American Academy of Actuaries

Essential **Elements**

MAKING COMPLEX PUBLIC POLICY ISSUES CLEAR

Raising the Social Security Retirement Age

Social Security faces a major financial challenge: Projected income over the next 75 years is well short of what will be needed to pay full benefits under the current benefit formula.

Increased longevity means longer retirements and accompanying higher total lifetime benefits. This is one of the roots of Social Security's financial challenge. The American Academy of Actuaries issued a public policy statement in 2008 advocating for an increase in Social Security's normal retirement age (NRA) as part of a package of reforms aimed at restoring the system's long-term financial health.

Such a change has been made before. In 1983, a few years shy of the program's 50th anniversary, legislation was passed calling for a gradual shift in the NRA from age 65 to age 67 (Table 1). Workers still had the option to receive reduced retirement benefits as early as age 62, as they do today, by which monthly benefits are reduced to compensate for the earlier payment and longer payout period. Because this reduction comes close to reflecting the actual cost to the system of retiring early, a change in the earliest retirement age is generally viewed as having a minimal impact on Social Security finances. An increase in the NRA would, however, increase the maximum number of years of reduced benefits, by distancing the age further from age 62 than it is currently.

Table 1

Year of Birth	*NRA*
1937 and earlier	65
1943–1954	66
1960 and later	67

Source: Code of Federal Regulations 20 CFR § 404.409

When Social Security first began paying monthly benefits to retired workers, the remaining life expectancy for retirees at age 65 was 11.9 years for men and 13.4 years for women. By 2019, life expectancies for retirees at age 65 had increased to 18.1 years for men and 20.6 years for women. The normal retirement age, however, had only increased by two years during that same timespan. It has generally been anticipated that this trend toward increased life expectancy will continue, with projections of an additional four years of life expectancy at age 65 in 2090 (Table 2).

Throughout its history, Social Security has for the most part operated as a pay-as-you-go system, with benefit payments for retirees being funded by active workers. Lawmakers in 1983 anticipated a future where retirees would be supported by fewer workers, and so the program was shifted to a

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Potential **Solutions**

partially pre-funded system, meaning that the tax rate was set at a higher level than necessary to meet immediate benefit requirements in order to build up a surplus of funds. Such a surplus would then help cover for the effect of the anticipated increase in the dependency ratio, which is the ratio of workers contributing to the system compared to retirees receiving benefits.

Although there has been a very large buildup of Social Security trust fund dollars since the 1983 changes, recent actuarial projections have indicated that trust funds will be exhausted somewhere between 2032 and 2035. The system would then revert to pure pay-as-you-go financing. Absent further program changes, projected program income is expected to be able to support only about 75% of scheduled benefit levels.

Some reform package, likely including changes to both system benefits and related taxation, will be necessary to ensure system solvency through the 2030s and beyond. Given the key role of longevity in the program's financial story, however, raising the normal retirement age is a likely—perhaps even necessary—component of such a package.

Table 2
Life Expectancy at Age 65

	Men	Women
1940	11.9	13.4
1970	13.1	17.1
2000	15.9	19.0
2019	18.1	20.7
2035	19.1	21.6
2060	20.6	22.9
2090	22.2	24.3

Source: 2021 OASDI Trustees Report

Potential solutions to address the impact of a proposed increase in retirement age on lower-income beneficiaries

- Modifications that would make the benefit formula more progressive
- Addition of a minimum benefit (e.g., one tied to the federal poverty level)
- Excluding/exempting some beneficiaries
- Providing a less restrictive definition of disability for workers at certain older ages
- Expansion of the Supplemental Security Income (SSI) program that provides supplemental benefits to low-income retirees with few financial assets

Longevity expectations, however, are not uniform across the population. Nor are the demands of employment uniform across job sectors and wage classes. Many Social Security reform proposals include modifications that would make the benefit formula more progressive. Many also include the addition of a minimum benefit (which would generally be tied to the federal poverty level). These types of changes could be expected to offset some or all of the benefit reduction impact on lower-wage workers.

Considering Social Security's normal retirement age as it relates to the system's long-term financial health is an important step in determining how to restore the system's long-term solvency.

Academy **Resources**

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Issue brief: *Raising the Social Security Retirement Age*
Web tool: Actuaries Longevity Illustrator
Web app: Social Security Challenge