

Should we raise Social Security's earliest eligibility age?

Authors: Alicia Haydock Munnell, Kevin B. Meme, Natalia A. Jivan, Kevin E. Cahill

Persistent link: <http://hdl.handle.net/2345/bc-ir:104499>

This work is posted on [eScholarship@BC](#),
Boston College University Libraries.

Chestnut Hill, Mass.: Center for Retirement Research at Boston College, June 2004

These materials are made available for use in research, teaching and private study, pursuant to U.S. Copyright Law. The user must assume full responsibility for any use of the materials, including but not limited to, infringement of copyright and publication rights of reproduced materials. Any materials used for academic research or otherwise should be fully credited with the source. The publisher or original authors may retain copyright to the materials.

SHOULD WE RAISE SOCIAL SECURITY'S EARLIEST ELIGIBILITY AGE ?

By Alicia H. Munnell, Kevin B. Meme, Natalia A. Jivan, and Kevin E. Cahill*

Introduction

Social Security's Earliest Eligibility Age (EEA) allows one to claim reduced benefits as early as age 62. For full benefits, individuals must wait until the Normal Retirement Age (NRA), which was traditionally 65 but is gradually increasing to 67. So, Americans have a choice to make when they reach their early 60s: claim a reduced Social Security benefit right away or delay until some further date and receive a larger benefit. The reduction for claiming benefits early is designed to be actuarially fair, i.e. monthly benefits are lowered by an amount that offsets the longer period for which they will be received. The total amount that the average person can expect to receive over his or her lifetime thus does not depend on when benefits are claimed.

In recent years some have suggested raising the EEA. Proponents say that such a move could make Social Security a more adequate source of income later in life by preventing people from taking benefits so early that their monthly check is too low. In addition, they say, raising the EEA may encourage people to work longer. Increasing labor force participation among those in their early sixties is possibly the best solution to guaranteeing a more financially secure retirement.

Not everyone is so convinced, though. Opponents claim that many individuals can neither work longer nor save more for retirement. Raising the EEA could impoverish these groups as well as strain social programs like Disability Income (DI) and Supplemental Security Income (SSI) that would likely end up serving more people. Finally, they contend that withholding benefits until a later age hurts those with shorter life expectancies, and shifts more retirement wealth to those with longer lives.

Despite these negatives, raising the EEA may well be desirable policy. But it is a hard sell politically. It does nothing to eliminate Social Security's long-term financing gap and would probably require greater current outlays on

* All the authors are currently or formerly affiliated with the Center for Retirement Research at Boston College. Alicia H. Munnell is the director of the Center and the Peter F. Drucker Professor of Management Sciences at Boston College's Carroll School of Management. Kevin B. Meme is a research associate. Natalia A. Jivan is a graduate research assistant. And Kevin Cahill was formerly the associate director for research. The authors would like to thank Gary Burtless, Peter Diamond, Steven Sass, and Eugene Steuerle for helpful comments on a draft version of the full study from which this brief is derived (Cahill and Munnell 2004 forthcoming). The Center gratefully acknowledges the Russell Sage Foundation for support of the full study.

an issue in brief center for retirement research at boston college

june 2004, number 18

inside

introduction	1
raising the eea: pros and cons	2
future retirement income sources will fall short	3
vulnerable groups and a higher eea	4
financial issues	5
conclusion	8
references	9
appendix	10
table 1. estimated social security replacement rates, 2003 and 2030	3
table 2. representative assets needed at retirement, by retirement age and earnings status, 2003 dollars, 2003 and 2030	4
table 3. predicted ability to work at age 62, takers classified as social security dependent	5
table 4. poverty rates by age, ssd takers who cannot work past age 62	5
table 5. financial condition of american males age 75 and over	6
table 6. estimated change in total social security wealth at age 62 per 100,000 beneficiaries, by gender and race, 2001 ..	7
table a1. probability of working	11

DI and SSI. The best that could be said on the financing side is that it may pave the way for future increases in the Normal Retirement Age, which does improve solvency. Raising the EEA thus is probably a realistic option only as part of a package of other changes that restore financial balance and maintain equity in the Social Security program.

