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CAN WORKERS OFFSET SOCIAL SECURITY CUTS BY WORKING LONGER?

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As a result of legislation enacted in 1983, the eligibility age for full Social Security retirement benefits is in the process of increasing from 65 to 67. Even before this increase is fully phased in, proposals to further increase the retirement age are again on the table. Many policymakers and pundits, including the co-chairs of President Obama's National Commission on Fiscal Responsibility and Reform, subscribe to the belief that the retirement age should be raised and that older workers can offset this and other benefit cuts by working longer. Advocates of raising the retirement age argue that only a small group of older workers would be harmed and that hardship exemptions can be put in place to protect vulnerable workers. This briefing paper explains why a further increase in the retirement age is another benefit cut that would impose significant additional hardship on many older workers, and analyzes why it is unlikely that effective policies could be implemented to shield these workers.

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The briefing paper begins by exploring the effects of the ongoing increase in the full retirement age from age 65 to 67 and examines when workers actually apply for Social

Security benefits and retire. It then presents arguments in support of raising the retirement age, and considers demographic and economic trends that tend to undercut these arguments. It follows this with an analysis of the barriers to continued employment confronting older Americans, including poor health, physically demanding jobs and/or jobs with difficult working conditions, uncertain employment prospects, and caregiving responsibilities. It concludes by explaining why hardship exemptions are unlikely to shield vulnerable workers from the negative consequences of raising the retirement age.

Summary of findings

Continuing to work is not an easy option for older workers, many of whom have difficult jobs or retire sooner than planned due to job loss, illness, or the need to care for a sick family member:

- Poor health remains a significant barrier to continued employment for older Americans. Roughly 20–30 percent of Americans in their 60s have a health problem that limits their ability to work or to perform basic physical tasks.
- Many older workers continue to work in physically demanding or difficult jobs. According to recent studies, 45 percent of workers age 62 to 69 have physically demanding jobs or work under difficult conditions, and an even greater share have jobs that require at least sporadic physical effort.
- An estimated 20 percent of older adults provide unpaid care to a frail senior or other adult, according to one study.
- The argument that most workers can offset cuts by working longer assumes there are jobs for these additional older workers, including those who are laid off or otherwise find themselves unemployed. Returning to work is a particular challenge for unemployed older workers, who are likely to be out of work longer than prime-age workers and to experience larger pay cuts if they manage to find jobs.
- About 40 percent of workers retire earlier than planned due to poor health, caregiving responsibilities, job loss, or similar reasons.

Proponents also assert that hardship exemptions can be put in place to protect vulnerable workers. However, past experience and the nation's current contentious political environment do not support the claim that effective hardship exemptions, even if theoretically possible, are politically feasible:

- Previous studies using restrictive definitions have found that 1 in 10 older workers would be at risk of facing hardship from an increase in the retirement age. This briefing paper estimates that the share at risk would probably be closer to 1 in 2 older workers.
- Offsetting the impact of retirement age increases with hardship exemptions, if done properly, would be expensive, and much or perhaps all of the potential savings to Social Security from raising the retirement age would evaporate.
- Nothing has been done to offset hardships arising from retirement age increases enacted in 1983. At that time, Congress charged the Social Security Administration (SSA) with studying what would happen if the full retirement age increased above 65. Though SSA concluded that a significant problem would exist—finding about 30 percent of new retirees to be at risk—no legislative efforts ensued.

Effects of the ongoing increase in the full retirement age from 65 to 67

The 1983 amendments to the Social Security Act legislated a gradual increase in the full retirement age, from age 65 for workers born in 1937 or earlier, to 66 for those born from 1943 to 1954, and to 67 for those born in 1960 or later. (In the intervening years—1938 through 1942, and 1955 through 1959—the retirement age increases by two months per year.) These increases amount to a roughly 7 percent benefit cut for persons born from 1943 to 1954, and a 13 percent cut for those born in 1960 or later.[1]

As the full retirement age[2] increases, workers covered under Social Security can still accept retired worker benefits at any age from age 62 onward, though their benefits will be smaller if they accept them before the full retirement age. For example, for workers first receiving benefits when they turn 62:

- Those starting their benefits in 1999 (with a full retirement age of 65) received 80 percent of the full benefit.
- Those starting their benefits in 2005 (with a full retirement age of 66) received 75 percent of the full benefit.
- Those starting their benefits in 2022 (with a full retirement age of 67) will receive 70 percent of the full benefit.

