American Academy of Actuaries

Issue Brief

Raising the Social Security Retirement Age

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Key Points

- Social Security as originally designed defined a normal retirement age—the age at which workers could receive full/unreduced benefits—at age 65.
- As part of the solution to an impending solvency crisis, benefit changes legislated in 1983 called for a gradual increase in NRA to age 67.
- Even with this increase in retirement age, a continuing pattern of mortality improvement along with other economic and demographic factors have the system facing another impending solvency challenge.
- Program solvency must be ensured so that the system can continue to provide the promised level of benefits. Some reform package, likely including changes to both system benefits and related taxation, will be necessary to ensure system solvency through the 2030s and beyond.
- The fact that increased longevity is among the root causes of Social Security's financial problems suggests that raising the normal retirement age is a likely—perhaps even necessary—component of any package of program changes that addresses them.

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The Social Security Committee of the American Academy of Actuaries has reviewed a broad array of reform options for Social Security. This issue brief examines the potential impact of raising the Social Security normal retirement age (NRA)—that is, the earliest age at which unreduced Social Security benefits are paid. Other Academy issue briefs address options for changing the benefit formula, automatic adjustment features, and taxation of benefits. Reform proposals designed to eliminate Social Security's long-term actuarial deficit will likely include a number of components. The Academy's Social Security Committee believes that raising the retirement age is likely to be one of the key elements in any legislation enacted to restore Social Security's long-term financial health. Rationales supporting this design change are presented in this issue brief.

Background

Social Security's Board of Trustees projects that income to the system will be insufficient to finance current formula benefits in the long run absent major corrective legislation. Financial problems stem partly from the impact of individuals living longer and receiving Social Security benefits for a longer period, and this trend is expected to continue indefinitely into the future. One way to reduce benefit outlays—and thereby improve Social Security's financial status—is to increase the age at which retired workers can begin to receive unreduced Social Security benefits. An increase in NRA would reduce benefits payable at any given claiming age while providing an incentive for delayed retirement and longer working lifetimes.

The NRA was set at 65 when the Social Security program was established in 1935. In 1983, Congress enacted a series of phased NRA increases, recognizing that life expectancy had increased substantially since the program's inception. The scheduled increases were part of a package of changes adopted to fend off impending program insolvency. The NRA was gradually increased to age 66 for workers born in 1943 (who reached age 66 in 2009). The NRA remained at age 66 for the following 12 years, before gradually increasing to age 67 for workers born in or after 1960 (who reach age 67 in 2027 and later).

Table 1 summarizes the changes in normal retirement age over the years.

Table 1

Year of Birth	Normal Retirement Age
1937 and earlier	65
1938	65 2/12
1939	65 4/12
1940	65 6/12
1941	65 8/12
1942	65 10/12
1943–1954	66
1955	66 2/12
1956	66 4/12
1957	66 6/12
1958	66 8/12
1959	66 10/12
1960 and later	67

It is noteworthy that the first retirement-age cohort impacted by these changes reached normal retirement age in 2003, 20 years after the change was enacted in 1983.

Workers have long had the option of receiving reduced retirement benefits as early as age 62. This earliest retirement age was maintained despite the NRA increases enacted with the 1983 legislation. Monthly benefits are reduced to compensate for the earlier payment and longer payout period. Given that this reduction comes close to reflecting the actual

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cost to the system of retiring early, a change in the earliest retirement age is generally viewed as having a minimal impact on Social Security finances.

While Social Security is not in an immediate solvency crisis as it was in 1983, it does face a major financial challenge in that projected income over the next 75 years is well short of the level needed to pay current formula benefits. Increasing Social Security's NRA beyond the current schedule of increases is one way to make up at least a part of this shortfall. As with any proposed change to Social Security benefits, the effect of later retirement and/or reduced benefits on workers must be considered. Any resulting change in retirement patterns can also be expected to have a significant impact on the broader macroeconomy.

Demographic, Health, and Economic Considerations

In 1940, when Social Security began paying monthly benefits to retired workers, those workers who survived to age 65 had average remaining life expectancies of 11.9 years for men and 13.4 years for women. Life expectancies for retirees at age 65 increased to 18.1 years for men and 20.6 years for women, based on 2019 mortality rates. In other words, since Social Security began paying monthly benefits, life expectancy at age 65 increased by roughly 6.5 years while the age for collecting unreduced benefits increased by only two years.