Raising the EEA: Pros and Cons

Proponents of increasing the EEA argue that such a change would safeguard the fundamental purpose of Social Security's Old Age and Survivors Insurance (OASI) program — to counteract myopia and assure an adequate income across an individual's entire old age.¹ The Normal Retirement Age (NRA) for Social Security is currently rising from its traditional age of 65 to 67 for those born in 1960 or later.² This change means that benefits claimed at age 62 will fall from 80 percent to 70 percent of benefits claimed at the NRA.³ This 12.5 percent reduction in monthly benefits can have a profound impact as retirees age, since the elderly tend to spend down their other retirement assets and rely increasingly on Social Security. By keeping the EEA at 62, the program allows workers to elect two more years of retirement today — when they are relatively young and when their non-Social Security retirement incomes are typically at their peak — but at the price of risking very low incomes at the end of their lives. In essence, as life expectancies lengthen, keeping the EEA at 62 shifts more Social Security benefits toward “middle age.”⁴ Raising the EEA to, say, 64 — in step with the two year increase in the NRA — would counteract this shortsightedness and prevent incomes from falling to inadequately low levels. Furthermore, an increase in the EEA would help set the stage for future increases in the NRA, one option for maintaining the solvency of the Social Security program. An EEA of 62 makes any additional increase in the NRA highly unlikely, since a higher NRA would produce an even steeper

reduction in benefits at age 62. A higher EEA would signal that retiring in one's early 60s is no longer economically feasible, preparing the way for a higher NRA.⁵ Of course, any increase in the EEA would need to be implemented slowly, as is being done with the NRA.

Finally, given that Social Security will provide less replacement income in the future than it does today, and that the income provided by employer-sponsored pensions has become less certain with the rise of 401(k) plans, the only way most individuals can secure adequate resources for their retirement is by working longer. The impact of working an additional two years can have a profound impact on the resources available to finance retirement. Opponents of increasing the EEA argue that many individuals are unable to work past age 62, either because they are in poor health, because their jobs are physically demanding, or because they have been displaced later in life and cannot find work. Many of these individuals are dependent on Social Security, and an increase in the EEA would eliminate their only source of income. Opponents also note that raising the EEA is unfair to individuals with shorter life expectancies — particularly blacks and low-income workers. These people are clearly better off claiming benefits as soon as they become available.

Finally, an increase in the EEA does nothing, in and of itself, to improve the financial outlook of the Social Security system as a whole. In fact, such a change may actually increase costs. Programs such as SSI and DI are likely to pick up those who cannot work past 62 or support themselves for the additional two years until they can begin receiving benefits from Social Security.

¹ The Social Security program consists of two separate trust funds, the Old-Age and Survivors Insurance (OASI) Trust Fund and the Disability Insurance (DI) Trust Fund. In addition, the Social Security Administration runs the Supplemental Security Income (SSI) program, although funding for SSI comes from general revenues. Throughout this *brief*, the term “Social Security” refers to the OASI program unless otherwise noted.

² The increase began with individuals born in 1938, for whom the NRA is 65 plus two months, and increases two months per year until it reaches age 66. Then, after a 12-year hiatus, the NRA again increases by two months per year until it reaches age 67 for individuals born in 1960 or later.

³ Benefits are reduced by 5/9th of 1 percent for each month they are received prior to the normal retirement age (NRA) up to 36 months and 5/12th of 1 percent for each month thereafter. This is equivalent to a 6.67 percent reduction for the first three years prior to the NRA and 5 percent thereafter.

⁴ Steuerle and Spiro (1999).

⁵ An increase in the NRA is equivalent to an across-the-board benefit cut. Thus, increasing the NRA should not be thought of as the only approach to maintaining Social Security solvency. There are certainly other (and perhaps more desirable) options, which might give more protection to low earners and widows. For more details on reform options, see Diamond and Orszag (2004).

Future Retirement Income Sources Will Fall Short

The traditional sources of retirement income will not be sufficient for most people in the future. Going forward, Social Security's already modest benefit amounts will decline due to four factors: the scheduled rise in the NRA (equivalent to an across-the-board benefit cut for retirement at any given age), rising Medicare Part B premiums, increased taxation of benefits, and benefit cuts to restore long term balance to the system. The cumulative effect of these four factors will lower the benchmark Social Security replacement rate for average earners who retire at age 65, net of Medicare Part B premiums, from 38.5 percent today to about 26.3 percent by 2030 (Table 1). Average earners who claim benefits at the early retirement age of 62 will see their replacement rate decline from 30.2 to 19.9 percent. Using today's average earnings of \$36,200 as an example, for a 62 year-old retiree, this would yield a monthly cash income of \$600, as opposed to \$911 currently.

Employer-sponsored pensions, too, are becoming less secure. Since the early 1980s, there has been a pronounced shift in coverage away from traditional defined benefit plans towards defined

contribution plans, such as 401(k)s. The key distinction between the two plans is the role individual responsibility plays. In 401(k) plans, participation is voluntary; investment risk is borne by the individual; workers must decide what to do with their balances when they change jobs; and retiring workers need to determine how to convert final balances into a stream of old-age income.

