



AMERICAN ACADEMY *of* ACTUARIES

**Social  
Security  
Subcommittee**

**Committee on Ways and Means  
U.S. House of Representatives**

**Hearing on**

**The Future of Social Security for this Generation and the Next:  
Increasing the Retirement Age**

**Testimony Presented  
By**

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**February 26, 1998**

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Chairman Bunning, committee members, staff, and fellow panelists, Good Afternoon. My name is Ron Gebhardtshauer and I am the Senior Pension Fellow at the American Academy of Actuaries. The Academy is the nonpartisan public policy organization for actuaries in the United States and does not endorse or propose legislation. Instead, we analyze the potential effects of legislation and evaluate its advantages and disadvantages relative to current law.

In the interest of time, I have provided the subcommittee with copies of my full testimony on this subject, so that I can focus on the most important points at this hearing, namely:

- (1) What effects would an increase in the Normal Retirement Age have on individuals, employers, and the Social Security system?
- (2) If Congress decides to increase the Normal Retirement Age, what should it be?

### **Effects of an increase in the Normal Retirement Age (NRA)**

Many proposals to solve Social Security's financial problems have suggested that the retirement age should be increased, because our life expectancies are much higher today than they were when Social Security was created. Currently, the Normal Retirement Age, or age for full retirement benefits, is 65, the same as it was at the beginning of Social Security. It starts to gradually increase to age 67 in just 2 years (the year 2000) at which point the Normal Retirement Age will become 65 and 2 months for people born in 1938. If these people still retire at age 65, their retirement benefits will be about 1% lower<sup>1</sup> than if the Normal Retirement Age had remained at 65. If the NRA had increased to age 66 all in one year, benefits would have dropped immediately by about 7%. This large decrease would be similar to the notch baby benefit decreases which caused much alarm among the elderly in the 1980's. Phasing in the increase in retirement age over 6 years from 2000 to 2005 avoids this problem. Eventually the NRA reaches age 67 in 2022 for people born in 1960 and later. (**Chart I** provides these changes in detail, along with the retirement ages proposed by the Advisory Council.)

### **Effects on individuals**

Thus, any proposal to gradually increase the normal retirement age by 1 year is similar to a proposal to gradually decrease the benefit formula by about 7% for people who still desire to retire at the same age.<sup>2</sup> Because we are living longer (on average), some contend that this is not a decrease in benefits at all - it is keeping total lifetime benefits the same. These people argue that keeping the retirement age frozen at 65 is actually a benefit increase, because benefits are gradually being paid for more years. However, if you look at it from the point of view of money's worth calculations, you will see that the return for future beneficiaries will not be as good as the returns received by current beneficiaries (but that is also because of other factors).

**Disabled beneficiaries will not be hurt.** Raising the NRA will not seem like a good idea for someone who cannot work any longer. If they qualify for a disability benefit, however, there is good news. Disability benefits will *not* be reduced by an increase in the retirement age. Disabled individuals will still get 100% of their full benefit (or Primary Insurance Amount), no matter how young they are at disablement (and they will get the benefit as long as they are disabled). This will encourage more people around age 65 to file for disability benefits (thus offsetting some of the savings of the higher NRA), and the actuaries at Social Security have taken this into account in their cost projections for the current system and the various proposals.

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<sup>1</sup> Since people born in 1938 get their wages indexed one more year than people born in 1937 (and one less COLA), there is little likelihood that a notch will occur (assuming the wage index for 1997 wages will be more than the COLA in 1999). Even a 4 year phase-in would probably not create a noticeable notch.

<sup>2</sup> Increasing the retirement age by 3 years from 67 to 70 would be similar to a proposal decreasing retirement benefits by about 21%.

**Current beneficiaries and some future dependents and survivors won't be hurt** Other people who will not be affected by an increase in the retirement age are current beneficiaries (due to the prospective phase-in), survivors that are age 60 or younger on entitlement<sup>3</sup>, children, and parents (or grandparents) caring for eligible children. Of course, this means that increasing the retirement age doesn't save quite as much as an across the board 7% decrease in benefits, but that is intentional, and not a surprise<sup>4</sup>.

**Inadequate Benefits:** A concern with raising the Normal Retirement Age is that it could create inadequate benefits at age 62. For example, if the normal retirement age becomes 70, then the age 62 benefit will be only 55% of the age 70 benefit. Some people who opted for the age 62 benefit might use up their savings quickly and need public assistance (thus costing the government more elsewhere). This could be happening at the same time that employers are reducing their post-retirement medical plans, and government may have to cut back on Medicare and Medicaid. Thus, retirees would need more income, not less. The Gramlich Individual Account proposal addressed this concern by decreasing benefits by 7% but only for benefits above the first bendpoint. Proposals to raise the NRA can also resolve this through minimum benefits, or by increasing the earliest retirement age (i.e., the Earliest Eligibility Age), or people could work longer.

**Minimum Benefits:** A minimum benefit equal to the poverty level (or some percent of poverty) might resolve this concern about inadequate benefits. However, it would have to be implemented carefully, since there are numerous concerns, such as:

- (1) Cost,
- (2) Who is eligible for it? (i.e., should someone who worked only 10 years under Social Security get the minimum benefit?)
- (3) Would it be phased in (i.e., Should someone who worked 15 years get as much as someone with 40?)
- (4) Once someone qualifies for a year of work or becomes eligible for it, there is no more incentive to report income or pay the tax.
- (5) Would it be reduced for early retirement?
- (6) Would disabled beneficiaries get it? Receipt might discourage rehabilitation and going back to work.