It is generally anticipated that this trend toward increased life expectancy will continue.[1] Table 2 summarizes past and expected future life expectancies from age 65. Based on these projections, life expectancy at age 65 will increase by an additional four years by 2090. Studies have shown that while increases in life expectancy have added years of both healthy and unhealthy life, years of healthy life predominate.

Table 2

Year Age 65	Male	Female
1940	11.9	13.4
1970	13.1	17.1
2000	15.9	19.0
2019	18.1	20.7
2035	19.1	21.6
2060	20.6	22.9
2090	22.2	24.3

Source: *2021 OASDI Trustees Report*

1 The impact of roughly 1 million COVID-19-related deaths over the past two years (roughly 0.3% of the U.S. population) will at least temporarily reduce calculated life expectancies, particularly period-related ones that essentially presume the continuation of recent mortality rates into the future. However, an actionable assessment of future longevity expectations will probably need to wait until after the pandemic-affected period has ended.

Absent further program change, increases in longevity translate directly into higher lifetime Social Security benefits as retirees receive payouts for a longer time. Raising the NRA acts to offset this, but at the same time represents a cut in benefits relative to expectations under current law. With each future generation expecting to live longer in retirement than the previous one, a gradual rise in NRA adds an element of balance to the program by slowing the rate of increase in the value of lifetime benefits – and thus the presumed tax burden on workers—from one generation to the next.

Longevity expectations, however, are not uniform across the population—there is considerable variation across the socioeconomic spectrum. The statistics summarized in Table 3 below are based on a categorization of retired (non-disabled) workers age 62 to 79 by sex and income level (based on Average Indexed Monthly Earnings, or AIME, the measure of career average earnings used in the Social Security benefit formula). The table shows the ratio of the average 2015 mortality rate[2] for the indicated income subgroup as compared to the average for all retirees of the same sex. The higher ratios for those who earned lower wages indicate higher mortality. It is noteworthy that the mortality rate differential by income is much more pronounced among male retirees.[3]

Table 3

Income Level (Quintile)	Male	Female
Lowest	1.53	1.28
Next lowest	1.17	1.06
Middle	0.94	0.97
Next highest	0.77	0.91
Highest	0.58	0.78

Source: *Mortality by Career-Average Earnings Level (April 2018)*
Office of the Chief Actuary of the Social Security Administration

Many believe that there will be an increasing trend toward greater improvement among better-educated and higher-wage workers and slower improvement among lower-wage workers. This longevity gap implies that an increase in NRA and later retirement can be presumed to have a greater impact on the value of benefits for lower-wage workers than higher-wage workers.

2 Results shown are a weighted average of results for four age groups—62–64, 65–69, 70–74, 75–79.
3 In evaluating the reduced influence of income on mortality for females, one potential explanation is that many women in the tabulated age cohorts were likely to have been secondary wage-earners, which would imply that their own tabulated work income is not fully determinative of family income status.

VARIATION IN EXPECTED LONGEVITY BY SOCIOECONOMIC GROUP

As life expectancies increase, it is generally presumed that older-age individuals, on average, are capable of working a significant number of years beyond historical retirement ages. For example, a study from the National Bureau of Economic Research (*Health Capacity to Work at Older Ages, Evidence from the U.S.*; January 2016) concluded that Americans could work an additional 2.5 years to 4.2 years on average, which represented an increase of 30% to 50% in the period of employment after age 55.

However, implementation of Social Security program change based upon a presumption of longer work is complicated by the fact that work demands differ across types of occupations, and health status and life expectancies vary across socioeconomic groups. This means that while most Americans can be presumed able to work longer, this expectation may prove problematic or overly burdensome for some.

Of course, there have always been differences in work demands and life expectancies throughout the history of the Social Security program. The relevant question may be whether these differences have become magnified in recent years. Also, note that in evaluating retirement age alternatives, it is usually considered appropriate to focus on life expectancies from age 65 (as opposed to life expectancy measured from some earlier age or from birth), which is indicative of the period that retirees under the program can expect to receive benefits.

The mortality data summarized earlier in this issue brief is based on actual recent year mortality rates for Social Security benefit recipients over a period of key retirement years. While this data indicates strong differences across income groups, the differences in relative mortality ratios have increased only moderately in recent decades.