In the same vein, workers who apply for benefits at age 65 receive a benefit that is roughly 93 percent of the full benefit, now that the full retirement age has increased from 65 to 66. When the full retirement age increases to 67, those who apply at age 65 will receive a benefit equal to roughly 87 percent of the full benefit (SSA 2010).

When do workers actually apply for benefits and retire?

For the past three decades, the vast majority of applicants for retired worker benefits have applied prior to the full retirement age and, as a result, have accepted permanent reductions in their Social Security benefits. According to the authors' analysis of SSA data (2012a), in 2010 nearly three-fourths (72 percent) of new beneficiaries, or roughly 1.9 million out of 2.6 million persons, accepted retired worker benefits before the full retirement age, and nearly half (46 percent) accepted retired worker benefits at the earliest eligibility age of 62.

Not all of the workers claiming retirement benefits before the full retirement age, however, are retiring completely from work. Many people use retirement benefits to supplement income from a full- or part-time job and therefore are not "retired" in the conventional sense. The average retirement age—the age when half of nondisabled workers have left the labor force—is now 65.5 (Morrissey 2011b). Both the "official" full retirement age of 66 and the effective retirement age of 65.5 are already higher than the average retirement age in Canada and most of Western Europe (OECD 2011).

Current proposals to further raise the retirement age

Although the retirement age changes enacted in 1983 will not be fully implemented until 2027, proposals to raise the Social Security retirement age even further are squarely on the public agenda. Most prominently, the co-chairs of President Obama's National Commission on Fiscal Responsibility and Reform, Erskine Bowles and Alan Simpson, called for indexing the full retirement age to longevity gains once the increase to age 67 is fully phased in; this change would fix the ratio of work years to retirement years (National Commission on Fiscal Responsibility and Reform 2010). As a result, the full retirement age would reach 69 by around 2070 (Ruffing and Van de Water 2011). A Bipartisan Study Center task force headed by former Senator Pete Domenici and former Federal Reserve Vice Chair Alice Rivlin made a similar recommendation (Bipartisan Policy Center 2010).[3]

A number of policymakers and would-be policymakers, including presidential candidate Mitt Romney, House Speaker John Boehner, House Budget Committee Chairman Paul Ryan, and Senators Tom Carper, Dick Durbin, Diane Feinstein, Joe Lieberman, Lindsey Graham, Kay Bailey Hutchison, Mike Lee, and Rand Paul, have weighed in supporting retirement age increases (Strengthen Social Security 2012; Wereschagin and Zito 2010; Goss 2008; Bolton 2011; Durbin 2010; Goss, Wade, and Chaplain 2011). Senators Graham, Paul, and Lee proposed raising the full retirement age to 70 by 2032 and then indexing it to longevity, a move that would cut benefits 29 percent by 2080 (Goss, Wade, and Chaplain 2011).

Arguments in support of increasing the full retirement age

Proponents of increasing the full retirement age maintain that it is a practical and fair way to improve Social Security's financing. They argue that retirement age increases are warranted by past and projected increases in life expectancies at older ages, improved health of the older population, a decline in the share of jobs requiring physical labor, and the need to reduce the federal deficit or address projected financial shortfalls in Social Security (American Academy of Actuaries 2010; National Commission on Fiscal Responsibility and Reform 2010; Committee for a Responsible Federal Budget 2010; Gale 2010; Johnson 2011; Rivlin and Kingdon 2008; also see discussion in Ghilarducci 2008). Some proponents also argue that raising the full retirement age may actually improve the overall economic circumstances of some older persons, despite the fact that it is equivalent to an across-the-board cut in benefits (Butrica, Smith, and Steuerle 2006).[4]

The focus on longevity gains is misplaced, since these account for only one-fifth of Social Security's projected shortfall. The main causes, rather, are slow and unequal wage growth and a decline in fertility (Morrissey 2011b). Moreover, economic growth has always far outpaced increases in life expectancy and is projected to do so in the future.