**Increase the Earliest Retirement Age:** Another solution for inadequate benefits at age 62 is to increase the earliest retirement age when increasing the normal retirement age. This would be a revenue raiser, and it would solve 10% of Social Security's actuarial imbalance. However, some people (such as blue-collar employees who commonly retire at a younger age) may need Social Security income to start at age 62. The reason the earliest eligibility age was lowered to age 62 in 1961 (1956 for women) was due to a lack of jobs and the large number of unemployed. A response might be that people need income only if they can't work, and the disability benefit is for that purpose. But some older people may not be able to get jobs if unemployment levels are high<sup>5</sup> or if they are disabled, but not quite enough for Disability Benefits. Finally, if proponents of keeping age 62 are correct, then they would be just as correct about some people needing the income at age 60. Should the eligibility age be lowered to 60 or 55 then? That would be expensive, and the benefits at age 55 would be very low.

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<sup>3</sup> The early retirement reduction for spousal survivors at age 60 is frozen at 71.5% of the PIA by law.

<sup>4</sup> Disability benefits can be decreased too, if so desired. The PSA proposal suggested decreasing disability benefits by the same percent as retirement benefits payable at age 65. This would save 0.5% of covered payroll or almost 1/4th of Social Security's total financial problem. However, in 2083 when the NRA reaches 70, this proposal would reduce disability benefits by 30% from what someone retiring at age 70 would get.

<sup>5</sup> Unemployment levels may be low now, but what happens when they go back up? Could the eligibility age be indexed to unemployment levels for older workers?

**Blue Collar Workers:** As noted above, there is a concern for blue-collar workers (and others with strenuous jobs) who are often retired or laid off early. Increasing the retirement age affects these workers (and their employers) disproportionately. For example, if the NRA became 70, they would need their employer-sponsored pension plan to pay pension supplements for 5 more years. Employers will resist this due to the larger expense entailed. If pensions become much more expensive for these workers, employers may speed up the automation of their jobs. Alternatively, blue collar workers may need retraining to obtain another (and very different) job to tide them over that extra 5 years until they can get a full Social Security benefit. Getting a new job at an advanced age is quite difficult though, especially if your prior job was very different.

**Low Income Workers:** There is also a concern for lower income workers who often don't save (or can't save) and who have little or no pension from their employer. For them, Social Security is their primary (and sometimes only) source of income in retirement. If they still retire at a young age, their Social Security benefits will be much lower, which makes it much more likely that their income will be below poverty levels. Establishing a minimum benefit will help them. Otherwise, they will have to work longer or resort to SSI (thus increasing Federal and State costs). This may not be as bad as it seems, since there are job opportunities for elderly workers, but they are more likely to be at low wages.

**Minorities:** There is also a concern for minorities that have lower life expectancies. This may actually be more a function of income level, and would apply to blue-collar workers too. They often do not live as long as white collar and higher income workers. This reduces the return on the contributions they made into the system. Some people say the benefits are regressive because of this. However, studies by Robert L. Brown at the University of Waterloo and other actuaries show that the progressive tilt in the Social Security formula (along with the disability and survivor benefits) more than offsets their shorter life spans. This would still apply after the change in retirement ages. A guaranteed minimum benefit could also help allay this concern.

**Partially Disabled Older Workers.** Another group of concern is the older person whose health is poor, but not poor enough to satisfy the disability definition. They will have a difficult time getting a job. Currently, if they are age 65 or older, they get a full benefit. In the future, that will not be so. Of course, determining whether someone is disabled is not easy, especially at older ages. But Social Security already has a more lenient rule for determining disablement at older ages in regulation §404.1563, which may address this concern to some extent.

Finally, the number of *unhealthy* people at older ages is much less than the number of *healthy* people. Should they drive the retirement age policy for everyone? Maybe not, but we have to answer 3 questions:

- (1) *Can* we work past age 67?
- (2) *Will* we work past age 67? and
- (3) Will employers keep us past age 67?

**Can we work past age 67?** Currently about 20% of men age 70 work. In 1940 (before Social Security), the workforce participation rate for males age 70 was almost 50% (see [Chart II](#)). If we are healthier now and jobs are less strenuous and unemployment is down, then maybe more than 50% could work now.

**Older People are More Healthy Now than in the Past:** Recent studies show that not only are we living longer, but we are healthier (physically and mentally) at older ages than people in the past. Rates of impairment

among the aged are down.<sup>6</sup> Indeed, the average person age 70 now is probably healthier than the average person age 65 when Social Security was created. In addition, health issues can affect the retirement decision in different ways. The onset of a disability will induce us to retire, since we can't work any longer. Alternatively, if we are just healthy enough to work, there are incentives to work until we can get Medicare (or until we can get Post-Retirement Medical coverage through our employer plan, if sooner). If we can't get Medicare until age 70, it may encourage some of us to work until then.

**Will We Work Past Age 67?** Even if we can work past age 67, will we? We may just prefer to retire earlier. Retirement is not just a decision regarding our health, nor is it just a decision regarding our preference for leisure over work. It is also a financial decision. Many people don't have the finances to retire when they want. For example, work force participation rates in 1940 were high because the income was needed. In the 1960s, work force participation rates for men dropped dramatically because they could get a Social Security benefit at 62 (enacted in 1961 for men and 1956 for women) and Medicare was available (enacted in 1965). Employer Pensions and Post-Retirement Medical plans also help us retire early.

**Do Later Retirements Increase National Productivity?** Earlier retirements, of course, means the nation loses out on some of the productivity that our seniors could have given us. On the other hand, some productivity of a younger person could be lost, when unemployment levels are high. When someone retires, it opens up the possibilities of getting more productivity from younger people. Not only can the younger employee be more productive, by having the job (or a better job), but now they won't need to worry about supporting their parents.

