



Raising Social Security's Retirement Age

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Increasing Social Security's retirement age appears to be gaining political traction. In June 2010, the majority and minority leaders of the U.S. House of Representatives both expressed willingness to raise the retirement age. This would promote work at older ages, improve the system's solvency by shortening retirements and reducing lifetime benefits, and better target benefits to the oldest Americans. It could, however, create hardship for workers with health problems unless Congress improves the disability safety net.

Background

- Retirees are eligible to receive Social Security benefits at age 62, the early entitlement age. However, benefits are reduced for each month that beneficiaries begin collecting before the full retirement age.
- The full retirement age is now 66. It had always been 65, but 1983 legislation raised the age for those turning 62 in 2000 or later. The full retirement age will increase gradually again beginning with those turning 62 in 2017, until it reaches age 67 for those turning 62 in 2022 or later (born in 1960 or later).
- Those retiring at age 62 will receive only 70 percent of their full benefits when the full retirement age is 67, compared with 80 percent for those who retired early when the full retirement age was 65.

Why Raise the Retirement Age?

- **Americans are living longer and spending more time in retirement.**
 - Since 1940, when Social Security began paying monthly retirement benefits, life expectancy at age 65 has increased 5.1 years for men and 6.0 years for women.
 - The full retirement age would have to increase to 73 for adults to have the same expected years of remaining life in retirement today as in 1940.
 - Between 1950 and 2008, the average age of those taking up Social Security retired worker benefits fell from 68.5 to 63.6.
 - With Americans living longer and retiring earlier than in past decades, the average expected length of time that retired worker beneficiaries collect Social Security increased 7 years between 1950 and 2008, to 17.9 years for men and 20.5 years for women.
 - As a result, retirement benefits increasingly go to Americans with many more years to live.
- **Increasing the early entitlement age could encourage people to work longer, boosting future retirement incomes.**
 - The early entitlement age signals a socially acceptable age to retire, and few people can afford to stop working before they receive Social Security.
 - By working longer, people earn more, accumulate more Social Security and pension credits, and shorten the period over which their retirement savings must be spread. On average, working an additional year raises annual retirement incomes by 9 percent.
- **Older Americans are now generally better able to work than in the past.**
 - Between 1983 and 2007, the share of adults age 65 to 74 in fair or poor health declined from 33 to 22 percent.
 - The share of workers in physically demanding jobs declined from 57 percent in 1971 to 46 percent in 2006.
 - Between 1989 and 2009, the share of adults age 55 to 64 who had attended college for four or more years increased from 16 to 32 percent.

- **Raising the retirement age would help close Social Security's long-run financing gap and increase national income.**
 - The Social Security actuaries estimate that increasing the full retirement age to 68 for those turning 62 in 2022 or later would eliminate nearly 29 percent of the 75-year funding gap.
 - By encouraging people to work longer, increasing retirement ages would also boost national output, creating more resources that could be split between workers and retirees. Other fixes to Social Security rely solely on redistributing the resources we already have.

What Are the Potential Drawbacks?

- **Many workers with health problems fall through the holes in the disability safety net, a problem that could worsen if retirement ages increase.**
 - Fewer than half of adults with significant disabilities ever receive any public disability benefits between age 51 and 64.
 - Applicants often wait years for Social Security disability benefits. More than 1 million claims were waiting to be processed in 2010. The average waiting time is 132 days for initial review, plus another 485 days when denied applications are appealed. More than 7 in 10 applications initially denied on medical grounds but appealed were ultimately approved.
 - Nearly a fifth of those who first collect retirement benefits at age 62 report work disabilities.
- **Raising retirement ages, especially the early entitlement age, could harm low-income groups.**
 - Early retirement is an important safety net for low-skilled workers. Poverty rates for those with limited education increase rapidly as they approach age 62, but then decline sharply once they qualify for Social Security retirement benefits.
 - Low-income groups have not experienced much improvement in life expectancy at older ages.
 - However, Congress could protect low-income beneficiaries by increasing the progressivity in other parts of the system, such as by changing the benefit formula.
- **Employers appear reluctant to hire older workers.**
 - Audit studies show that employers are less likely to hire older low-skilled workers than otherwise-identical younger workers.
 - Older laid-off workers spend more time unemployed than their younger counterparts and experience larger wage losses when they become reemployed.
 - Employers may be more willing to hire older workers once the economy recovers, however, as the pool of available younger workers stagnates.

Selected Sources

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