As this briefing paper will outline in greater detail, while we may be healthier and have less physically demanding jobs than in the early years of Social Security, it does not follow that an insignificant number of people would be harmed by an increase in the retirement age. Furthermore, those who face hardship include not just older workers in poor health or with physically demanding jobs (a group that, while not as large as it used to be, is still sizable), but also those who lose their jobs late in life or retire to take care of ailing family members.

Workers with health problems and limited employment opportunities would be especially hard hit, as would low-income and minority workers. These workers are generally less able to offset cuts by working longer and also tend to be more financially dependent on Social Security (Haveman et al. 2003; Haverstick et al. 2008; Kingson and Brown 2009; Leonesio, Vaughan, and Wixon 2000; Munnell et al. 2007; Turner 2007a).

Moreover, Americans are already working longer to afford retirement, as all three legs of the proverbial retirement stool—Social Security, pensions, and savings—are getting weaker. The Center for Retirement Research at Boston College has conservatively estimated that Social Security cuts implemented in 1983, the shift from secure pensions to inadequate and risky 401(k)s, and the bursting of the stock and housing bubbles have left more than half of households at risk of a significant drop in living standards at retirement (Munnell, Webb, and Golub-Sass 2009). Thus, despite the weak economy, the labor force participation rate of workers age 55 and older is the highest in over half a century (according to the authors' analysis of basic monthly Current Population Survey microdata).

Demographic and economic trends

Life expectancy at age 65 has increased by about six years over the past seven decades. A man who turned 65 in 2010 could expect to live 18.6 more years, compared with 12.7 years for his counterpart in 1940. A woman who turned 65 in 2010 could expect to live 20.7 more years, compared with 14.7 in 1940 (SSA 2012c). Growth in life expectancy at age 65 appears to have slowed somewhat. It is projected to increase by around four more years over the next 75 years, to 23.0 for men and 24.6 for women. To put this in perspective, real wages are projected to grow five times as fast as life expectancy at age 65 over the same period, according to the authors' analysis of SSA data (2012b). Thus, we could afford to increase contributions to pay for longer retirements.

The increase in life expectancy in retirement is often presented as an unsustainable trend in which active workers support an ever-growing number of retirees. However, for much of Social Security's history, increases in life expectancy at age 65 were offset by other factors that stabilized the ratio of covered workers to beneficiaries at around 3-to-1. These factors included an increase in life expectancy during prime working years, an expansion in coverage, and an influx of women and immigrants into the workforce (Morrissey and Garr 2009; Morrissey 2011a). And costs are not rising inexorably over the next 75 years, as would be the case if life expectancy were the driving force behind projected shortfalls. Costs are projected to increase from 5.1 percent of GDP in 2012 to 6.4 percent over the next quarter century before declining to around 6.1 percent at the end of the 75-year projection period (SSA 2012b).

Though the worker-to-beneficiary ratio is projected to drop sharply over the next two decades before stabilizing at around 2-to-1, the main cause of this decline is not rising life expectancy, but rather a decline in the birth rate (Goss 2010a).[5] This fact is often misunderstood or misrepresented. For example, a recent Congressional Budget Office report supporting an increase in the Social Security retirement age notes that the aging of the population "stems both from increases in life expectancy and from past declines in fertility," before focusing almost exclusively on life expectancy (CBO 2012).

The decline in fertility has implications in terms of policy prescriptions for Social Security as well as broader issues relating to future living standards and the affordability of government programs. As Social Security Chief Actuary Stephen Goss remarked, "Because the large shift in the cost of OASDI [Old-Age, Survivors, and Disability Insurance program] over the next 20 years is not due to increasing life expectancy, it is not clear that increasing the NRA [normal retirement age] should be the principal approach for restoring long-term solvency" (Goss 2010a).