**Can We Be Encouraged to Work Longer? (and How?)** Recently, however, work force participation rates have increased at age 70, possibly due to a relaxation of the Social Security earnings or retirement test.<sup>7</sup> At least some of us can work at age 70. Completely eliminating the retirement test after age 65 would encourage even more work. **Chart III** shows that many older people have jobs that pay at the earnings limit. These people would probably work more, produce more, and pay more taxes if the limit were removed. While this proposal will increase current cash outlays (because some benefits would no longer be reduced), it doesn't hurt Social Security's long range financial problems<sup>8</sup>. That is because getting benefits sooner reduces future benefits (since they get less of an actuarial increase) and it would increase FICA tax income.

Smaller pensions from our employers may also cause us to work longer. For example, 401(k) plans don't subsidize pensions at younger ages, like traditional retirement plans. If you want to retire early, you will have to suffer the full actuarial reduction. This may force many people to work longer.

*Higher retirement ages* (for Social Security and Medicare) may encourage us to work longer, especially lower income workers who won't be able to retire for financial reasons. It may not affect wealthier people as much, because they can rely on their other resources.

Other proposals to *decrease benefits* may also encourage us to retire later. However, even though they are similar to proposals that increase the NRA, they may not register until too late. Most people don't know what their Social

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<sup>6</sup> See Chronic disability trends in elderly US populations: 1982 - 1994 by Manton, Corder, & Stallard. In 1982, 14.1% of elderly between 65 and 74 were IADL (Instrumental Activities of Daily Living) or ADL impaired or institutionalized. In 1994 this decreased to 11.5%. For ages 75 to 84, it dropped from 31.9% to 26.9%.

<sup>7</sup> Workers over 70 can now earn a wage and not have their Social Security benefit reduced.

<sup>8</sup> See page 236 of Volume I of the 1994 - 1996 Advisory Council report - Item F.6.

Security benefit amount is, so decreasing it won't affect their thinking now. Only when they reach age 65 will they realize how much the benefits dropped. At that point, they will finally realize that they have to work until a much later age. Thus, raising the retirement age could be the more effective way of making changes to Social Security. It is more likely to affect our thinking now than just decreasing benefits.

**Congress Should Coordinate its Policies on Retirement Age:** In addition, Congress should coordinate its national retirement policy, because right now it is sending inconsistent signals. Social Security is moving its retirement age to 67, but Medicare is still 65. In addition, the federal laws for employer-sponsored pension plans still use age 65. (Note: If Congress amended pension law to use the same ages as Social Security, some companies might take advantage of it. This could be a revenue raiser for the government, because employer contributions could go down - or at least not go up.) Another inconsistent signal is the requirement that IRA's and certain pension benefits begin their distributions by age 70 *n* even if the individual wants to continue to work. Raising the 70 *n* would defer government revenue however. You could also raise the 59*n* age for earliest distributions, but that could discourage people from putting money into IRAs and 401(k) plans, since it would lock the money up longer. It would also be a revenue loser for the government. Of course, much of this depends on whether there are jobs for older Americans.

**Will Employers Keep Us Past Age 67?** Some employers believe that older workers may be less productive and less adaptable to change than younger workers. The older employees can limit the promotion possibilities of younger workers to the point that the younger employees may quit. Older employees' benefits may also cost more. An older worker's employee benefits (Health Insurance, Long Term Disability, Pension, Life Insurance, Annual Leave, and Sick Leave) could cost \$10,000 more per year than those for a younger worker. On the other hand, not having to pay Post-Retirement Health benefits<sup>9</sup> and Pension benefits<sup>10</sup> while the older person is working could offset this amount. However, these cost reductions in Post-Retirement Health and Pensions don't apply to elderly employees who were recently hired. In fact, newly-hired elderly workers could increase employee health, post-retirement health, and pension costs (if they work long enough to become entitled to these retirement benefits). Laws that require their full coverage can make it a very costly decision for employers to hire older workers. If these laws were somewhat relaxed, employers might hire more older employees. For example, if an older worker can be hired at a lower salary that compensates for the extra cost of benefits, then cost will be less of an issue.

**Employer Demand for Older Workers:** An SSA publication by John Straka, *The Demand for Older Workers*, asserts that employers that limit the number of older workers (or reduce their earnings) do so for productivity and market efficiency reasons and not for prejudicial discriminatory reasons. He bases this on his theory that (ultimately) in an efficient market, people are paid what they are worth. He also says that job opportunities for older workers will be mostly confined to relatively low-paying, labor-hungry sectors and occupations such as certain retail and clerical work and part-time or temporary work (e.g., on holidays). These jobs may not be

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<sup>9</sup> Post-Retirement Health plans would not have to pay amounts paid by their active employee health costs if they are between their earliest retirement age and age 65. If the employee is over 65, the employer plan would only benefit from the non-Medicare benefits that their post-retirement health plan would have paid. However, the active employee health plan would have to pay all health costs since Medicare is the secondary payer there. It would be difficult for Medicare to become the secondary payer to a post-retirement plan, because then employers would drop the plans. Employers can't drop their active life plan (unless they drop it for all active employees) because of ADEA.

<sup>10</sup> For example, the employee could lose a temporary supplement. Or costs could decrease if the employee is no longer accruing benefits due to a service maximum. If the employee is older than their NRA or the first age for unreduced benefits, their retirement benefit can be suspended while they are working, if they are notified.

attractive to many elderly workers who once had well-paying jobs. His position is that the Age Discrimination in Employment Act (ADEA), shortages of younger workers, and SSA policies to encourage work will not be adequate to both get jobs for the elderly and safe-guard their well-being. He suggests more subsidized training and resources for older job searchers.