However, a number of studies project that the significant differences that currently exist will widen significantly going forward. For example, one widely quoted study from the National Academy of Sciences (*The Growing Gap in Life Expectancy by Income, Implications for Federal Programs and Policy Responses*; 2015), which focused on remaining life expectancies at age 50, concluded that life expectancy differences between the highest and lowest income quintiles will increase by about eight years, comparing the 1930 birth year cohort (who reached age 70 in 2000) to the 1960 birth year cohort (who will reach age 70 in 2030).

Recent-year mortality rates have been negatively impacted by lifestyle-related health conditions and behaviors—primarily an increasing incidence of obesity and substance abuse. The emerging negative trends that relate to these behaviors have, to date, primarily affected young and mid-life adults, and their impact has been skewed by levels of income and educational attainment. Projections related to the future of average U.S. population life expectancies, as well as expected differences by socioeconomic groups, will reflect presumptions about whether these existing morbidity trends are expected to continue, or even expand, as the affected populations age into the retirement zone.

Note that a number of analyses have also studied mortality/longevity differences by race and by geographic region. While these gaps have been shrinking over time, significant differences remain. However, analysts have, for the most part, concluded that a stratification of the population by income and education best captures recent differences in mortality experience.

Emerging Retirement Patterns

The average age for Social Security benefit commencement has generally been increasing over the past 10-15 years. The data presented in Table 4 below illustrates that the average age at benefit commencement has increased by over a year since 2005, the percentage of workers collecting benefits at the earliest age has dropped by almost half, and the percentage collecting benefits after normal retirement age has roughly tripled.

Table 4

Year of Benefit	% Electing Benefits at age 62	% Electing Benefits After NRA	Average Age
1975	32%	8%	63.9
1985	51%	4%	63.6
1995	52%	5%	63.6
2000	46%	10%	64.0
2005	52%	5%	63.6
2010	45%	5%	64.0
2015	35%	11%	64.5
2019	27%	16%	64.9

Source: *2020 Annual Statistical Supplement Social Security Office of Retirement and Disability Policy*

Analysts have attributed the trend toward later retirement to a number of general societal trends:

- increased healthy life expectancies;
- increased education levels and a shift toward less physically demanding jobs;
- a trend away from employer sponsorship of "traditional" pension plans that pay fixed lifetime monthly benefits toward account-based plans where the worker is responsible for accumulating assets and determining payouts;
- concerns about the sufficiency of retirement assets in the context of relatively frequent economic/capital market downturns; and
- increasing health care costs and the decline of employer-provided coverage during retirement.

Some elements of Social Security program design have also contributed:

- recent-year increases in the Social Security normal retirement age;
- liberalization in the operation of the Social Security earnings test (eliminated after attainment of NRA in 2000); and
- an increase in Social Security's delayed retirement credit (increased to 8% per year for those reaching NRA in 2009 and later).

Disruption of the economy and labor markets related to the COVID-19 pandemic has at least temporarily interrupted this trend toward later retirement.[4]

Impact of an Aging Population

Social Security has for the most part operated as a pay-as-you-go system, with benefit payments for each generation of retirees being funded by contributions from contemporaneous workers. The 1983 legislation shifted to a partially pre-funded system in anticipation of the retirement of the baby boom generation, in that an essentially constant tax rate was set at a rate higher than necessary to pay current system benefits. Absent the resulting pre-funding during the baby-boomers' prime working years, the tax burden on the proportionately smaller group of remaining workers that followed would have had to increase sharply to support the increased benefit outlays.

Although the result has been a very large buildup of the Social Security trust fund in absolute dollars (to almost $3 trillion by 2021), the accumulated trust funds are far less than needed to fully prefund the benefits of the baby boom and future generations of retirees. Indeed, recent actuarial projections have indicated that trust funds will be exhausted by 2034. The system would then revert to pure pay-as-you-go financing. Absent further program changes, projected program income is expected to be able to support only about 75% of scheduled benefit levels.

Within the public policy debate over Social Security financing, the program's declining financial status is often explained with reference to the falling ratio of contributing workers compared to retirees receiving benefits. This ratio has been slowly declining since about 2000, and the retirement of baby boom generation workers has accelerated the trend (see Table 5). In a pay-as-you-go system, the smaller number of workers per retiree means an increasing tax burden is needed to fund any fixed level of benefits.