While 401(k) plans can work well in theory, in practice they fall short in many ways.⁶ In 2001, median 401(k)/IRA account balances of households age 55-64 were about \$55,000 — not much to support a couple for 20 years or more in retirement. The reason balances are so low is because workers make poor choices at each step. One-quarter of eligible workers choose not to participate in their plan. Of those who do participate less than 10 percent contribute the maximum. Many workers fail to diversify their assets, over-invest in company stock, and do not rebalance their portfolios as they age. Furthermore, many short-change their retirement assets by cashing out when changing jobs rather than rolling their balances into an IRA or a plan with their new employer.

Individual saving seems unlikely to compensate for the eroding income from Social Security and employer-sponsored pensions. Saving as a percent of personal disposable income, which includes

Table 1. Estimated Social Security Replacement Rates, 2003 and 2030

Development	Percent of Pre-Retirement Earnings			
	Low Earner		Average Earner	
	Retire at Age 62	Retire at Age 65	Retire at Age 62	Retire at Age 65
2003				
Reported replacement rate (RR)	44.5	55.6	33.0	41.3
After Medicare Part B deduction	41.7 ^a	52.8	30.2 ^a	38.5
Net replacement rate	41.7	52.8	30.2	38.5
2030				
RR after extension of Normal Retirement Age	38.7	48.9	28.7	36.3
After deduction for Medicare Part B	35.0 ^a	45.2	25.0 ^a	32.6
After personal income taxation	35.0	45.2	22.8	29.9
After hypothetical 10% benefit cut	31.1	40.3	19.9	26.3
Net replacement rate	31.1	40.3	19.9	26.3

Source: Munnell (2003) and authors' calculations.

^a For the individual retiring at age 62, the Medicare Part B premium will not begin until age 65.

⁶ Munnell and Sundén (2004).

saving in employer plans, declined precipitously — from above 10 percent to just over 2 percent — between 1980 and 2000, a rate not seen since the Great Depression. Saving has increased somewhat in the last year or so, but still remains below 4 percent. This savings rate does not include capital gains but, even after including them, most people end up at retirement with few assets outside of their home and pension.

How will people manage with significantly less retirement income in the future? One obvious answer is working longer. Working longer can have a significant impact on an individual's retirement finances. Social Security benefits will be higher and retirement will be shorter, which makes the starting point for dissaving later. Thus the savings needed at retirement to supplement Social Security can be substantially reduced (Table 2). A higher EEA is likely to keep individuals in the labor force longer, since most people claim benefits and exit the labor force at the same time. The CBO finds that 75 percent of men and 80 percent of women aged 62 and 63 who claimed Social Security retirement benefits were also out of the labor force.⁷ Since about half of all people claim benefits at age 62, raising the EEA could increase labor force participation for about 40 percent (75 percent of 50 percent) of 62 year olds.

Table 2. Representative Assets Needed at Retirement, by Retirement Age and Earnings Status, 2003 Dollars

Retirement Age	Low Earner	Average Earner	High Earner
62	\$58,840	\$155,438	\$267,133
63	48,412	136,055	238,858
64	38,574	117,581	211,744
65	29,354	100,059	185,849
66	20,419	82,940	160,427
67	12,197	66,925	136,424

Source: Authors' calculations based on methodology presented in CBO (2003). Wages for low, average, and high earners are based on the SSA average wage index (AWI) for 2002, which was equal to \$33,477. Low earners have career-average earnings equal to 45 percent of AWI; average earners have career-average earnings equal to 100 percent of the AWI; and high earners have career-average earnings equal to 160 percent of AWI. Base assumptions are as follows: income replacement in retirement is 80 percent of pre-retirement earnings, life expectancy at 62 is 21 years, and the real rate of return on assets is 3 percent. Tax rates are calculated using the National Bureau of Economic Research's TAXSIM model (<http://www.nber.org/~taxsim/taxsim-calc5/>). Social Security benefit amounts are based on earner-specific replacement rates given in SSA (2003a), Table VI.F11.

Vulnerable Groups and a Higher EEA

While working longer is indeed an effective way to improve individuals' retirement income pictures, it is important to look at various groups of the population (especially the most vulnerable) and ask how many people would be affected by a change, and in what way.

Vulnerable Groups and the Decision to Work

Opponents to increasing the EEA argue that many of those that claim benefits at 62 are either dependent on Social Security, would not be able to work longer due to some work-limiting condition, or both. Thus, they maintain that moving back the EEA will harm the most vulnerable. How large of a segment of the population are those who are "Social Security-dependent" (SSD) and unable to work past age 62?

Three studies all find that the majority of workers who claim benefits early have significant non-Social Security income, suggesting that, if the EEA were raised, they could use their own assets during ages 62 and 63.⁸ Among those without alternative income sources, many could remain at work beyond age 62.⁹ Nevertheless, a sizable minority — about 10 percent of early claimers, or 4 percent of all those aged 62 — is in poor health and does not have a source of income, other than work or Social Security, that would keep them out of poverty. These are the people that would be hurt.