**Labor Force Considerations:** As noted above, the reason the earliest eligibility age was lowered from 65 to 62 was due to a lack of jobs and the large number of unemployed. However, because of today's booming economy and low levels of unemployment, this might not be as great a concern. In fact, if the Social Security retirement age is not changed, Social Security actuaries predict that the rate of increase in the labor force will continue to decline dramatically to less than 1% when the baby boom starts retiring. By 2008 it will be less than the annual increase in the population for the first time since 1960 (see **Chart IV**). This could lower unemployment levels (something which may have already started happening). The lack of workers (i.e., supply) could push wages up, unless individuals become much more productive or unless we get more workers from other countries or can convince our older workers to remain in the job market. Employers may want to keep their older employees (at least part time). However, these good economic times may not last forever, so the rules need to work in times when unemployment isn't low.

**Kinds of Jobs:** Today's economy is more service-oriented (and less in need of heavy physical labor) than in 1940, which makes it easier for older individuals to work. Factors working in the other direction, however, include the rapid pace of change which makes it more difficult for older workers to keep up. (Training may not pay off if the worker might retire soon.) This may be particularly true of the many jobs in the high tech industry. These jobs are less physical, but they also change rapidly.

**Part-Time Work and Phased Retirement:** One way to help older employees to keep working would be to provide more part-time opportunities for them as they phase-out to retirement. However, many employers don't find part-time jobs very efficient, especially if they incur the same fixed overhead and benefit costs. It is also difficult to decrease an employee's pay by a substantial amount. One way to make this easier however, would be for Social Security to allow workers over age 65 to declare that they are switching to half-time, and request half of their Social Security benefit. Then it would be easier to pay them less. The federal retirement plans already do this. This declaration could replace the earnings or retirement test and be done in a way that is actuarially neutral to Social Security<sup>11</sup>. *Essentially, this would be giving people more choice.* People would choose their own retirement age and how to phase it in, and not Social Security through the earnings test, which people dislike. It would also bring in more payroll taxes than if the worker completely retired. Allowing employer pension plans to pay a partial pension while they are still working (in service benefit) would be important for consistency purposes too. Mechanisms would be needed to make sure that an employee's pension benefit is not hurt by low wages in their final years of employment (such as annualization of pay or indexing pay).

### **Effects on Employers**

Increasing Social Security's Normal Retirement Age will keep FICA taxes down, which employers will like. However, it may put more reliance for retirement benefits on the private pension system - employers and employees. Thus, employers with retirement plans may end up paying for the Social Security fix anyway, through higher pension contributions<sup>12</sup>. Employers without pension plans will get off free, unless their employees use this

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<sup>11</sup> For example, if a retiree receives 50% of his/her Social Security benefits, then the actuarial reduction (or actuarial increase) applicable at the commencement of the remaining half of their benefit would apply only to the remaining half of the benefit.

<sup>12</sup> Social Security Offset plans (and plans with temporary supplements to the Social Security NRA will automatically get more expensive, unless employers amend them.

as a chance to demand a plan.

Alternatively, if employers don't improve their pension benefits, employees may end up working longer (if they can). An older work force will increase employer costs for other employee benefits (such as employee health, disability, life insurance, annual and sick leave) by as much as \$10,000 per older employee that could have been replaced by a younger employee<sup>13</sup>. If employers don't want an older work force and the associated costs, they can lay off the older employees (always a difficult thing to do) or encourage them to retire by improving the company pension plan, which also will be costly.

Due to a huge increase in the number of retirements that will occur early in the next century, unemployment will probably continue to recede. When the labor force decreases in size (i.e., low supply), wages tend to increase. This could occur unless each worker becomes much more productive, or foreign workers are used. Later retirement ages (normal and earliest) in Social Security and employer pension plans could help reduce this concern. Employers may want to rethink their retirement strategies and encourage employees to stay on (at least part-time). Phased retirement may become popular, but IRS regulations<sup>14</sup> would need to be revised to allow in-service distributions to be payable before a pension plan's Normal Retirement Age. In addition, it is quite difficult for employers to increase their Retirement Ages in tandem with Social Security, unless pension law allows higher normal retirement ages than age 65 and relaxes the rules against decreasing benefits.<sup>15</sup> Otherwise, employers will have to calculate 2 separate pension amounts for service before and after each change in the retirement age. This will be very complex. It appears that Congress can increase Social Security retirement ages the easy way, but they won't allow employers to. Finally, decreased Social Security benefits could necessitate changing the nondiscrimination rules to reduce the disparity in benefits.

### **Effects on the Social Security System**

Increasing the Normal Retirement Age would significantly reduce Social Security's long-term deficit and could add additional years of solvency to the trust fund. For example, gradually increasing the NRA to age 70 would solve about half of its financial problems. Increasing the NRA to age 73 would nearly eliminate the deficit.

Increasing the earliest retirement age would reduce outlays (creating more surplus) in the years that it is implemented. It would also solve about 10% of the long-term deficit. This occurs even though the early retirement reductions are actuarially equivalent<sup>16</sup>, because they only compensate for the fact that the recipient gets the benefits for more years. It doesn't compensate for the fact that Social Security will get tax contributions for fewer years.<sup>17</sup> This is particularly significant if the NRA moves to age 70 and the Earliest remains at 62.

Indexing the Normal Retirement Age to increases in longevity (for example, by 1 month every year or two) would

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<sup>13</sup> Retaining older employees could decrease post-retirement health costs, but this would be offset to the extent that Medicare also increases its retirement age. Pension costs could also decrease for employees over the Normal Retirement Age (unless actuarial increases are provided along with accruals).

<sup>14</sup> For example, §1.401-1(b)(1)(i) requires that retirement plans be exclusively for retirement and other incidentals.