4 Analysts attribute the recent reduction in labor force participation by older people to emerging dynamics such as: (1) pandemic-related health concerns, (2) a somewhat-related "life is short" mentality induced by the pandemic conditions, (3) generous federal stimulus payments, and (4) tremendous increases in capital and real estate values.

Table 5

(population count in millions)	Total Population			Social Security Covered Population		
	20-64	65+	Ratio	Workers	Beneficiaries	Ratio
1960	100	17	5.8	72	14	5.1
1970	113	21	5.4	93	25	3.7
1980	134	26	5.1	113	35	3.2
1990	153	32	4.8	133	39	3.4
2000	170	36	4.8	155	45	3.4
2010	188	41	4.6	157	53	2.9
2015	193	48	4.1	168	60	2.8
2020	195	55	3.5	175	65	2.7
2035	204	76	2.7	188	82	2.3
2060	221	89	2.5	203	94	2.2
2090	248	105	2.4	230	109	2.1

Source: *2021 OASDI Trustees Report*

Program changes that result in workers working longer without accruing commensurately higher benefits act to improve system finances in two ways—as a larger number of workers make payroll tax contributions while a smaller number of retirees receive benefits over shorter periods of time.

The alternative—allowing the worsening worker/beneficiary dynamic to play out—would entail significant increases in payroll taxes. The increased financial burden on a workforce that is shrinking in relative terms means that much of the benefit of future productivity growth would be transferred away from the workforce responsible for creating it.

Viewed in a broader context, the Social Security financing problem is only one in an array of adverse economic consequences of the declining trend in worker/retiree ratio. As the portion of the population in traditional prime working years falls, the accompanying drop in the rate of workforce participation will act as a significant drag on economic growth potential. The relatively smaller base of remaining workers will struggle to produce enough to fund an increasing benefit financing burden while maintaining anything like past rates of improvement in living standards.

This leads many economists to believe that workers should be encouraged to retire later for reasons that go beyond improving Social Security finances. These reasons, somewhat interconnected, include increasing national income and savings, providing workers more time to save for retirement, and tapping the skills and experience of older workers for the benefit of employers and the economy at large. Another rationale may be the increased level of physical and mental well-being that often accompanies continued engagement with work.

However, there are likely to be barriers to increasing labor force participation. Employers may perceive older workers as less flexible and thus unable to adapt to rapidly changing technologies. Older workers may also be viewed as costly, because many have climbed career/promotion ladders and thus expect higher salaries, and they can also be expected to generate higher health benefit costs. Workers who have spent careers in physically demanding occupations may be unable to continue in those occupations and some may not be readily able or inclined to train for alternative employment.

Of course, some workers will prefer to retire as soon as it becomes financially feasible, even if they are in good health and work is available.

Approaches to Raising the Retirement Age

The website of the Social Security chief actuary shows the effect on Social Security's long-range financial condition for a wide range of alternative schedules of retirement age increases. Approaches for raising the Social Security NRA can be broadly categorized as follows:

Scheduled increases in NRA

The most significant of the priced proposals shift the normal retirement age up by three months per year until it reaches age 69 or 70 (following an eight- to 12-year transition period). This type of change reduces the long-range actuarial deficit by roughly 30%. Slower and more limited schedules of retirement age increases would achieve only a portion of this long-term cost savings.

Fixed ratio of working to retirement years[5]

The National Commission on Social Security Reform in 1983 recommended that increases to NRA be explicitly tied to changes in longevity expectations. For example, the NRA could be indexed to maintain a constant ratio of expected working years (age 22 to NRA) to benefit years (life expectancy from NRA). This approach would be expected to result in an NRA increase of about one month every two years, i.e., an additional year of retirement age deferral roughly every 24 years. Proposals often include this type of indexation provision in conjunction with (i.e., following) an initial fixed schedule of NRA increases, resulting in a greater reduction in long-term program costs.

5 Once the transition to unreduced retirement age 67 is complete, the presumed working period will be 45 years and the expected number of benefit years beyond that age will be about 18 years. This results in a ratio of working to retirement years of 2.5, which corresponds to a ratio of working/total years of .71. Thus, every year of increased longevity results in an increase in unreduced retirement age of roughly 8 ½ months (correspondingly, the period of expected benefit receipt will increase by 3 ½ months). Current mortality projections indicate a year of increased longevity about every 18 years.

