



AMERICAN ACADEMY of ACTUARIES

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October 25, 2010

The Honorable Erskine Bowles, Co-Chair  
The Honorable Alan Simpson, Co-Chair  
National Commission on Fiscal Responsibility and Reform  
1650 Pennsylvania Avenue, NW  
Washington, DC 20504  
[commission@fc.eop.gov](mailto:commission@fc.eop.gov)

Dear Chairman Bowles and Chairman Simpson:

I am writing on behalf of the American Academy of Actuaries<sup>1</sup> (“Academy”) to address one of the key issues that has been under consideration by the Commission: the financial condition of the Social Security system and, more specifically, the potential for increasing the Social Security retirement age. The Academy, which is a non-partisan, professional association representing actuaries from all specialties in the United States, has supported, and for the first time in its 45-year history, advocates for the adoption of an increase in the retirement age  
[\[http://actuary.org/pdf/socialsecurity/statement\\_board\\_aug08.pdf\]](http://actuary.org/pdf/socialsecurity/statement_board_aug08.pdf).

This issue recently has generated strong opinions, and the Academy would like to clarify some of the related issues. This clarification addresses two points:

- The view that an increase in the Social Security retirement age is equivalent to a benefit cut.
- Specific concerns about raising the Social Security retirement age.

The view that an increase in the Social Security retirement age is equivalent to a benefit cut

We certainly understand the perspective of those who say raising the retirement age is simply a benefit cut. But this simple conclusion ignores the highly relevant relationship among retirement age, benefit growth, and retirement security.

When the Social Security retirement age remains fixed over time, increasing life expectancy means a de facto *automatic expansion* of benefits in terms of increasing

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<sup>1</sup> The American Academy of Actuaries is a 17,000-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.

*lifetime* benefits (and, by association, system costs). In other words, while people are retiring at ages that, even after the 1983 reform adjustments, are relatively close to the program's original retirement age, their life expectancy, or longevity, has increased and continues to increase—meaning retirees will be spending more time collecting benefits in the system than prior generations. Increasing the retirement age can contribute significantly to stemming this trend and make the program solvent and sustainable.

Another major factor associated with retirement age is referred to as the “signaling effect.” An increase in the retirement age is intended to help change behavior. Such a change in the retirement age can serve a signaling function and lead workers to delay retirement, a trend that is already underway. For example, if the retirement age is raised by one year, and a worker retires a year later, the worker's annual benefit is approximately the same as if he or she retired a year earlier and the retirement age had not been raised.<sup>2</sup> The combination of the change in retirement age and the change in behavior leaves the retiree with approximately the same degree of retirement security as without those changes. That is the intended effect, which is very different from a direct cut in the benefit formula.

That said, the signaling effect of a change in the retirement age would be more effective if supported, or not contradicted, by other policies, such as private pension plan rules. For example, the Internal Revenue Code prohibits tax-qualified pension plans from using a normal retirement age higher than age 65—delivering mixed signals to many workers. In the interest of consistency in signaling, Social Security, as well as pension plans, could benefit from reinforcement if plan sponsors were allowed to use a normal retirement age equal to that for Social Security.

Finally, it is important to remember that there is general support among proponents of an increase in the retirement age to phase it in gradually over an extended period of years, even decades, to accommodate the changes in retirement behavior that would be needed to make the policy successful.

#### Several specific concerns about raising the Social Security retirement age

Concerns that have been expressed about raising the retirement age include:

- Unequal distribution of longevity gains across the population, with some socioeconomic groups showing much more recent longevity improvement than others;
- Difficulty in continuing to work in occupations that involve physical labor; and
- Greater difficulties that older workers sometimes face in finding jobs.

These are legitimate and important concerns, and the Academy encourages policymakers to seek solutions to address them. But to address them by rejecting an increase in the Social Security retirement age for the entire population would be an extremely costly way to manage these legitimate concerns. More focused policy approaches would be significantly more effective.

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<sup>2</sup> Approximately, though not exactly, the same because of second-order effects such as the change in benefit from the extra year of work.

An example: for certain physically demanding jobs, additional occupational bridge pensions might be part of the solution, perhaps combined with revisions to existing disability programs. Policies to facilitate employment at older ages (such as reductions to the payroll tax at older ages) similarly might be considered.

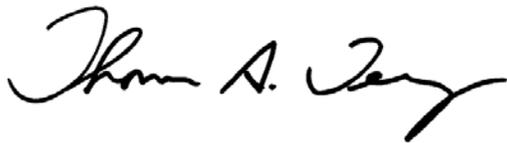
In addition, differences in longevity by socioeconomic groups raise public health issues that warrant attention. It should be remembered that a debate about whether different individuals from different socioeconomic groups are receiving, on average, fair treatment from Social Security needs to incorporate multiple aspects of the program, including the progressivity of the benefit formula, which itself could be modified in conjunction with retirement age changes.

The American Academy of Actuaries supports an increase in the Social Security retirement age as part of a package that would include multiple changes to restore the program's actuarial balance. The Academy offers to assist you in developing changes both within the program and outside of it to address important concerns regarding inequitable or adverse impact on certain populations.

We urge that the actuarial balance of Social Security be restored—the sooner the better. Because of the aging of our population—a product of both increased longevity and lower birth rates—projections show that only about three-quarters of promised benefits would be able to be paid in 2037 if no changes are made to the program. The sooner changes are made, the more gradually they might be phased in, the more time people would have to adapt, and the sooner confidence in this essential program would be restored. Since part of the problem has been demographic, we recommend that part of the solution be demographic as well. An increase in the retirement age is a logical step in light of the aging population with an ever improving longevity rate.

If you have any questions or would like to discuss this matter further, please contact Craig Hanna, the Academy's Director of Public Policy (202.223.8196; [Hanna@actuary.org](mailto:Hanna@actuary.org)).

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas A. Terry". The signature is fluid and cursive, with a long, sweeping underline.

Thomas Terry  
Chair, Public Interest Committee  
American Academy of Actuaries

cc: Commission Members  
Mr. Bruce Reed, Executive Director