actuaries believes that a financially sound Social Security system must accommodate future increases in longevity. The most direct way to do that would be to extend the currently scheduled increases in Social Security's retirement age. The time to enact this change is now.

## SOCIAL SECURITY'S PROBLEMS SHOULD BE ADDRESSED NOW

Public policymakers sometimes wait until the last minute to take necessary action. But in the case of Social Security, waiting will limit the available options — and tend to force solutions that emphasize sudden changes that are more likely to involve tax increases. The last two times Congress made significant changes to Social Security, in 1977 and 1983, the legislation included near-term and long-term provisions involving both tax increases and

reductions in the growth of benefits.

Regardless of the kinds of changes ultimately enacted into law, the sooner policymakers act, the more options they will have. Tax increases could be phased in more gradually, and reductions in benefit growth could be spread across a much larger population of beneficiaries, making individual reductions relatively smaller and less painful. Enacting legislation sooner would also allow individuals sufficient time to modify their own financial planning — adjusting to changes in Social Security.

The American Academy of Actuaries believes that delay will only make the changes ultimately needed to restore Social Security's financial soundness less attractive, more painful and more precipitous. Timely action can make the solutions more acceptable to all concerned.

The Academy is committed to continuing its thought leadership in this area and stands ready to assist policymakers in their efforts to return the Social Security program to long-term financial soundness. For more information, please contact Steve Sullivan, Director of Communications, at [Sullivan@actuary.org](mailto:Sullivan@actuary.org) or 202/785-7889.

The American Academy of Actuaries is a 16,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

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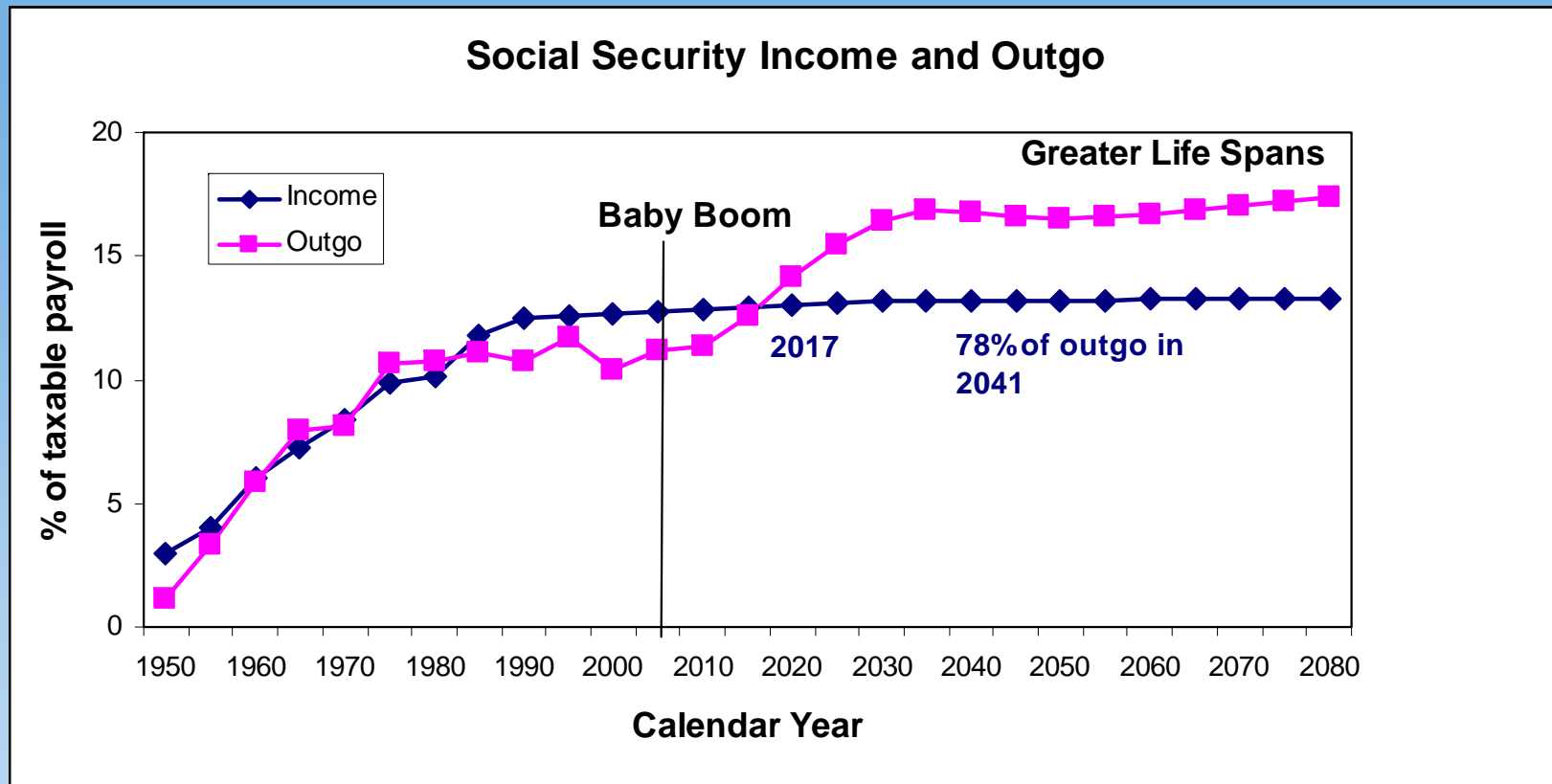
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# Actuarial Imbalance