Table 6 summarizes the most recent pricings for alternative schedules of retirement age increases, with the savings amounts stated as a present value of future taxable payroll over a 75-year projection period.

Table 6

Savings as a % of Future Taxable Payroll		
Change in Retirement Age	Slower Transition	Faster Transition
67 to 68	0.4%	0.5%
67 to 69	0.6%	0.9%
67 to 70	0.8%	1.2%
Indexed	adds 0.3%[6]	

Note: The current program deficit (stated on this same basis) is determined at 3.5% in the 2021 OASDI Trustees Report.

NRA increases as needed to maintain actuarial balance

Presuming that Social Security is restored to actuarial balance by some combination of tax and benefit changes, actuarial balance could be maintained thereafter by automatically adjusting the NRA by whatever period is necessary to maintain equilibrium. Other design elements such as the benefit formula, inflation indexing, or payroll tax rates could also be included as part of an automatic adjustment mechanism.

Note that some form of automatic adjustment is utilized in many other developed countries' national retirement systems, including Germany, Japan, Canada, Portugal, Italy, Finland, Norway, Denmark, and Sweden. A driving factor for the initiation of these automatic indexing mechanisms has typically been to avoid the large increases in payroll taxes that would otherwise be necessitated by aging demographics and increased longevity.

6 This savings factor relates to an indexation provision that is implemented after a fixed schedule of retirement age increases plays out. Alternatively, an indexation provision might be applied alone, without a preceding fixed schedule; the savings resulting from this type of application is estimated at 0.6%.

Rationales for an Increase in Retirement Age

Raising the NRA can be viewed as a way to address Social Security's long-range financing problem without major disruption to worker and retiree expectations, while at the same time addressing the perhaps even greater macroeconomic implications of changing demographics. Rationales supporting a retirement age increase include:

Reflects increased longevity

Raising the NRA seems the obvious and direct response to increasing longevity among covered workers. Improvements in healthy life expectancy enable most workers to remain in the workforce longer. Thus, it seems reasonable to expect them to work longer before receiving full Social Security benefits. Note that even the largest of the proposed increases in NRA still provides a much longer period of benefit receipt than was expected during most of the Social Security program's existence. Working longer also helps workers accumulate additional retirement savings to support longer retirement periods.

Preserves the current benefit formula

Raising the retirement age as part of a package for achieving financial solvency might be considered less disruptive in that it enables greater preservation of the current benefit formula. An increase in the unreduced retirement age represents a uniform percentage decrease in benefits across the income spectrum. Alternative solutions for addressing Social Security's long-term financial problems frequently include more significant changes to the benefit formula, that, in the interest of benefit adequacy, typically reduce benefits proportionately more for high-wage than for low-wage workers. But the current benefit formula has been in place for over 40 years, and may be viewed as representing a successful balance of competing interests and objectives—an attempt to provide benefit adequacy along with individual equity across the broad range of demographic and socioeconomic groups that comprise Social Security's covered population.

Better preserving the existing benefit formula would also allow for a continuation of the existing level of disabled-worker benefits, which are based on the same formula. Further, increases in the NRA would most likely be phased in over a period of years, thus preserving, or minimally disrupting, the benefit expectations of current retirees, beneficiaries, and near-term retirees.

Increases labor force participation

Raising the NRA would encourage workers to remain in the labor force longer—both through the reduction in benefits at earlier ages and due to the secondary "psychological" effect, in that a higher NRA may be viewed as reflecting a societal expectation with regard to the "normal" age for retirement.

Workers may be expected to either continue full-time employment in order to retire later with an adequate Social Security benefit, or switch to part-time employment to supplement a reduced early benefit. Making greater use of older workers increases the nation's economic capacity, thus raising overall living standards for both active workers and retirees. This has become a particularly important consideration with the retirement of the outsized baby boom generation.

Increasing labor force participation of potential older workers can also be enhanced by employers facilitating more flexible work arrangements. A harsh transition from full-time work to full-time retirement can leave workers feeling disoriented, with resulting negative impacts on their physical and mental well-being.

Employers and policymakers should consider structural changes to enable broader use of phased retirement, which many older workers may prefer versus the now-typical approach that results in a total cessation of work.