<sup>15</sup> See the definition of Normal Retirement Age (65 & 5) in §411(a)(8), the maximum distribution age of 70 for owners in §401(a)(9), the anti-cutback rule in §411(d)(6), and the commencement rules (65 & 10) in §401(a)(14).

<sup>16</sup> Social Security's actuarial reductions are somewhat liberal when interest rates are high.

<sup>17</sup> One way to remedy this is to determine average earnings over 40 years instead of over 35 years, as is currently done. However, Congress might want to allow drop out years for years of pregnancy and child care. There is already a rule for this in certain disability calculations.

keep the system from going out of balance due to longer life spans. Then Congress wouldn't have to continually readdress this painful issue of fixing Social Security every 20 years, unless the economy went sour or birth rates decreased dramatically.

Medicare, on the other hand, is not helped as much by an increase in its Retirement Age. For example, age 70 would reduce Medicare's deficit by only 0.3% of payroll or about 15% of its long-term deficit (Hospital Insurance only). This is because (1) disabled people would continue to get the Medicare benefits anyway and (2) most of HI's expenses are at very old ages. This also points out, however, that most of us are quite healthy between the ages of 65 and 70. Changing just Social Security's NRA to 70 (and not Medicare's) would also help HI's deficit, because Medicare is a secondary payer to employee health plans), but it would be less than the 15% solution cited above.

All the above changes also encourage people to work longer. If the right jobs are available, this could increase the nation's productivity. This in turn increases both FIT and FICA/SECA taxes, which is good for government and can help us either lower taxes or improve other government programs.

### **What Should the Normal Retirement Age Be?**

The last question is "If we do increase the retirement age, what should it be?" Here are some choices.

**Keep the NRA at age 65.** It might be easier to understand this question if we look at extremes. Suppose for example that we lived on average to age 110. If the NRA stayed at age 65, we would receive benefits for 45 years on average, or as many years as we worked. Dependency ratios could be around one (1) worker per beneficiary, which is much worse than today. Thus, the system would be very expensive. In addition, indexed life annuities at age 65 might cost 90% more than they do today. Thus, a funded system would also be very expensive, because we would have to save 90% more over the same 45 year working lifetime to get the same replacement ratios. It's easy to see the financial difficulties with keeping the retirement age fixed at 65 forever.

**Pay Benefits for the Same Number of Years.** Thus, one might consider indexing the retirement age, just like we now index the initial benefit to productivity levels at retirement. One way to do it would be for Social Security to provide benefits for the *same number of years* (i.e., keep the life expectancy at NRA the same). When Social Security was created, life expectancies at 65 were about 12.7 years<sup>18</sup>. If we used this method, the NRA would be around age 72 today. It would have gone up 7 years in 6 decades. In that case, the ratio of workers to beneficiaries would continually go up and thus the costs of our unfunded system would generally decline under this suggestion. Similarly, in a funded system, the costs of buying the indexed annuity would remain the same. However, since it can now be funded over 7 more years (i.e., ages 65 to 72), the annual amount that needs to be saved would continually decrease.

**Keep the ratio of years in retirement to the working lifetime the same.** Another way to index the retirement age would be to determine the age that maintains the same ratio of retirement years to working years. This could be accomplished in several ways. One example would be to divide the life expectancy at NRA by the potential years worked (e.g., the years from age 20 to 65). This would be a compromise between freezing the NRA at 65 (which would dramatically increase costs) and freezing the life expectancy at NRA (which could dramatically decrease costs). In fact, it was recommended by a majority of the members of the 1983 National Commission on Social Security Reform. This idea could stabilize the costs of the system and it wouldn't go out of balance every

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<sup>18</sup> The Trustees' report uses composite life expectancies based solely on the death rates for the year in question. Actual life expectancies (with an assumed mortality improvement) for people living in that year might be more appropriate, especially in a funded system.

year as another deficit year was added to the 75-year projection. If this idea had been used since the creation of Social Security, the NRA would be age 70 now. This is an easy calculation. However, it doesn't reflect whether our health is continuing to improve also. This could be handled by using a health index. For example, we could look at the disablement rates (or some sort of health index) at the NRA and prohibit an increase if the rates (or index) were getting worse. However, this has problems. A health index could be quite subjective and it could trap us into setting different Retirement Ages for men and women, and for different worker classifications, minorities, or income levels. Multiple retirement ages and provisions are some of the reasons the Chilean and other foreign systems were collapsing, so we may not want to open that Pandora's box.

**Maintain Same Cost Levels:** Another method would be to use the calculation of the NRA to maintain a level cost for the system. Other similar methods would be to maintain the same dependency ratio of workers to retirees. In a funded system, it would require an actuarial calculation to maintain the same contribution or savings rate for each person. However, these methods entail a much more difficult calculation, and it would depend on many different assumptions about the future. For example, it could mean that the NRA could go up even if we weren't living longer - for example, if fertility rates declined or if the economy got worse. That might not be appropriate. In fact, it might be more appropriate for those variables to affect the tax rates. For example, if national birth rates decline, then maybe we should contribute more, not raise the retirement age.<sup>19</sup>

## **Conclusion**

Raising the retirement age is a difficult decision and gives us much to consider. We can't move ahead with it unless the people understand Social Security's financial problems and the effects of increasing the Retirement Age. It seems like an obvious fix since people are living so much longer. However, if raising the retirement age does not work because (1) many elderly people can't work longer (because of health reasons or mental inability), or (2) a huge percent just end up with disability benefits, or (3) the elderly can't get a job for lack of demand, or (4) because people perceive too little value for their contributions, then we will need to find other ways to fix Social Security. Whether privatization or focusing more benefits on low income workers (and reducing benefits for higher income workers) will solve the problem is unclear. What is clear however, is that Social Security will cost us a lot more if we cannot increase the retirement age (or decrease benefits). We would suggest that Congress use 1998 to educate the public and sufficiently consider all of ramifications of any possible solution. Once again we commend the subcommittee for taking a leading role in educating the public on a very complex, but important topic.

