Actuaries: Let Defined-Benefit Plans Raise Retirement Age to Align with Social Security

WASHINGTON – March 7, 2013 – Raising the maximum allowable normal retirement age in defined-benefit retirement plans would align U.S. pension policy more closely with Social Security’s increasing retirement age and could benefit workers by allowing them to amass more retirement savings, according to an issue brief released today by the American Academy of Actuaries.

The Social Security Amendments of 1983 required the program to raise gradually its normal requirement age – sometimes called full retirement age – from 65 years to 67 years to take into account that Americans are living much longer than they were in 1935, when Social Security was created. But the Employee Retirement Income Security Act (ERISA) prevents sponsors of defined-benefit plans from increasing the retirement age above age 65.

“Aligning the retirement age in private-sector plans with that of Social Security would deliver a clearer message of society’s expectations for retirement and provide a powerful incentive to retire later,” said Donald Fuerst, senior pension fellow at the Academy.

Many working Americans, concerned that they won’t have enough money saved for retirement, might have few options to boost their retirement savings prospects. Retiring at a later age can raise individuals’ standards of living by giving them more time to accumulate additional savings, and allowing them to collect higher monthly payments from Social Security by waiting until they reach the government program’s full retirement age, according to the Academy’s brief.

“ERISA could be changed to allow, but not require, plan sponsors of defined-benefit plans to raise their normal retirement age,” Fuerst said.

Changing the maximum allowable normal retirement age should be a voluntary decision, not a mandate, in order to allow plan sponsors the flexibility of considering the impact of a higher retirement age on their workforces. Some retirement plans, particularly those that benefit blue-collar or lower-wage workers with physically demanding jobs, may choose to maintain the current normal retirement age, the Academy notes. Several options exist to transition defined-benefit plans to a higher normal retirement age over the course of several years, but policymakers must carefully study the effects it will have on both workers and plan sponsors.
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