Issues/Concerns to Address

An increase in normal retirement age may be problematic given that some segments of the workforce may have a lesser ability and opportunity to continue employment to older ages. These concerns are detailed as follows:

Essentially a cut in benefits

An increase in the normal retirement age decreases the benefit for future retirees regardless of the age at which they actually retire. This is because, at least under current law, recipients may choose to begin benefits at any age from 62 to 70. The level of benefits made available at a given age represents a reduction or increase from the baseline benefit available at the stated normal retirement age. So, an increase in NRA from age 67 to age 70 would be reflected as three additional years for which reduction factors are applied (for someone retiring prior to age 67) or a loss of three years of increase factors (for someone retiring at age 70).

Jobs may not be available

In past years it was relatively common for employers to provide incentives for older workers to leave the workforce, often via limited-period programs, as a cost-saving measure. While early retirement incentives have become much less common in recent years, some barriers remain for older workers who choose to remain in the labor force, especially in periods of high unemployment when less expensive younger workers are readily available.

For workers not able to retain or find jobs, an increase in retirement age would create a financial hardship in that they may need to either accept reduced benefits or endure a period when they are neither working nor receiving Social Security benefits. The level of concern here depends on how the labor market responds to the effects of baby-boomer retirements and the resulting slower workforce growth. Employers' traditional reluctance to retain or hire older workers may be overcome if there are insufficient numbers of new workers to replace those reaching traditional retirement ages.

Disproportionately affects low-wage workers

As noted earlier, in general lower-wage workers have poorer health at older ages than high-wage workers, and shorter life expectancies. They are also likely to have more physically demanding jobs. Thus, many lower-wage workers will not be able to work for extended periods due to poor health, lower skill levels, and their jobs' physical demands. An increase in the NRA would significantly impact these workers to the extent they are forced to claim early retirement benefits with reductions greater than under current law. Adding to the problem is the fact that lower-wage workers rely most heavily on Social Security as a primary (or sole) source of retirement income.

Potential Solutions

Any assessment of the impact of a proposed increase in retirement age on lower-income beneficiaries should be made in the context of the full package of program changes. Many Social Security reform proposals include modifications that would make the benefit formula more progressive.[7] Many also include the addition of a minimum benefit (which would generally be tied to the federal poverty level). These types of changes could be expected to offset some or all of the benefit reduction impact on lower-wage workers.

A report issued by the National Commission on Fiscal Responsibility and Reform (2010) included a proposal for excluding/exempting some Social Security beneficiaries from the impact of retirement age increases. While the proposal did not tightly define the basis for exemptions, it directed that it be based on the presumed physical demands of an individual's occupation and/or the level of an individual's lifetime earnings. This type of solution is often viewed as impractical, however, given the difficulties involved in defining the physical demands of occupations and the lack of a one-to-one correspondence between health status and income level.

7 For example, one proposal would change the formula factors that apply to various levels of career average earnings from the current 90/32/15 to 95/32/15/5.

A more focused way to address this issue would be to provide a less restrictive definition of disability for workers at certain older ages. This would allow workers whose health presents an obstacle to continuing in their customary jobs to receive some more generous level of benefits—in excess of the regular early retirement benefit that could be reduced by 40% or more.

Another way to mitigate the negative impact of a later NRA on the most vulnerable older workers would be through an expansion of the Supplemental Security Insurance (SSI) program that provides supplemental benefits to low-income retirees with few financial assets.

Other Effects of Raising the Retirement Age

Changes to the Social Security NRA can be expected to have impact on the costs and operations of other income-related programs:

Increases disability program costs

The greater benefit reductions associated with retirement at earlier ages will encourage impaired workers younger than NRA to file for disability benefits. Disability benefit costs would also increase because disabled-worker benefits will be paid for a longer period—i.e., until the new higher NRA. This results in some of the savings from an increase in NRA likely being offset by increases in disability program costs, including costs related to any expansion of existing disability benefit provisions.

Increases ancillary program costs

Benefits under the SSI program are reduced by Social Security benefits received, so increased costs should also be expected under that program. Costs for workers' compensation and unemployment insurance would similarly increase as significant numbers of older people choose to continue working and ultimately become eligible to receive those benefits.