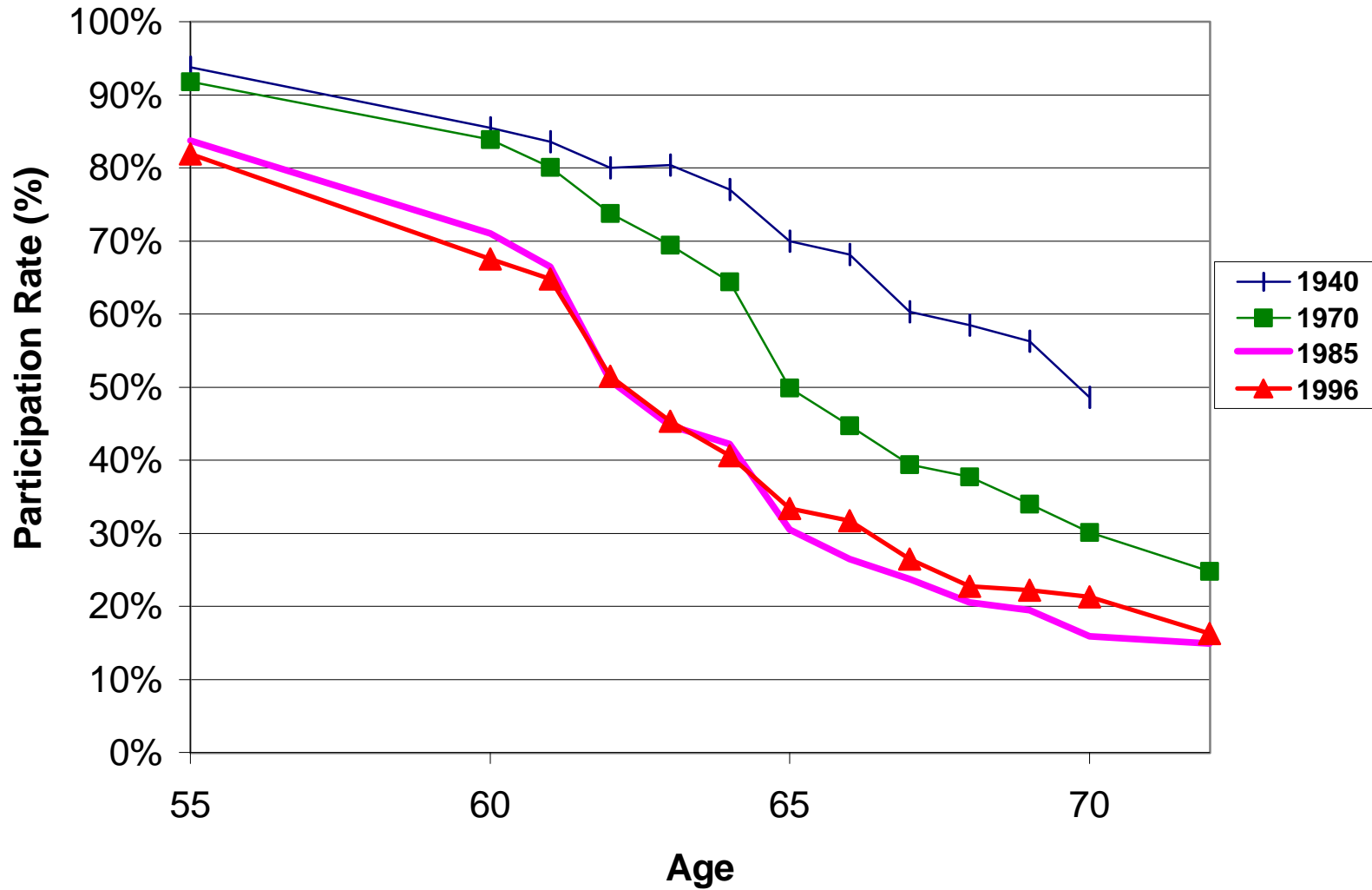
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<sup>19</sup> Congress could index the system now, or wait until the problems occur. If they decided to index, there would need to be rules on how big the problem would have to be before change occurred, and how to phase it in gradually. Changes could be subject to an override by Congress and would need a cap on how much change could occur and how often a change could occur. There are many issues which would have to be worked out on this.