2008 Table IV.B1. Social Security Trustees Report - Intermediate Assumptions  
<http://www.ssa.gov/OACT/TR/TR08/lr4b1.html>



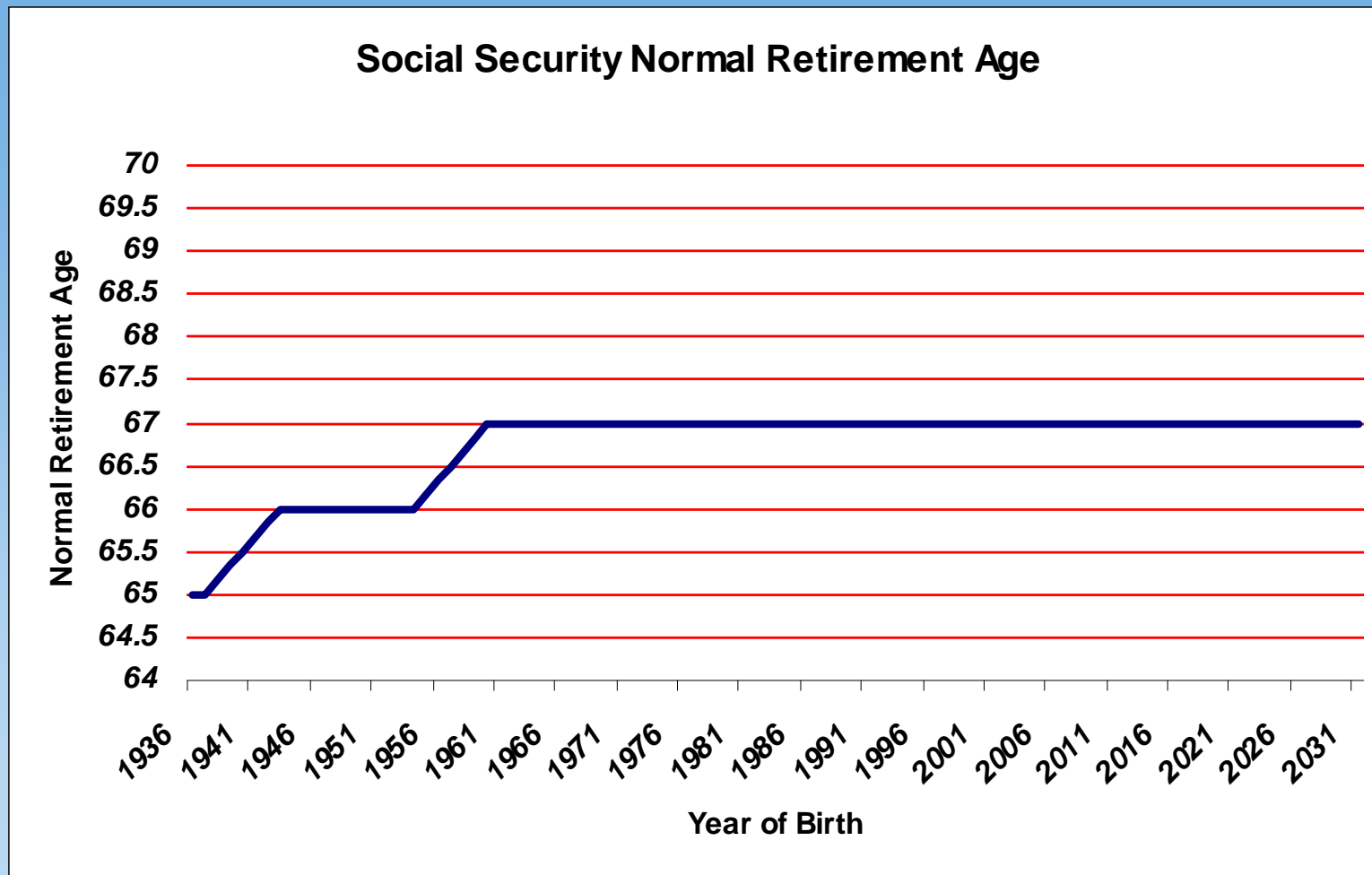


# Social Security's Retirement Age Should Be Raised

- Demographic problems require demographic solutions
- Social Security must accommodate future increases in longevity
- Retirement age only increased once in Social Security's history despite continued increases in average life expectancy
- Increasing retirement age can significantly help restore program to actuarial balance