While elderly households are the largest beneficiaries of federal expenditures, children are also major beneficiaries of government programs, especially at the state and local level.[6] While the total dependency ratio—the ratio of the population under age 20 or over age 64 to the working-age population—is projected to rise over the next 75 years, it will remain below its peak in the 1960s, when the large baby boom generation was young (SSA 2012b). Indeed, the projected increase in Social Security costs between now and 2035 is smaller than the growth in spending for public education that occurred when the boomers were children (Gregory 2010), and this increase in funding did not hinder economic growth at the time or result in major budget deficits. In other words, it is easy to construct narrow demographic arguments for or against public policy initiatives if one is willing to ignore other critical factors, such as, in the case of Social Security, productivity and wage growth, labor force participation, and immigration.

A number of studies have documented a growing gap in life expectancy by socioeconomic status, with most of the gains in life expectancy in recent decades going to higher-income and better-educated workers (see Morrissey 2011a for a partial list). For example, the Social Security Administration has found that between 1982 and 2006, life expectancy at age 65 increased by one year for men in the lower half of the earnings distribution and five years for men in the upper half. In 2006, men in the lower half of the earnings distribution had not even caught up to where upper-income men were in 1982 (Waldron 2007). Groups that have seen little or no increase in life expectancy will see a decline in lifetime benefits as the retirement age increases. Since these groups also depend on Social Security the most, they will be hardest hit by the reduction in monthly benefits.

Barriers to continued employment faced by older Americans

Continuing to work is not an easy option for older workers due to several factors—namely, the poor health of many older Americans, the incidence of physically demanding jobs and/or jobs with difficult working conditions, uncertain employment prospects, and caregiving responsibilities.

The health of older workers

It might be reasonable to think that the increased life expectancy at retirement previously discussed means that the older population is getting healthier. However, some of the increase in life expectancy is due to medical advances that extend the lives of sick people. Behavioral and environmental trends also have had mixed effects on life expectancy—for example, smoking has declined, but obesity is on the rise. Nevertheless, it appears that health has improved modestly for older Americans since the 1980s, though these improvements may have stalled in recent years (Munnell and Libby 2007; Munnell and Sass 2008; Johnson 2010).

Despite these advances, poor health remains a significant barrier to continued employment for older Americans. Several studies have found that roughly 20–30 percent of Americans in their 60s have a health problem limiting their ability to work or to perform basic physical tasks:

- According to the authors' analysis of King et al. 2010, Current Population Survey data from the U.S. Census Bureau show that 18 percent of 62- to 69-year-olds had a work disability in 2010.
- National Health Interview Survey data from the Centers for Disease Control and Prevention indicate that in 2009, 19 percent of 45- to 64-year-olds and 28 percent of 65- to 74-year-olds had difficulty performing one or more basic physical activities such as walking a quarter mile or climbing 10 steps (Pleis 2010).
- Social Security Administration researchers analyzing the Census Bureau's Survey of Income and Program Participation found that 27 percent of 62- to 64-year-olds had health problems severe enough to prevent them from working or performing basic functional tasks, and an additional 22 percent reported that they were in fair or poor health, had undergone a recent hospital stay, or used a wheelchair or cane (Leonesio, Vaughan, and Wixon 2000).
- Government Accountability Office (2010) researchers analyzing the Health and Retirement Study found that 28 percent of 60- to 61-year-olds reported that their health limited their ability to work.

Health problems increase rapidly as people age. Researchers at the Urban Institute found that disability rates more than doubled (from 21 percent to 43 percent) between age 55 and 64 (Johnson, Favreault, and Mommaerts 2010). The authors considered someone disabled if their health score would rank them in the bottom 20 percent of the distribution for adults age 51 to 61. While this is a subjective definition, it nevertheless suggests that focusing on workers' health when they are in their early 60s greatly overstates the ability of people to keep working until the current full retirement age, let alone into their late 60s or even 70s.

Difficult jobs persist

Another rationale for increasing the retirement age is that the nation has shifted from a largely blue-collar and manufacturing economy to a more white-collar and service economy. As a result, the share of those with physically demanding jobs has declined over the past four decades (GAO 2010).