We use data from the Health and Retirement Study (HRS) to expand upon these findings. The HRS is a nationally-representative longitudinal sample of Americans aged 51-61 in 1992. It contains detailed information on labor force participation, income, health status, retirement expectations, and perceptions about work and retirement.¹⁰ We split our sample into two groups: those who claim Social Security early ("Takers") and those that do not ("Postponers").¹¹ The Takers are clearly the group we are interested in as they are the ones who would be affected by raising the EEA. In

⁷ CBO (1999).

⁸ See Burkhauser, Couch, and Phillips (1996); CBO (1999); and Panis, et al. (2002).

⁹ Steuerle, et al. (1999).

¹⁰ More on the HRS can be found in the Appendix.

¹¹ Takers include those who claim benefits at either age 62 or 63, but for simplicity throughout the rest of this study we refer only to age 62.

our sample, a little more than half of all individuals can be classified as Takers. About three-quarters of these Takers have enough other financial resources beyond Social Security to fall back on so that they could still retire early if they wanted. And, in return for waiting until 65 to claim Social Security, they would have higher monthly benefits throughout the rest of their retirement. Although the higher EEA would limit flexibility in choosing one's retirement age, we see this change as a clear gain since retirees would receive a higher benefit that is guaranteed and inflation-proofed for life.

The remaining one-quarter of Takers receive 80 percent or more of their income from Social Security. We call these people "Social Security Dependent." This group would clearly be affected by a higher EEA — especially if they were not able to work.¹² Using a regression equation, we estimate the probability of HRS respondents being employed based on a number of factors, including educational attainment, health status, and the physical demands of previous jobs. We find that the majority of SSD Takers are able to work past age 62, but about 26 percent of men and 34 percent of women are not (Table 3).¹³

Table 3. Predicted Ability to Work at Age 62^a, Takers Classified as Social Security Dependent

Ability to Work	Male Takers	Female Takers
Able to work	68.4%	64.3%
Not able to work	26.3	33.5
Undetermined	5.3	2.3

Source: Authors' calculations based on the Health and Retirement Study matched to restricted Social Security administrative data.

^a Ability to work is estimated based on a linear probability model with health status, physical job, and an interaction term on the right-hand side. Table 6 presents the coefficient estimates.

For those SSD Takers who could continue to work, a higher EEA would eliminate the opportunity for them to retire at 62, but it would also improve their long-term financial situation. Each year of delayed retirement increases monthly Social Security benefits in two ways. Wages later in life can be used to fill in any gaps in the person's earnings history or to substitute for lower wages earlier in life. This can be particularly important for women, who typically retire with fewer than the 35 years of earnings included in the Social Security

benefit calculation. In addition, a higher EEA prevents individuals from accepting monthly benefits that are substantially reduced due to the actuarial reduction. The net result is that if these individuals delay benefit receipt until age 64, their poverty rate at age 67 drops by 4 percentage points (20.3 percent for those who retire at 62 versus 16.2 percent for those who retire at 64). The financial outlook of these retirees becomes even better if they work until age 67. In this case, poverty at that age drops to about 11 percent.

In contrast, those SSD Takers who cannot work would face serious hardship for a few years; for example, their poverty rates would soar (see Table 4, middle column). However, by age 65, poverty rates would actually be lower for this group than they would be under current law due to the higher monthly benefits that they would receive (see Table 4, last column).

Table 4. Poverty Rates by Age, SSD Takers Who

Earliest Eligibility Age	Age		
	61	63	65
62 - Current law	50.4%	40.8%	39.4%
64 - Proposed	50.4	56.6	34.9

Source: Authors' calculations based on the Health and Retirement Study matched to restricted Social Security administrative data. Ability to work is estimated based on multivariate linear probability model with health status, physical job, education and interaction terms on the right-hand side (see Table 4 and Table 5 for details). Poverty rates are based on income derived from Social Security, private pensions, assets, and social programs such as DI and SSI.

Three key findings emerge from this analysis. First, the size of the most vulnerable group is very small — about 4 percent of all individuals aged 62. Second, this group would experience negative effects only for a short time; indeed, in the long run, many of them would be better off. And, third, ensuring that these individuals could cover basic living expenses between ages 62 and 64 would require an expansion of social programs such as DI or SSI.

¹² This cutoff is consistent with findings from other sources: CBO (1999) and Grad (2002).

¹³ See Appendix for details on the model, and for regression results.