# Social Security Normal Retirement Age

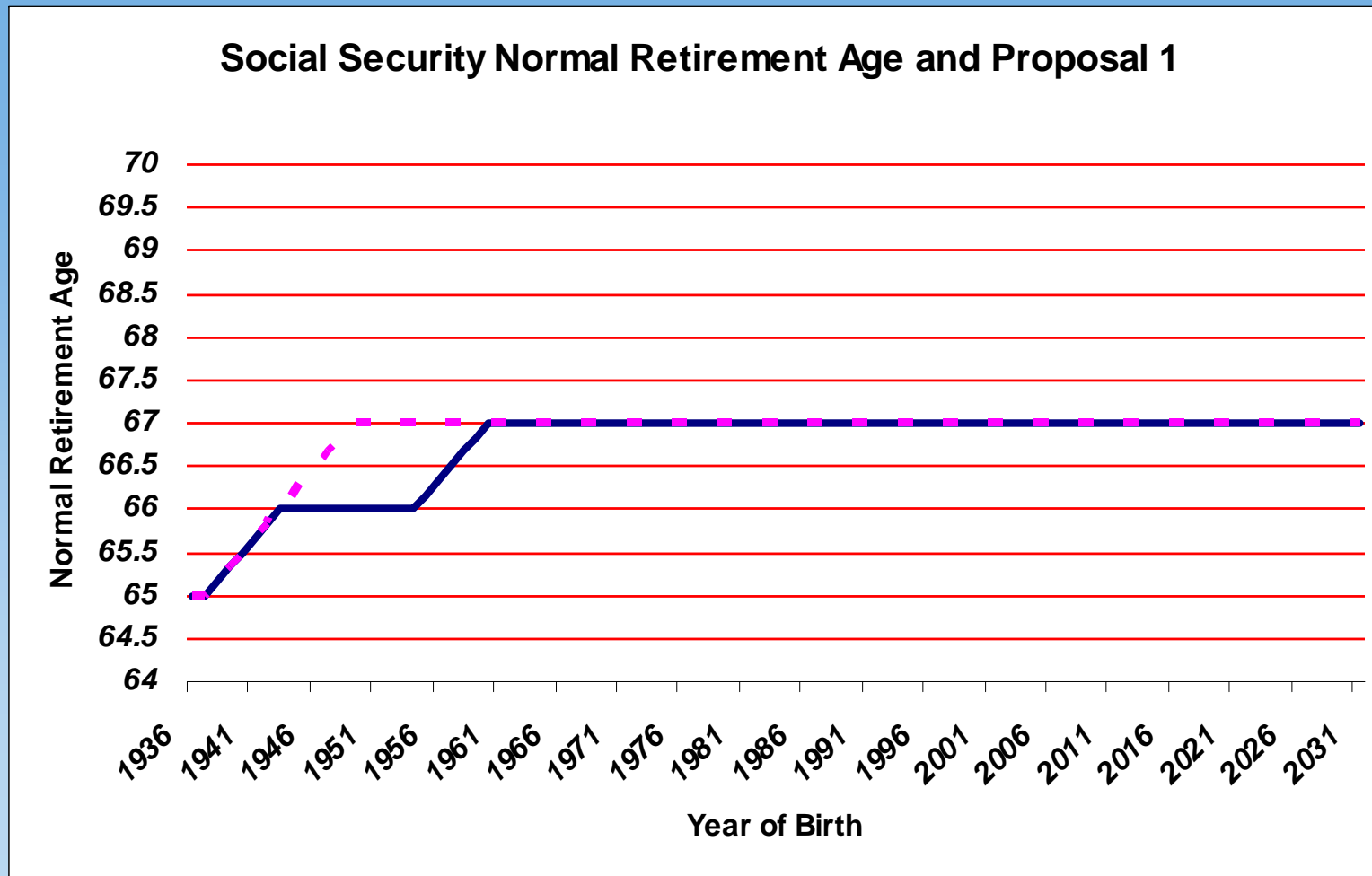


# Raising the Retirement Age

- Three sample proposals
  - 1) Eliminate the hiatus in the normal retirement age (NRA) – i.e., speed up the increase to age 67
  - 2) Eliminate the hiatus in the NRA – i.e., speed up the increase to age 67 – and then increase it by 1 month every 2 years until it reaches age 70
  - 3) Keep the current schedule of NRA increases to age 67 but continue increasing it thereafter by 2 months every year until it reaches age 70