Nevertheless, many older workers still work in jobs with physical demands, which may range from standing for long periods to more strenuous activities such as lifting heavy objects. Others work under difficult conditions, such as exposure to contaminants, hazardous equipment, or uncomfortable noise or temperatures. According to an analysis by the Center for Economic and Policy Research, 45 percent of workers age 62–65 and 46 percent of workers age 66–69 have physically demanding jobs or work under difficult conditions (Rho 2010). An even greater share of older workers may have jobs that require sporadic physical effort: GAO (2010) found that 64 percent of 60- to 61-year-old workers had jobs that were physically demanding at least some of the time.

Many older workers are of course capable of handling stressful jobs or jobs with significant physical demands. The point is whether it is reasonable to expect most workers in difficult or physically demanding jobs to continue working into their late 60s or beyond. In a typical eight-hour shift, for example, hospital nurses lift an average of 1.8 tons (Dubose and Donahue 2006). This requirement almost certainly becomes more onerous with age.

Uncertain employment prospects

Older workers have usually been with their employers longer than younger workers and are therefore less likely to lose their jobs (Johnson and Mommaerts 2011).[7] However, older workers who do find themselves unemployed face bleak re-employment prospects. They are more likely to be unemployed for long periods than are prime-age workers (Ilg 2010) and to experience larger pay cuts if they manage to find a job (Johnson and Mommaerts 2011; Munnell, Sass, and Zhivan 2009). Among displaced workers age 55 and older who lost their jobs in 2007–2009, 65 percent were either still unemployed or had dropped out of the labor force when surveyed in January 2010. By contrast, in the same weak economy, more than half of displaced younger workers had been re-employed by that time (Borbely 2011).

Economist Joanna Lahey (2008) found that younger job seekers were 40 percent more likely to be offered an interview than older job seekers with similar résumés. Reasons why employers may be reluctant to hire older workers include age discrimination, higher health costs, skill obsolescence, and a shorter expected time remaining until retirement.

Caregiving responsibilities

Especially for women, caregiving can affect the timing of benefit uptake and benefit amounts. Caregiving to children during her younger years, and then to older parents, severely ill spouses, or other family members later in life, often results in intermittent labor force patterns, less job advancement, smaller salaries, and smaller Social Security and occupational pension incomes for women (Raymo and Sweeney 2006; Kingson and O'Grady-Leshane 1993).

A 2003 survey by the National Alliance for Caregiving and AARP (2004) found that one in five adults (21 percent) provided unpaid care to a frail senior or other adult. Though the share of older adults with caregiving responsibilities was roughly the same as the share of the general population,[8] caregivers age 50 and older were much more likely to have a very high "level of burden" based on the amount of time devoted to caregiving and the recipients' need for help with basic activities of daily living (NAC-AARP 2004). Additionally, 830,000 grandparents or other relatives age 60 and over live with and have primary responsibility for one or more young children (Generations United 2012).

Caring for older parents, severely ill spouses, and others leads some late-middle-aged caregivers to leave work and accept reduced retired worker benefits, though other caregivers delay retirement due to the high costs associated with their family members' medical conditions (Kubicek et al. 2010). Women, in particular, may retire early due to caregiving responsibilities. One study found that, over a 10-year period, women who give care are five times more likely to retire than noncaregivers (Dentinger and Clarkberg 2002). Another found that caring for parents appeared to be a bigger factor than declining health or job loss in single women's decisions to retire early (Munnell and Sass 2008).[9]

Although caregiving responsibilities cause some workers to retire early and others to delay retirement, both groups would be affected by policies that forced them to choose between working longer or accepting reduced Social Security benefits, especially since caregiving is strongly associated with poverty (see White-Means and Rubin 2008 for an overview).

Older workers often leave work earlier than planned

Given the challenges previously outlined, it is not surprising that many workers leave work and/or accept benefits sooner than they had planned or would like. The Employee Benefit Research Institute found that 42 percent of workers retire early due to poor health, caregiving responsibilities, job loss, or similar reasons (according to the authors' analysis of Helman, Copeland, and VanDerhel 2011).[10] Specifically, 63 percent of early retirees cited health problems or disability as a factor in their decision, 23 percent cited downsizing or other changes at their company, and 18 percent cited the need to care for a spouse or other family member. Other reasons included changes in skills required for the job (8 percent) and other unspecified work-related reasons (20 percent) (Helman, Copeland, and VanDerhel 2011).