The Impact of a Higher EEA on the Oldest Old

Another way to assess the impact of a shift in the EEA is to look at the oldest old. A higher EEA would increase incomes among this group, primarily by preventing workers from locking into very low monthly benefits at the early retirement age. The actuarial reduction in benefits plays a key role in the well-being among the oldest old since Social Security benefits become increasingly important as retirees age. In 2000, for example, Social Security accounted for 28 percent of income among 65-69 year olds, but 57 percent of income among individuals 85 years and older.¹⁴ If the EEA remains at 62, however, longer life expectancies will mean that benefits will be more evenly distributed across an individual's lifespan rather than concentrated at the end of life.

Data from the Asset and Health Dynamics of the Oldest Old (AHEAD) survey, a nationally-representative dataset of Americans born between 1890 and 1923, provides information on retirees age 75 and older in 1998. We divide the AHEAD sample into those who worked since age 62 and those who did not. We find that men who did not work since age 62 have lower Social Security benefits, lower levels of financial wealth, and were more likely to be receiving SSI (Table 5).¹⁵ The descriptive results are

Table 5. Financial Condition of American Males Age 75 and Over

Retirement Outcome	Exit at, or prior to, 62	Work since 62
Percent who:		
Expect financial help from friends or family	7.9	10.3
Receive SSI	6.2	3.8
Own their own home	77.4	76.2
Social Security income (monthly)	\$700	\$800
Financial wealth	\$25,000	\$41,250
Sample size	261	876

Source: Authors' calculations based on the HRS. (HRS and AHEAD individuals were interviewed at the same time in 1998).

^a Respondents in the AHEAD sample were aged 75 years and older at the time of the 1998 survey.

¹⁴ Grad (2002).

¹⁵ These results do not prove causation. For example, it may be that males who are less successful retire earlier, and thus those who work longer are inherently more financially secure. This correlation effect is likely the case for females, whose results seem to tell the opposite story from the data for males, i.e.,

consistent with the story that work at older ages provides for a more secure future into the latest stages of retirement.

As Social Security replacement rates decline and income from employer plans and individual saving becomes increasingly uncertain, especially toward the end of life, allowing workers to continue claiming benefits at age 62 risks a sharp increase in poverty at older ages. This outcome could easily lead to a significant expansion of SSI benefits, further stressing the government's social welfare budget.

The Equity Issue

Finally, when analyzing the impact of a higher EEA on various groups, there is an important equity issue that must be taken into consideration. Raising the EEA means that early claimants with shorter-than-average life expectancies will experience a reduction in benefits received over their lifetimes. Their "Social Security wealth" — the present value of their expected stream of benefits — goes down because they will not live long enough to have the higher monthly benefits, which begin at 64, make up for the loss of benefits at ages 62 and 63.

Consider the example of a single individual, with a history of average earnings. Assuming a 3 percent real rate of return on assets, if the worker claims benefits at age 62 and dies on his 64th birthday, his Social Security wealth is \$21,787. If the EEA were raised to age 64, his Social Security wealth would be zero. For people who live to be 90, their Social Security wealth would be greater if they postponed benefit receipt to age 64. The present value of lifetime benefits is \$226,526 for the age-64 claimer compared to \$216,241 if benefits were claimed at 62. More generally, anyone who dies before age 79 (the "break-even" life expectancy) would receive more in Social Security wealth by claiming benefits early; anyone who dies later would be better off postponing. A person who dies at age 79 would receive the same amount of Social Security wealth regardless of when they claimed.

Given the different life expectancies across gender and race in the United States, different groups can expect an increase in the EEA to produce different gains and losses of Social Security wealth with a high degree of certainty. Table 6 estimates these changes in total Social Security wealth at age 62, per 100,000 beneficiaries, using two different discount rates.

women working after age 62 are worse off financially than those who are not working. We believe this says more about the *types* of women who remain in the labor force than about the impact of work on income later in life. Perhaps women who continued to work were single or widowed with few alternative sources of income, while those who did not work were married or more financially secure.

Table 6. Estimated Change in Total Social Security Wealth at Age 62 per 100,000 Beneficiaries, by Gender and Race, 2001

Gender and Race	Discount Rate	
	3.0	4.0
Males		
White	+0.4	-1.0
Black	-1.5	-3.0
Females		
White	+2.1	+0.7
Black	+1.0	-0.4

Source: Authors' calculations for average earners. Average earners have career average earnings equal to the SSA average wage index. Monthly Social Security benefits are equal to \$922 if they are claimed at age 62 and equal to \$1,074 if they are claimed at age 64. Aggregate Social Security wealth is the sum across all ages of a worker's benefit discounted at 3.0 (4.0) percent and multiplied by life expectancy at that age. Mortality rates at each age are from the 2001 United States Life Tables in Arias (2004).