# Proposal 1

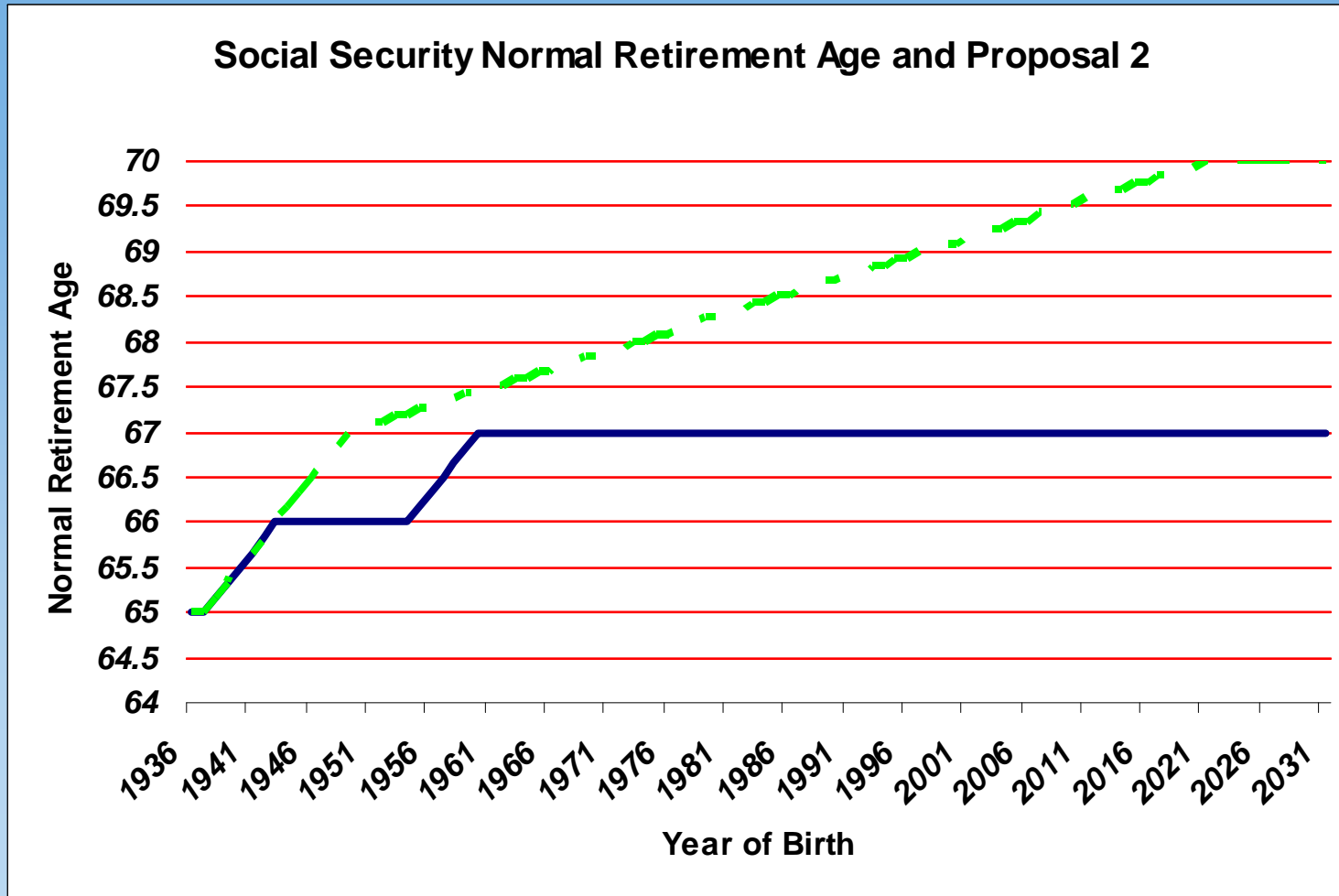


# Raising the Retirement Age

Sample proposal	Approximate percentage of Social Security's long-range deficit <sup>[1]</sup> eliminated
Eliminate the hiatus in the normal retirement age (NRA) – i.e., speed up the increase to age 67	10%
Eliminate the hiatus in the NRA – i.e., speed up the increase to age 67 – and then increase it by 1 month every 2 years until it reaches age 70	
Keep the current schedule of NRA increases to age 67 but continue increasing it thereafter by 2 months every year until it reaches age 70	
<p><sup>[1]</sup> Under the intermediate assumptions of the 2008 OASDI Trustees Report, Social Security's long-range (75-year) actuarial deficit is 1.70 percent of taxable payroll.</p>	