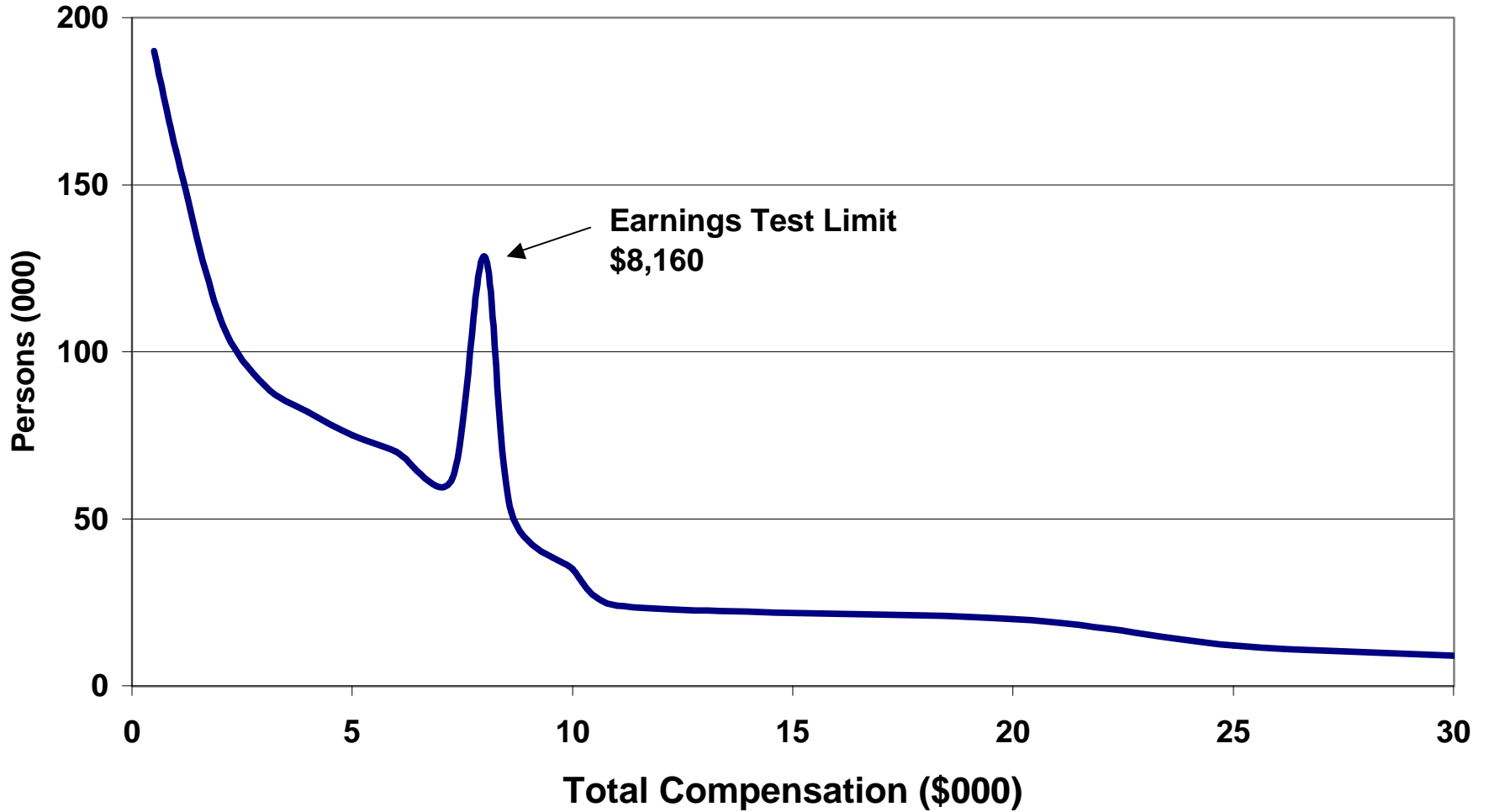
**Chart I - Social Security Retirement Ages  
and Delayed Retirement Credit**

Birth Year	Year Age 62	Delayed Retirement Credit	Normal Retirement Age		Earliest Eligibility Age
			Current Law	1996 Advisory Council	
1933	1995	5.5%	65	65	62
1934	1996	5.5%	65	65	62
1935	1997	6%	65	65	62
1936	1998	6%	65	65	62
1937	1999	6.5%	65	65	62
1938	<b>2000</b>	6.5%	65 2/12	65 2/12	62
1939	2001	7%	65 4/12	65 4/12	62
1940	2002	7%	65 6/12	65 6/12	62
1941	2003	7.5%	65 8/12	65 8/12	62
1942	2004	7.5%	65 10/12	65 10/12	62
1943	2005	8%	66	66	62
1944	2006	8%	66	66 2/12	62
1945	2007	8%	66	66 4/12	62
1946	2008	8%	66	66 6/12	62
1947	2009	8%	66	66 8/12	62
1948	2010	8%	66	66 10/12	62
1949	2011	8%	66	67	62
1950	2012	8%	66	67 1/12	62
1951	2013	8%	66	67 1/12	62
1952	2014	8%	66	67 2/12	62
1953	2015	8%	66	67 2/12	62
1954	2016	8%	66	67 2/12	62
1955	2017	8%	66 2/12	67 3/12	62
1956	2018	8%	66 4/12	67 4/12	62
1957	2019	8%	66 6/12	67 4/12	62
1958	2020	8%	66 8/12	67 5/12	62
1959	2021	8%	66 10/12	67 5/12	62
1960	2022	8%	67	67 5/12	62
1961	2023	8%	67	67 6/12	62
1962	2024	8%	67	67 7/12	62
1963	2025	8%	67	67 7/12	62
1964	2026	8%	67	67 8/12	62
1965	2027	8%	67	67 8/12	62
1966	2028	8%	67	67 8/12	62
1967	2029	8%	67	67 9/12	62
1968	2030	8%	67	67 10/12	62
1969	2031	8%	67	67 10/12	62
1970	2032	8%	67	67 11/12	62
1971	2033	8%	67	67 11/12	62
1972	2034	8%	67	67 11/12	62
1973	2035	8%	67	68	62
1974	2036	8%	67	68 1/12	62
1975	2037	8%	67	68 1/12	62
1976	2038	8%	67	68 2/12	62
1977	2039	8%	67	68 2/12	62
1978	2040	8%	67	68 2/12	62
1979	2041	8%	67	68 3/12	62
1980	2042	8%	67	68 4/12	62
1981	2043	8%	67	68 4/12	62
1982	2044	8%	67	68 5/12	62
1983	2045	8%	67	68 5/12	62
1984	2046	8%	67	68 5/12	62
1985	2047	8%	67	68 6/12	62
1986	2048	8%	67	68 7/12	62
1987	2049	8%	67	68 7/12	62
1988	2050	8%	67	68 8/12	62
1989	2051	8%	67	68 8/12	62
1990	2052	8%	67	68 8/12	62
1991	2053	8%	67	68 9/12	62
1992	2054	8%	67	68 10/12	62
1993	2055	8%	67	68 10/12	62
1994	2056	8%	67	68 11/12	62
1995	2057	8%	67	68 11/12	62
1996	2058	8%	67	68 11/12	62
1997	2059	8%	67	69	62
1998	2060	8%	67	69 1/12	62
1999	2061	8%	67	69 1/12	62
2000	2062	8%	67	69 2/12	62
2001	2063	8%	67	69 2/12	62
2002	2064	8%	67	69 2/12	62
2003	2065	8%	67	69 3/12	62
2004	2066	8%	67	69 4/12	62
2005	2067	8%	67	69 4/12	62
2006	2068	8%	67	69 5/12	62
2007	2069	8%	67	69 5/12	62
2008	2070	8%	67	69 5/12	62
2009	2071	8%	67	69 6/12	62
2010	2072	8%	67	69 7/12	62
2011	2073	8%	67	69 7/12	62
2012	2074	8%	67	69 8/12	62
2013	2075	8%	67	69 8/12	62
2014	2076	8%	67	69 8/12	62
2015	2077	8%	67	69 9/12	62
2016	2078	8%	67	69 10/12	62
2017	2079	8%	67	69 10/12	62
2018	2080	8%	67	69 11/12	62
2019	2081	8%	67	69 11/12	62
2020	2082	8%	67	69 11/12	62
2021	2083	8%	67	70	62