Such knowledge of an inequitable outcome across different groups makes it difficult to enact legislation to increase the EEA. However, this impact should be considered in the context of the entire Social Security program. Many of those who would be hurt by a higher EEA tend to have lower earnings. As such, they gain from the progressivity of the Social Security benefit formula, which awards proportionately greater benefits to low earners.

Financial Issues

Raising the EEA brings up two important financial issues. The first is whether enacting an increase would have any effect on the financing of the Social Security program as a whole. The second is the question of what new financial obligations would have to be taken on to deal with the groups that would be adversely affected by an increase in the EEA.

Raising the EEA Does Not Improve Social Security Financing

Raising the EEA does not help the OASI program. This should not be surprising given that benefits are actuarially reduced to keep lifetime payments constant, on average, regardless of when they are claimed.

This intuitive result was documented in a recent study that considered two behavioral responses to calculate the impact on the OASI program of raising the EEA by one year, from 62 to 63.¹⁶ The authors assumed that all workers who claim at age 62 under current law instead claim at age 63. They then modeled the two extreme responses: that no one works the additional year and that everyone works the additional year.

They estimated that continued employment would allow Social Security to receive additional payroll taxes equal to 0.66 percent of lifetime benefits for men and 0.40 percent for women. But more work means that many beneficiaries will have higher average earnings, which will raise benefits. The combined effect of the additional payroll taxes and the change in lifetime benefits results in a net loss for men of -0.82 percent and a gain for women of +0.80. Considering men and women together, the overall effect on the OASI fund is virtually zero.¹⁷

Increased Cost to Support Vulnerable Groups

Given the extremely high poverty rates for SSD Takers who cannot work, raising the EEA would also require additional finances to improve their condition. Two social programs, Social Security DI and SSI, are currently in place and could provide a safety net for these individuals. The DI program pays benefits to disabled workers and their families; the SSI program provides benefits for the blind and disabled and the elderly (aged 65 and older) with very low incomes and virtually no assets (less than \$2,000 for an individual and \$3,000 for a couple).¹⁸ If the EEA were raised to 64, older workers who are unable to work past age 62 could apply for DI benefits.¹⁹ Of course, they might not get DI benefits at age 62 either because of delays in determining eligibility or because they are not classified as disabled according to existing program

¹⁶ Panis, et al. (2002).

¹⁷ It should also be noted that additional years of work will add some amount of tax revenue not only to Social Security and Medicare, but to federal income tax collections, state tax revenues, etc. These additional taxes certainly add up to additional funds that may be spent in a variety of ways.

¹⁸ Assets include cash holdings, real estate other than the individual's primary residence, and other assets, including stocks and bonds.

¹⁹ Older workers who were on DI prior to age 62 would presumably continue receiving DI benefits until the new EEA.

rules.²⁰ To broaden the current safety net, Congress could change the law and allow low-income individuals to claim SSI old-age benefits at age 62.²¹

Both options require increased public expenditures. One study estimates that the net change in OASDI spending from an increase in the EEA, primarily an increase in DI, would be about \$9 billion a year.²² Assuming that 4 percent of 62 year olds would require SSI benefits, beyond the assistance offered by DI, the cost of the expanded safety net would rise by another \$1.4 billion.²³

Conclusion

A higher EEA, by increasing the labor force participation of older workers, could have substantial benefits with respect to retirement income policy. More work means more income from earnings and shorter retirements to finance out of Social Security and private resources.

Critics charge that many households would be ill equipped to deal with a higher EEA. But we find that most of these Social Security-dependent people can work longer. Yet, about 30 percent of the Social Security Dependent population — or 4 percent of each age cohort — would need assistance from some other program such as DI or SSI.

A higher EEA would reduce lifetime Social Security wealth for those with lower-than-average life expectancies. Since blacks and low-wage workers have lower-than-average life expectancies, a higher EEA might be considered unfair. Nevertheless, this argument frames the debate in a rather narrow way, given that the progressive nature of Social Security in general is beneficial to low earners and the short-lived (who benefit from early survivors' and DI pensions).

On balance, an increase in the EEA might be a good idea from a retirement-income perspective. But it is a tough sell politically, particularly given that it does nothing to improve Social Security's long-term financial picture. It might become a more realistic option as part of a package of other changes to restore financial balance to the Social Security program. For example, raising the EEA might be considered in conjunction with some change to Social Security's progressive benefit formula that boosts replacement rates for low-wage individuals. The way in which a higher EEA might be implemented is important as well. It must be done gradually in order to give people enough time to alter their career and savings plans.²⁴ A logical approach is to have the EEA mimic the already-legislated increase in the NRA.

²⁰ Some applicants will apply for DI and be denied benefits, and this process may entail lost earnings because of the program's five-month waiting period.