Similarly, a 2006 McKinsey survey found that 40 percent of workers stopped working earlier than planned. Of these, 47 percent cited health reasons, 44 percent cited job loss or downsizing, and 9 percent cited the need to care for a spouse or other family member (Hunt, Revell, and Rotenberg 2007).

Hardship exemptions

Beginning in the early 1980s and continuing into the present, members of Congress, other policymakers, and researchers have looked at the possibility that later retirement ages could impose material hardship on some older workers. The issue involves two important questions: How much hardship results from increasing retirement ages, and can effective and politically feasible policies be designed to protect workers placed at risk as retirement ages increase?

Size of the "hardship problem"

The question of how much raising the retirement age would increase workers' risk of falling into material hardship depends on how hardship is defined.

When it passed legislation in 1983 to increase the full retirement age, Congress directed the secretary of the Department of Health and Human Services to conduct a comprehensive study of the implications of changes in the retirement age, especially in terms of older workers who might be placed at risk. The resulting report (SSA 1986) found that 30 percent of new retirees were either unable to work for health reasons, held jobs with heavy strength requirements, or had partial health limitations and held jobs with medium strength requirements. Moreover, the report found that workers in physically demanding jobs or ill health were less likely than other workers to have saved to offset a potential benefit reduction and were unlikely to extend their work lives substantially in response to the increase in the retirement age. Because these workers would be less able to extend their working lives to compensate for increases in the retirement age, they were considered to be "at risk."

Later studies using more restrictive definitions found the share of workers at risk of facing hardship to be closer to 10 percent. These studies focused on early retirees who fell short in terms of two measurements—poor health status and lack of financial resources besides Social Security benefits. For example, using a very restrictive definition that defined risk as both having work-limiting health conditions and being solely dependent on Social Security for pension income, Burkhauser, Couch, and Phillips (1996) concluded that about 10 percent of men and 20 percent of women accepting Social Security benefits at ages 62–63 were at significant risk if the earliest age of eligibility were raised to 64. Turner (2007a; 2007b) suggested that the share at risk might even be lower than 10 percent if eligibility for disability benefits were taken into account, though he noted that the studies he reviewed did not count older workers who were laid off before age 62 and unable to find a job.

A Congressional Budget Office (1999) study, however, highlighted how sensitive the assessment of risk is to the criteria used to define it. It noted, "On the basis of either a simple poverty measure alone or the absence of a pension alone, roughly one-quarter to one-third of the early beneficiaries were dependent. … But if dependency is determined on the basis of being poor and having a work-limiting disability, its incidence falls to about one in 10." Similarly, Kingson and Arsenault (2000) found that the group at risk could range from 3 percent to 52 percent of early retirees depending on whether the definition required early retirees to meet more than one restrictive criterion (having below-poverty incomes and being in fair or poor health), or simply to meet one less restrictive criterion (having incomes below 200 percent of poverty or having less than $30,000 in liquid assets).

Our survey of the research suggests that the proportion of older workers at risk of material hardship due to retirement-age increases is probably closer to 1 in 2 than it is to 1 in 10 if we use a relatively expansive but nevertheless reasonable definition of "at risk." As we have seen, around 45 percent of older workers have physically demanding jobs or work under difficult conditions, 20–30 percent of people in their 60s are in poor health, about 20 percent of older adults are caring for a frail relative, and around 40 percent of retirees retire earlier than planned for job, health, or caregiving reasons. Unless there is perfect overlap of these categories, then the share at risk is probably close to half of older workers.

This share likely includes some workers who may prefer to continue working despite health limitations or other challenges. On the other hand, it does not take into account workers who lose their jobs without officially retiring. The share at risk would also likely be higher if we restricted the sample to those in their late 60s or older—that is, if we focused on the age when workers would be eligible for unreduced benefits under current or proposed rules—since older workers are more likely to have health problems or other work limitations.