## Chart II - US Labor Force Participation Rates Male

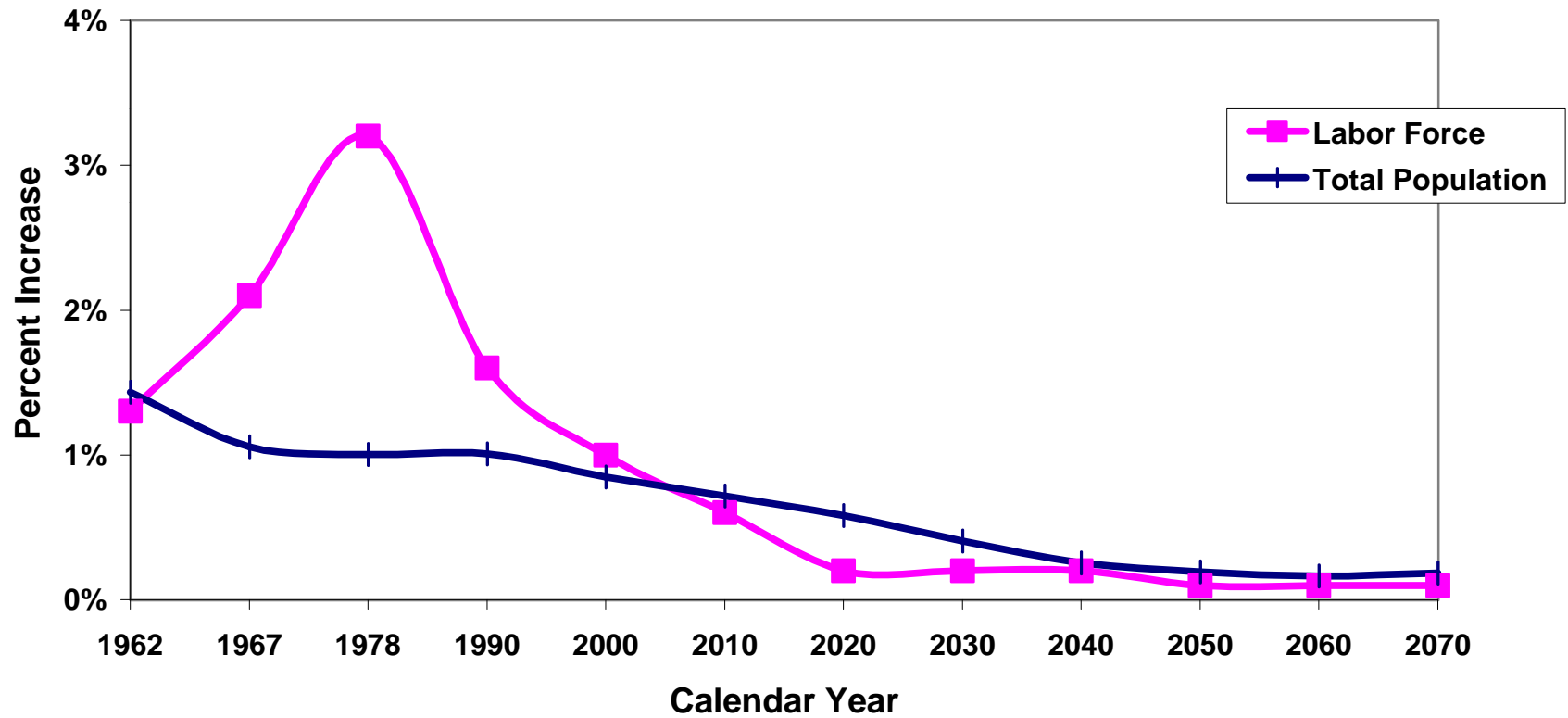


**Chart III - 1988 Retiree Earnings Patterns**  
**OASI Beneficiaries & Fully Insured Workers, Ages 65-69**



Source: Continuous Work History Sample - Leonardo (1991)

### Chart IV - Average Annual Increases in Labor Force and Population



Data Source: 1999 SSA Trustees Report, pages 58 145.

Note: Due to smaller increases in labor force, employers may stop encouraging employees to retire. Unemployment could decrease.