²¹ In addition, both the DI and SSI programs are linked to other federal health insurance programs, which would further dampen the impact of increasing the EEA. Most SSI recipients are currently eligible for Food Stamps and Medicaid benefits, while DI beneficiaries qualify for Medicare benefits, with a two-year waiting period.

²² See Panis, et al. (2002) and SSA (2003c).

²³ This cost estimate is based on the size of the age 62 and age 63 population as reported by Census (2003) and the 2003 SSI payment rates reported by the Social Security Administration (2003b). As with DI enrollment, there would be additional costs to an expanded SSI program due to increased eligibility for Medicaid benefits.

²⁴ In comments on an earlier draft, Eugene Steuerle suggested that it would also be logical to institute a project of detailed data gathering as any increase was phased in, to evaluate the change as it happens.

References

- Arias, Elizabeth. 2004. "United States Life Tables, 2001." *National Vital Statistics Reports* 52, no. 14. [Available at: http://www.cdc.gov/nchs/data/nvsr/nvsr52/nvsr52_14.pdf].
- Burkhauser, Richard V., Kenneth A. Couch, and John W. Phillips. 1996. "Who Takes Early Social Security Benefits? The Economic and Health Characteristics of Early Beneficiaries." *The Gerontologist* 36, no. 6: 789-799.
- Cahill, Kevin E. and Alicia H. Munnell. 2004 forthcoming. "What Would Be the Effect of Raising the Earliest Eligibility Age for Social Security?" New York: Russell Sage Foundation.
- Congressional Budget Office. 1999. *Raising the Earliest Eligibility Age for Social Security Benefits*. Washington, D.C.: U.S. Government Printing Office.
- Congressional Budget Office. 2003. *Baby Boomers' Retirement Prospects: An Overview*. Washington, D.C.: U.S. Government Printing Office.
- Diamond, Peter A., and Peter R. Orszag. 2004. *Saving Social Security: A Balanced Approach*. Washington, D.C.: Brookings Institution Press.
- Grad, Susan. 2002. "Income of the Population 55 or Older, 2000." SSA Publication No. 13-11871. Washington, D.C.: Social Security Administration, Office of Research, Evaluation, and Statistics.
- Juster, F. Thomas and Richard Suzman. 1995. "An Overview of the Health and Retirement Study." *Journal of Human Resources* 30, no. 5: S7-S56.
- Munnell, Alicia H. 2003. "The Declining Role of Social Security." Issue in Brief 6. Chestnut Hill, MA: Center for Retirement Research.
- Munnell, Alicia H., and Annika Sundén. 2004. *Coming Up Short: The Challenge of 401(k) Plans*. The Brookings Institution Press.
- Panis, Constantijn, Michael Hurd, David Loughran, Julie Zissimopoulos, Steven Haider, Patricia St. Clair, Delia Bugliari, Serhii Ilchuk, Gabriela Lopez, Philip Pantoja, and Monika Reti. 2002. "The Effects of Changing Social Security Administration's Early Entitlement Age and the Normal Retirement Age." Report conducted by RAND for the Social Security Administration (June).
- Steuerle, C. Eugene, and Christopher Spiro. 1999. "Adjusting for Life Expectancy in Measures of Labor Force Participation." *Straight Talk on Social Security and Retirement Policy* 10. Washington, D.C.: Urban Institute. [Available at: <http://www.urban.org/url.cfm?ID=309271>].
- Steuerle, C. Eugene, Christopher Spiro, and Richard W. Johnson. 1999. "Can Americans Work Longer?" *Straight Talk on Social Security and Retirement Policy* 5. Washington, D.C.: Urban Institute. [Available at: <http://www.urban.org/url.cfm?ID=309228>].
- U.S. Bureau of the Census. 2003. *United States: 2000 — Summary Social, Economic, and Housing Characteristics*. PHC-2-1 (July). Washington, D.C.: U.S. Government Printing Office. [Available at: <http://www.census.gov/prod/cen2000/phc-2-1-pt1.pdf>].
- U.S. Social Security Administration. 2003a. *The 2003 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*. Washington, D.C.: U.S. Government Printing Office. [Available at: <http://www.socialsecurity.gov/OACT/TR/TR03/tr03.pdf>].
- U.S. Social Security Administration. 2003b. *SSI Monthly Statistics*. [Available at: http://www.ssa.gov/policy/docs/statcomps/ssi_monthly/2003-10/index.html#editions].
- U.S. Social Security Administration. 2003c. *Understanding the Benefits*. [Available at: <http://www.ssa.gov/pubs/10024.html#rates>].a