# Proposal 2

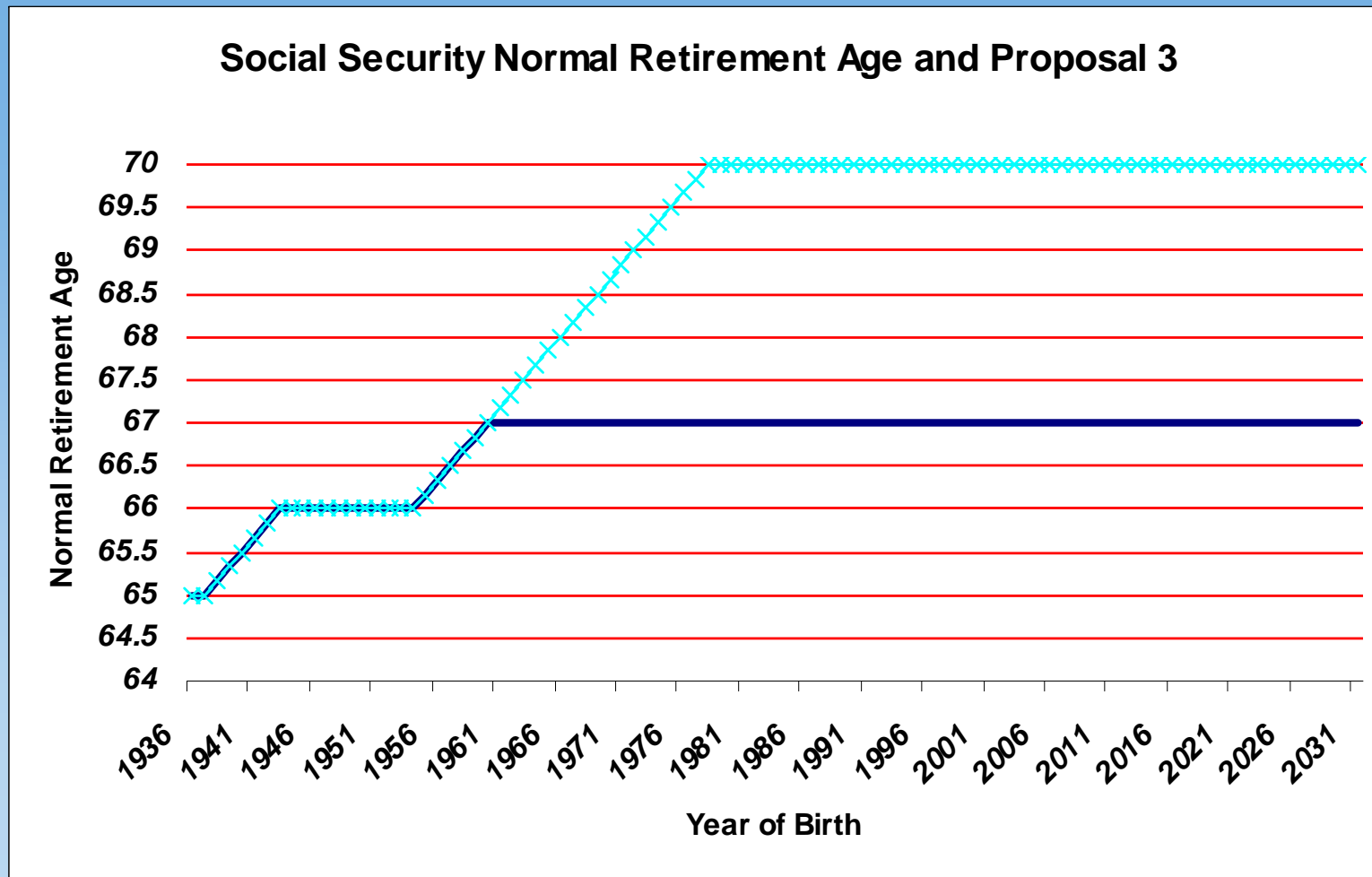


# Raising the Retirement Age

Sample proposal	Approximate percentage of Social Security's long-range deficit <sup>[1]</sup> eliminated
Eliminate the hiatus in the normal retirement age (NRA) – i.e., speed up the increase to age 67	10%
Eliminate the hiatus in the NRA – i.e., speed up the increase to age 67 – and then increase it by 1 month every 2 years until it reaches age 70	35%
Keep the current schedule of NRA increases to age 67 but continue increasing it thereafter by 2 months every year until it reaches age 70	
<p><sup>[1]</sup> Under the intermediate assumptions of the 2008 OASDI Trustees Report, Social Security's long-range (75-year) actuarial deficit is 1.70 percent of taxable payroll.</p>	