Our measure also does not include workers who would be vulnerable simply as a function of their low incomes. In practice, low-income workers would be among the hardest hit even if they are able to continue working, since low-income groups are more dependent on Social Security benefits. In any case, poor health and other obstacles to working longer are closely tied to income. For example, the GAO (2010) found that among 60- to 61-year-olds, those reporting good or excellent health were more than twice as likely to have some college education, were more than twice as likely to be working, and had household incomes more than twice as high as those in fair or poor health.

Can policy be designed to mitigate potential hardships?

Both proponents and opponents of raising the retirement age acknowledge that something should be done to mitigate the impact on at-risk older workers if retirement ages are further increased. For example, Erskine Bowles and Alan Simpson (the co-chairs of the National Commission on Fiscal Responsibility and Reform) propose "a hardship exemption for those who cannot work past 62 but who do not qualify for disability benefits [which would] hold them harmless from additional actuarial reduction resulting from increasing retirement ages." As was done in 1983, the co-chairs would "mandate the Social Security Administration with designing a policy over the next ten years that best targets the population for whom an increased [early retirement age] poses a real hardship" (National Commission on Fiscal Responsibility and Reform 2010).

If a preliminary analysis by the Social Security actuaries serves as a guide, hardship exemptions along the lines proposed by Bowles and Simpson would likely fall short of offsetting the harm arising from increasing retirement ages. Older workers disadvantaged by unemployment and age discrimination, middle-income persons unable to work for health or other reasons, and caregivers would likely not be protected (Strengthen Social Security n.d.; Goss 2010b).

In theory, hardship exemptions could be implemented to take much of the sting out of retirement age increases, but to truly hold potentially vulnerable older workers harmless, they would have to go well beyond the types of modest offsets suggested in the Bowles-Simpson plan. They might include, for example:

- implementation of a more realistic disability standard for persons age 60 and over[11]
- extension of unemployment benefits for older workers, who generally have a more difficult time finding new employment
- employment support and other policies to encourage older persons with disabilities to remain in or return to the labor force
- stronger and better enforcement of laws against age discrimination
- lowering the age of eligibility for Supplementary Security Income (SSI) benefits from 65 to 62 in order to provide immediate relief to some of the lowest-income early retirees

Other mitigating policies are outlined in the GAO (2010) report. But as good as such policy ideas may be in theory, they are not feasible. Offsetting the impact of retirement age increases would be expensive. If done right, much or perhaps all of the potential savings to Social Security from raising eligibility ages would evaporate.

It has been 29 years since Congress charged the Social Security Administration with studying the problems that could arise from raising the full retirement age from 65 to 67. SSA concluded in 1986 that a significant problem would exist, but to date no Congress has addressed the issue. Assuming the past is a good indicator of the future and given contemporary political realities, it is highly unlikely that Congress would include effective hardship exemptions with legislation that raises retirement ages.

Conclusion

It is simply not true that the large majority of older workers can work longer to offset cuts to their Social Security benefits. Such claims have been, and will continue to be, put forth by those seeking to justify further increases to the full retirement age and other benefit cuts, but as this briefing paper indicates, these claims do not withstand close examination.

Using narrow definitions of risk, some have argued that only a relatively small group, 10 percent of older persons, would be harmed by further increasing the full retirement age to age 69 or older. But such claims ignore many challenges facing older workers. For example, research shows that roughly 40 percent of retirees retire earlier than planned for job, health, or caregiving reasons; 20–30 percent of people in their 60s report that their health is poor; around 45 percent of older workers have physically demanding jobs or work under difficult conditions; and about 20 percent of older adults are caring for a frail relative.

Further, the evidence does not support the claim that benefit cuts such as further increases in the full retirement age can be implemented in a way that would hold harmless those older workers who either cannot or are not well positioned to continue to work.

Raising the retirement age *might* make sense if longevity gains were equally shared by all workers, regardless of income group, educational status, or race; if increased longevity meant continued good health; and if older workers had opportunities in the workforce equal to those of younger workers. But none of these conditions is true; thus, a further increase in the Social Security retirement age would impose hardship on many older workers. In any case, there is no need to cut benefits at all if Americans prefer to contribute more to the program to restore it to long-term solvency. Closing the projected shortfall on the revenue side makes sense given the weaknesses in employer-based plans and personal savings—the other two legs of the retirement stool.