Appendix. Modeling the Decision to Work

In order to assess the set of factors that are expected to influence the work decision, we use a linear probability model. The model estimates the probability of being employed based on data in which the person chooses whether to work at time t , based on a set of individual characteristics. We are no longer looking just at 62 year olds, but at the work status of each respondent in each of the first five waves of the HRS.²⁵

The model is as follows:

$$w_{it}^* = \alpha + \beta_1 H_{it} + \beta_2 P_{it} + \beta_3 E_{it} + \beta_4 (H_{it} * P_{it}) + \beta_5 (H_{it} * E_{it}) + \beta_6 X_{it} + v_i + \varepsilon_{it}$$

Observations are person-year; i is an indicator for the respondent and t is an indicator of time. The dependent variable, w , is equal to 1 if the individual is working at time t and equal to zero otherwise. H_{it} indicates whether the respondent has a work-limiting condition; P_{it} is an indicator for whether a respondent's current or previous job was physically demanding; and E_{it} is a measure of educational attainment. The interaction term between a work-limiting condition and a physically-demanding job ($H_{it} * P_{it}$) allows health status to be more influential for individuals in jobs that require significant physical effort. Similarly, the interaction term between work-limiting condition and education ($H_{it} * E_{it}$) implies that health status may have more influence on work status if education levels are low, since it may be much harder to find alternative forms of employment. The final variables are X_{it} , a vector of other variables believed to predict work status (e.g., financial wealth); v_i , an individual-specific component of the error term assumed to be uncorrelated with the vector of explanatory variables; and ε_{it} , a "white-noise" error term.

The results of the multivariate estimation reveal that the dominant predictors of labor force exit are the existence of a work-limiting condition and the interaction terms (Table A1). An individual with a work-limiting condition is about 23.8 percentage points less likely to be working than otherwise similar individuals. If the respondent also worked in a physically-demanding job, the probability of working is reduced by another 3.1 percentage points, all else equal. And if the respondent with a work-limiting condition does not have a high school degree, the probability of working is lowered by an additional 10.8 percentage points.

²⁵ The HRS is a nationally-representative data set of about 12,600 individuals from about 7,600 households. The sample consists of individuals aged 51-61 in 1992 and their spouses, with the first interview taking place in 1992 and subsequent interviews taking place every other year. Currently, six waves of data are available, from 1992 through 2002. More information is available at: <http://hrsonline.isr.umich.edu/>. Juster and Suzman (1995) also offer a detailed overview of the survey.

Table A1. Probability of Working

Independent Variable	<u>Specification #1</u>		<u>Specification #2</u>	
	Coefficient	t-tatistic	Coefficient	t-statistic
Age				
<60	-----	-----	-----	-----
60-61	-.089	-15.55	-.092	-14.07
62	-.217	-21.10	-.227	-19.13
63-64	-.287	-33.79	-.296	-30.53
65+	-.392	-51.41	-.397	-45.13
Work-limiting condition	-.238	-13.99	-.230	-11.81
Physical job	.021	4.82	.017	3.46
Education:				
< 12 years	-.016	-3.02	-.032	-4.84
12 years	-.017	-4.01	-.025	-4.82
>12 years	-----	-----	-----	-----
Work-limiting condition and:				
Physical job	-.052	-3.85	-.052	-3.40
Education <12 years	-.108	-5.03	-.132	-5.41
Education 12 years	-.020	-1.03	-.027	-1.26
Female			-.061	-13.59
Race:				
White			.011	1.45
Black			.008	0.92
Earnings				
low wage			.020	3.58
high wage			-.024	-3.77
Financial wealth			-.00005	-1.64
Social Security wealth			-.0014	-3.65
Constant	.941	319.35	.997	105.63
R-squared	.222		.232	
Sample size	36,431		27,547	

Source: Authors' calculations based on the Health and Retirement Study matched to restricted Social Security administrative data.

center for retirement research at boston college

About the Center

The Center for Retirement Research at Boston College, part of a consortium that includes parallel centers at the University of Michigan and the National Bureau of Economic Research, was established in 1998 through a grant from the Social Security Administration. The goals of the Center are to promote research on retirement issues, to transmit new findings to the policy community and the public, to help train new scholars, and to broaden access to valuable data sources. Through these initiatives, the Center hopes to forge a strong link between the academic and policy communities around an issue of critical importance to the nation's future.

Affiliated Institutions

American Enterprise Institute
Massachusetts Institute of Technology
Syracuse University
The Brookings Institution
Urban Institute

Contact Information

Center for Retirement Research
Boston College
Fulton Hall 550
Chestnut Hill, MA 02467-3808
Phone: (617) 552-1762
Fax: (617) 552-1750
E-mail: crr@bc.edu
Website: <http://www.bc.edu/crr>

All of our publications are available on our website:
www.bc.edu/crr