# Proposal 3

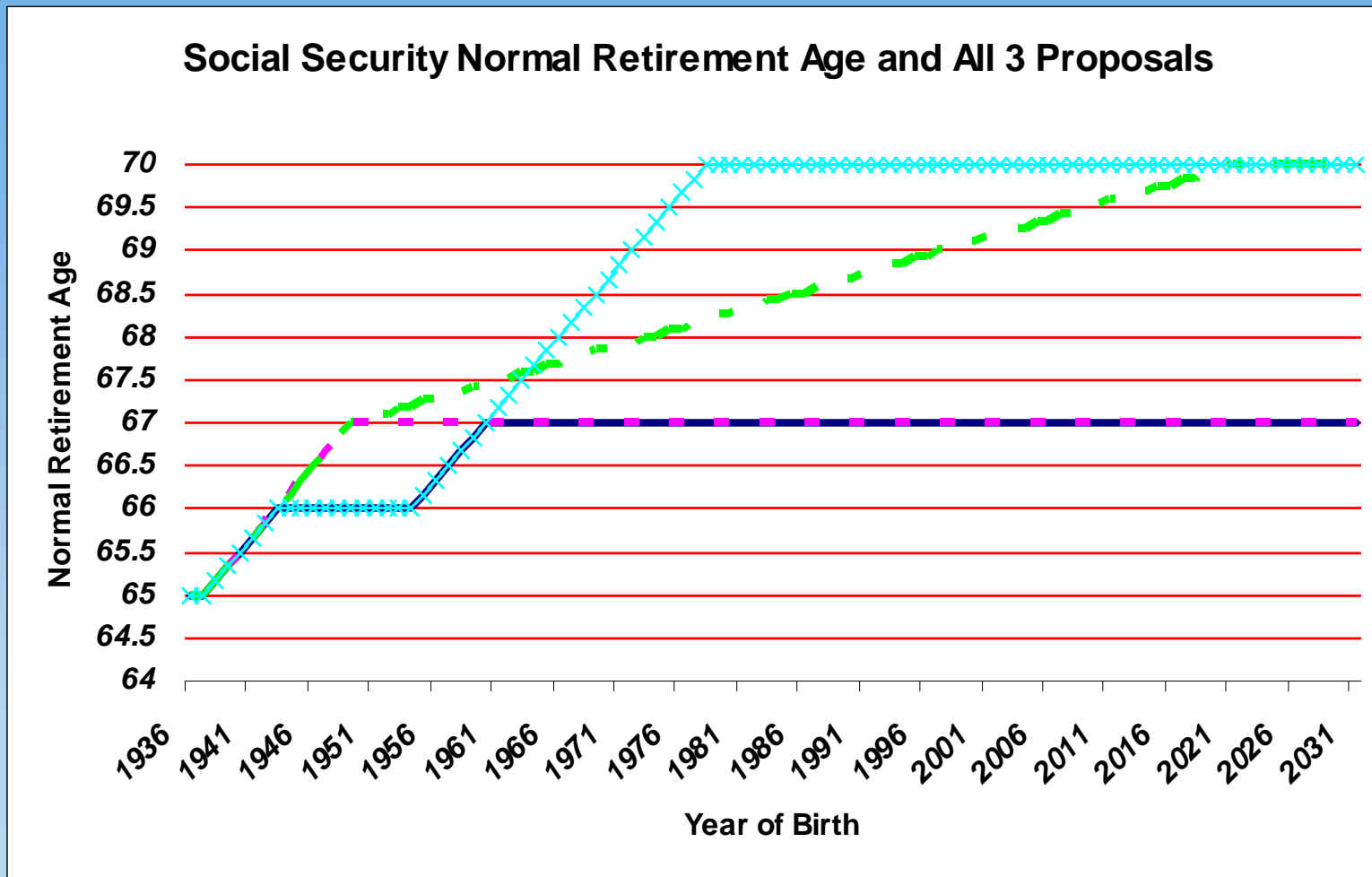


# Raising the Retirement Age

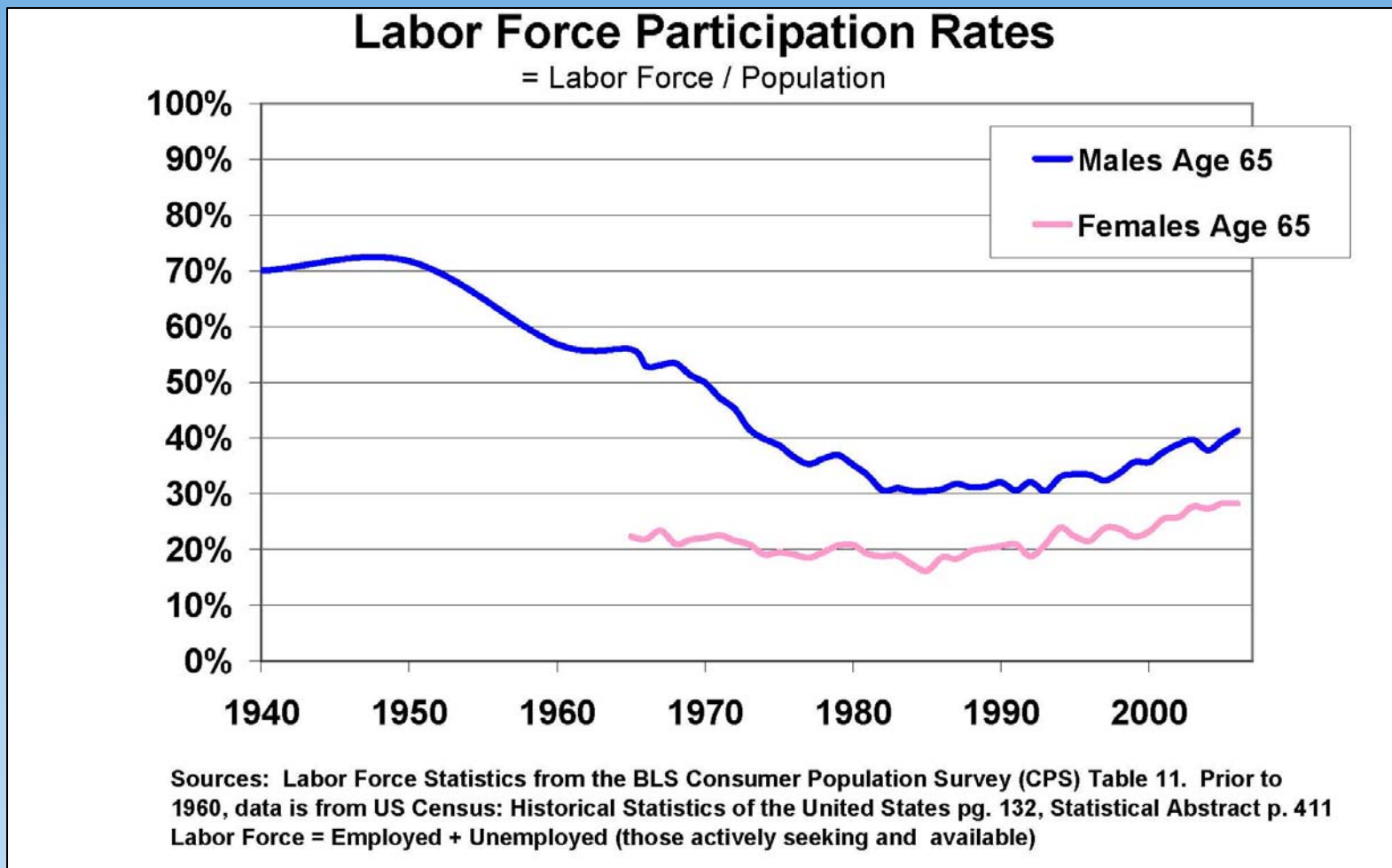
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Keep the current schedule of NRA increases to age 67 but continue increasing it thereafter by 2 months every year until it reaches age 70	50%
<p><sup>[1]</sup> Under the intermediate assumptions of the 2008 OASDI Trustees Report, Social Security's long-range (75-year) actuarial deficit is 1.70 percent of taxable payroll.</p>	



# All Three Sample Proposals



# Labor Force Participation Rates



# Social Security's Problems Should Be Addressed Now

- More policy options can be applied to more of the population
- Tax increases could be phased in more gradually; benefit reductions could be smaller and less precipitous
- Allow more time for individuals to plan accordingly



# Questions?

- Questions?
- More information: [www.actuary.org](http://www.actuary.org)