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Endnotes

1. These reductions are for a worker who accepts benefits at age 65. For the majority of workers—those who accept benefits between ages 62 and 66—the reduction ranges from 6–8 percent as the full retirement age increases from 65 to 66, and from 12–14 percent as it increases from 65 to 67. The reduction is somewhat smaller for workers who accept benefits at age 67 and above (according to the authors' analysis of SSA n.d.).

2. The "full" or "normal" retirement age, when workers are eligible for full benefits, is currently 66. The earliest eligibility age, when workers are first eligible for reduced benefits, is currently 62. Since participants receive a credit for delaying take-up each month until they turn 70, the "full" retirement age is something of a misnomer, since those who delay until age 70 will receive monthly benefits that are 32 percent higher than the "full" benefit. Where possible, the focus of this analysis is workers age 62 to 69 who could theoretically offset proposed cuts by working longer. However, proponents of raising the retirement age often suggest that participants can work until they are eligible for full benefits. Thus, it is also instructive to focus more narrowly on people in their late 60s and older who would be eligible for full benefits under various proposals.

3. Technically, the Domenici-Rivlin approach does not involve an increase in the full retirement age, but rather changes the benefit formula each year to offset longevity gains.

4. A related issue, not discussed in this report, is whether to increase the early eligibility age, either by itself or in tandem with an increase in the full retirement age. The argument for raising the earliest eligibility age is that early retirees may be retiring too early for their own good, and forcing them to delay retirement would increase their monthly Social Security benefits and possibly other retirement resources, while reducing the time spent in retirement. However, raising the early eligibility age would have no significant impact on Social Security's finances because workers' lifetime benefits would remain roughly the same (they would receive higher monthly benefits over a shorter period) (Munnell and Sass 2008).

5. The number of beneficiaries per hundred workers is projected to increase from 35 in 2011 to 47 in 2030, a 34 percent increase. Meanwhile, life expectancy at age 65 is projected to increase from 18.7 to 20.0 years for men and from 20.7 to 21.9 years for women over the same period, a 6 percent increase overall (according to the authors' analysis of SSA 2012b).

6. Children are also the biggest beneficiaries of exchanges that take place in the context of the family—including the transfer of material resources and time spent providing care.

7. This is one reason the unemployment rate of older workers is lower than that of younger workers. Another is that many older workers who lose their jobs retire.

8. The share was somewhat higher for adults age 50–64 and lower for adults 65 and older. In 2003, 30 percent of adult caregivers were age 50–64, and 13 percent were age 65 or older (NAC-AARP 2004). These age groups were roughly 26 percent and 20 percent of the adult population, respectively

(according to the authors' analysis of Howden and Meyer 2011).

9. The 2003 NAC and AARP survey found that 6 percent of caregivers had given up work and 3 percent had chosen early retirement. This understates the likelihood that caregiving responsibilities would eventually cause caregivers to leave the workforce, since the survey included caregivers of all ages. The survey also found that only 48 percent of caregivers age 50–64 and 3 percent of caregivers age 65 and older were working full time, though it does not tell us how many had been in the workforce to begin with (NAC-AARP 2004).

10. In all, 45 percent of retirees said they retired earlier than planned, but 6 percent of these cited only positive reasons for their decision, such as a desire to do something different or having the financial means to retire. This leaves 42 percent who based their decision in whole or in part on negative reasons (45 percent – [6 percent x 45 percent] = 42 percent).

11. Gerald McIntyre, directing attorney of the National Senior Citizen Law Center, notes that "Social Security determines disability by means of a 5 step sequential evaluation process." He suggests the "elimination of the 4th step of the process when someone reaches age 60….The 4th step requires a determination of whether or not someone has the residual functional capacity to return to previous employment. If someone has that capacity then the claim for benefits is denied. This is true even if the job no longer exists….One significant advantage of this over other proposals for tweaking the disability system is that it would be extremely simple to administer and could be implemented immediately" (personal communication, May 2011).

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