Effect on employer-provided benefits

A higher NRA for Social Security benefits, absent any corresponding change to employer benefit provisions, can be expected to increase health plan costs. On the other hand, as members of the baby-boom generation retire in large numbers, employers may find it in their interest to modify their retirement strategies to encourage older employees to work longer. Employers sponsoring defined benefit plans can accomplish this by raising the retirement age required for full pension benefits[8] and reducing early-retirement subsidies; such changes would reduce employer pension costs.

8 Note that this would require a legislative change to the current requirement that full plan benefits be payable no later than age 65.

Raising the Early Eligibility Age

Under present law, workers are eligible to receive retired-worker benefits as early as age 62. Retirement benefits beginning at age 62 in 2022 (the first age cohort for whom the current-law increase in NRA to age 67 is fully phased in) will be reduced to 70% of the full formula benefit, reflecting five years of reductions to offset the added value of earlier receipt and a longer expected payout period.

If the NRA were raised to age 70, receipt of a benefit commencing at age 62 would then entail three additional years of reductions. Given the existing early retirement reduction rationale, retirees at age 62 would receive roughly 57% of the full retirement benefit—a reduced benefit that could prove inadequate for many retired workers. In response to this concern, some proposals would raise the early eligibility age in tandem with an increase in NRA. However, raising the early age requirement could adversely affect individuals in poorer health if they are not able to qualify for some level of existing or expanded disability benefits.

Note that, given the level of reduction entailed, the earliest age for benefit eligibility is not viewed as a feature of great significance to Social Security's financial condition. However, providing a stronger structural incentive for longer employment—and thus a longer period of payroll tax contributions—would be helpful to the system's financial condition from a cash-flow perspective, even considering the offsetting impact of additional benefit accruals.

Signaling Aspects

Inconsistencies in program design and regulation results in inconsistent signaling to workers about societal expectations for retirement age. Consider the following array of now-inconsistent design elements:

- Social Security benefits are based on a normal retirement age that will soon phase up to age 67 and could increase further as the program is redesigned to achieve financial solvency.
- Medicare benefit eligibility has remained set at age 65 since the initiation of the program. Even with that program's troubled financial status, no significant consideration has been given to a delay in the program's eligibility age.
- Private-sector pension plans are required to provide unreduced/normal retirement age benefits no later than age 65.
- Benefit receipt under various tax-qualified retirement account benefits had for many years been required to begin no later than age 70½, which may have been viewed as setting a societal standard with regard to the upper limit for retirement to occur. More recent legislation increased the mandatory age for benefit receipt to age 72.[9]

9 This provision was included as part of The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019.

This rather piecemeal approach to retirement program design and regulation results in fragmented and inconsistent communications to workforce participants. A more effective strategy would align design features across the array of retirement-related programs. So doing would allow workers to better ascertain society's expectations for work and retirement, and provide greater focus in targeting the retirement resources made available to support that expectation. Better alignment would provide more clarity in benefit expectations and enable workers to plan for retirement more effectively.

Conclusion

Any proposal to improve Social Security financing can best be judged by how effectively it employs available societal resources to meet workers' retirement income needs, reflecting a careful balance of seemingly conflicting objectives. Program solvency must be restored so that the system can continue providing benefits, but any program redesign should not jeopardize the system's ability to provide an adequate level of retirement income for American workers.

The fact that increased longevity is among the root causes of Social Security's financial problems suggests that raising the normal retirement age is a likely—perhaps even necessary—component of any package of program changes that addresses them. The American Academy of Actuaries issued a public policy statement in 2008[10] advocating for an increase in Social Security's normal retirement age as part of a package of reforms designed to restore the system's long-term financial health.

Nevertheless, with such a significant program change, there are important issues and concerns that need to be considered and addressed, going beyond the impact on the Social Security system, including the well-being of the American workforce and macroeconomy.

10 *Actuaries Advocate Raising Social Security's Retirement Age* (August 2008).

Additional Resources

Social Security Reform Options

Public policy monograph analyzes proposals to modify benefit and tax provisions to address Social Security financial challenges.
(March 2014)

Individual Equity and Social Adequacy

Issue brief compares three proposals for reforming Social Security based on the principles of individual equity and social adequacy.
(March 2021)

Social Security — Automatic Adjustments

Issue brief examines automatic adjustment options to address Social Security financial challenges.
(May 2018)

Social Security—Office of the Chief Actuary website
https://www.ssa.gov/oact/pubs.html