

GAO

Report to the Chairman and Ranking  
Minority Member, Special Committee on  
Aging, U.S. Senate

August 1999

# SOCIAL SECURITY REFORM

## Implications of Raising the Retirement Age



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**Health, Education, and  
Human Services Division**

B-282269

August 27, 1999

The Honorable Charles E. Grassley, Chairman  
The Honorable John Breaux, Ranking Minority Member  
Special Committee on Aging  
United States Senate

Americans are now living longer than ever. Since 1940, the additional life expectancy at 65 years of age has increased 38 percent, and men and women born in 1997 can expect to live 73 years and 79 years, respectively. This growth in longevity has contributed to Social Security's projected \$3 trillion financial shortfall over the next 75 years by lengthening the period during which retirees receive benefits. The Congress has introduced numerous proposals addressing Social Security's financial difficulties, many of which would represent comprehensive reforms of the program. Several proposals focus on raising the normal retirement age (NRA) beyond 67 and some would also raise the earliest eligibility age (EEA) beyond 62. The Congress already approved a change in the retirement age in 1983 when it enacted legislation that phased in an increase in the NRA from 65 to 67 over a 22-year period beginning in 2000.

In light of the potential costs and benefits associated with higher retirement ages, you requested that we assess how raising retirement ages could affect (1) the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds and the Supplemental Security Income (SSI) program, (2) the labor market for older workers, and (3) vulnerable population groups such as blue-collar workers and minorities.<sup>1</sup> We presented preliminary findings on these issues in July 1998.<sup>2</sup> In this report, we expand upon that testimony by providing additional information on the potential effect of raising the retirement ages on the Social Security Trust

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<sup>1</sup>The OASI program of the Social Security system provides monthly cash benefits to retired workers and their dependents and survivors. Benefits are paid from the OASI Trust Fund, which is financed primarily by payroll taxes. The DI program of the Social Security system provides monthly cash benefits to workers who, having worked long enough and recently enough to be insured, become disabled and unable to work. The Social Security Administration (SSA) considers a person to be disabled when he or she is not only unable to do his or her previous work but, considering his or her age, education, and work experience, is also unable to do any other kind of substantial work. Benefits are paid from the DI Trust Fund, which is financed primarily by payroll taxes. The OASI and DI Trust Funds are collectively referred to as the Old-Age, Survivors, and Disability Insurance (OASDI) Trust Funds or Social Security Trust Funds. SSI is a means-tested, federally administered income assistance program that is financed by general tax dollars. The program was authorized by title XVI of the Social Security Act and began paying benefits in 1974. SSI provides monthly cash payments in accordance with uniform, nationwide eligibility requirements to needy aged, blind, and disabled persons.

<sup>2</sup>Social Security Reform: Raising Retirement Ages Improves Program Solvency but May Cause Hardship for Some (GAO/T-HEHS-98-207, July 15, 1998).

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Funds and the challenges facing certain older workers in extending their work lives.

To meet our objectives, we analyzed a nationally representative data set—the Health and Retirement Survey (HRS) compiled by the Institute for Social Research of the University of Michigan—and data from SSA. Because of the extensive use by, and the widespread familiarity of, researchers with these databases, we did not verify the accuracy of the data. We also interviewed experts in retirement behavior and conducted a thorough review of the relevant literature. To assess the effects of retirement age increases on trust fund solvency, we used a policy simulation model (EBRI-SSASIM2).<sup>3</sup> We conducted our work between March 1998 and May 1999 in accordance with generally accepted government auditing standards.

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## Results in Brief

Raising the normal or earliest eligibility age or both could have substantial net positive effects on the financial integrity of the OASDI Trust Funds by reducing the retirement benefits paid out and increasing the payroll taxes collected. The extent of the improvement in solvency would depend on how high and how quickly the ages were raised, particularly with the NRA, and how workers alter their retirement behavior in response to the change. Raising the retirement ages might also contribute to economic growth because workers would be likely to extend their careers. However, raising the retirement ages could increase DI and SSI caseloads. More older workers would be likely to apply for disability benefits because benefits for retired workers would fall relative to these programs' benefits for the disabled, and a greater number of employed older workers would lead to a greater number of DI participants. According to our estimates, however, the increases in DI participation and the associated increases in DI payments should not offset a substantial amount of the cost savings that would accrue to the OASI portion of the Social Security Trust Funds.<sup>4</sup>

Raising the retirement ages would increase the number of older workers in the labor force, as more workers would be employed for longer periods of time. The magnitude of this increase would depend on whether the EEA, the NRA, or both were raised. Another key factor is the size of the increase

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<sup>3</sup>The EBRI-SSASIM2 model, developed by the Policy Simulation Group with funding from the Employee Benefit Research Institute, is designed to closely approximate cost and benefit projections calculated by the Social Security Office of the Chief Actuary. See appendix I for a discussion of the model.

<sup>4</sup>Because SSI is financed through general revenues, it does not have a direct effect on the OASDI Trust Funds.

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in the EEA or the NRA and the transition period allowed for the changes to be implemented. Changes in the retirement ages could have a potentially substantial effect on the decisions of older workers to remain in the labor force if they were implemented quickly. The total population of persons aged 55 to 64 is expected to grow from 21 million to 30 million over the next decade as the baby boom generation ages, creating the potential for a significant increase in the number of persons in this age group in the labor force, currently approximately 12 million.

Increasing the number of older workers in the labor force, however, could also create the potential for additional unemployment. For example, although the health of the older population has generally improved, some groups of older workers—those who are less healthy and those in blue-collar occupations—may face significant barriers to continued employment. These obstacles could be most severe for African American and Hispanic workers, who are the most likely to be in blue-collar occupations and to experience unemployment.<sup>5</sup> Current unemployment rates for African American and Hispanic workers aged 53 to 63 are about twice as large as those for older white workers. However, individual proposals such as raising the retirement ages are often part of more comprehensive proposals to reform the Social Security system. In this context, an understanding of the cumulative effects of an entire reform proposal is essential to prevent any adverse effects from falling disproportionately on a single vulnerable population.

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## Background

The Social Security program is the foundation of the nation's retirement system, providing benefits to retired and disabled workers and their dependents and survivors. The original Social Security Act first established old-age benefits for retired workers in 1935. Benefits for dependents and survivors were added in 1939 and benefits for disabled workers were added in 1956. The primary source of revenue for OASI and DI Trust Funds is the payroll tax paid by workers covered by the program and their employers. Currently, an estimated 96 percent of the nation's workforce is covered by Social Security.

Originally, the Social Security Act established 65 as the minimum age at which retirement benefits could be obtained. This age was selected as a compromise between 60, which appeared to be too low an age from a cost

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<sup>5</sup>Most of the data sources we relied on used the terms African American, white, and Hispanic. Therefore, for the remainder of this report we use the same terms. Although we recognize that there are other racial groups, such as Asians and Native Americans, for the most part the data were not broken down finely enough for us to look at them separately.

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standpoint, and 70, which appeared to be too high given that life expectancy at birth in 1935 was 59 years for men and 63 years for women. Since 1956, women have had the option to take reduced benefits at age 62, and since 1961, this option has also been available to men. As a result, 62 has been defined as the EEA and 65 as the NRA. In an effort to improve Social Security's financial condition, the Congress approved a change in the retirement age in 1983 when it enacted legislation that phased in an increase in the NRA to 67 over a 22-year period beginning in 2000.

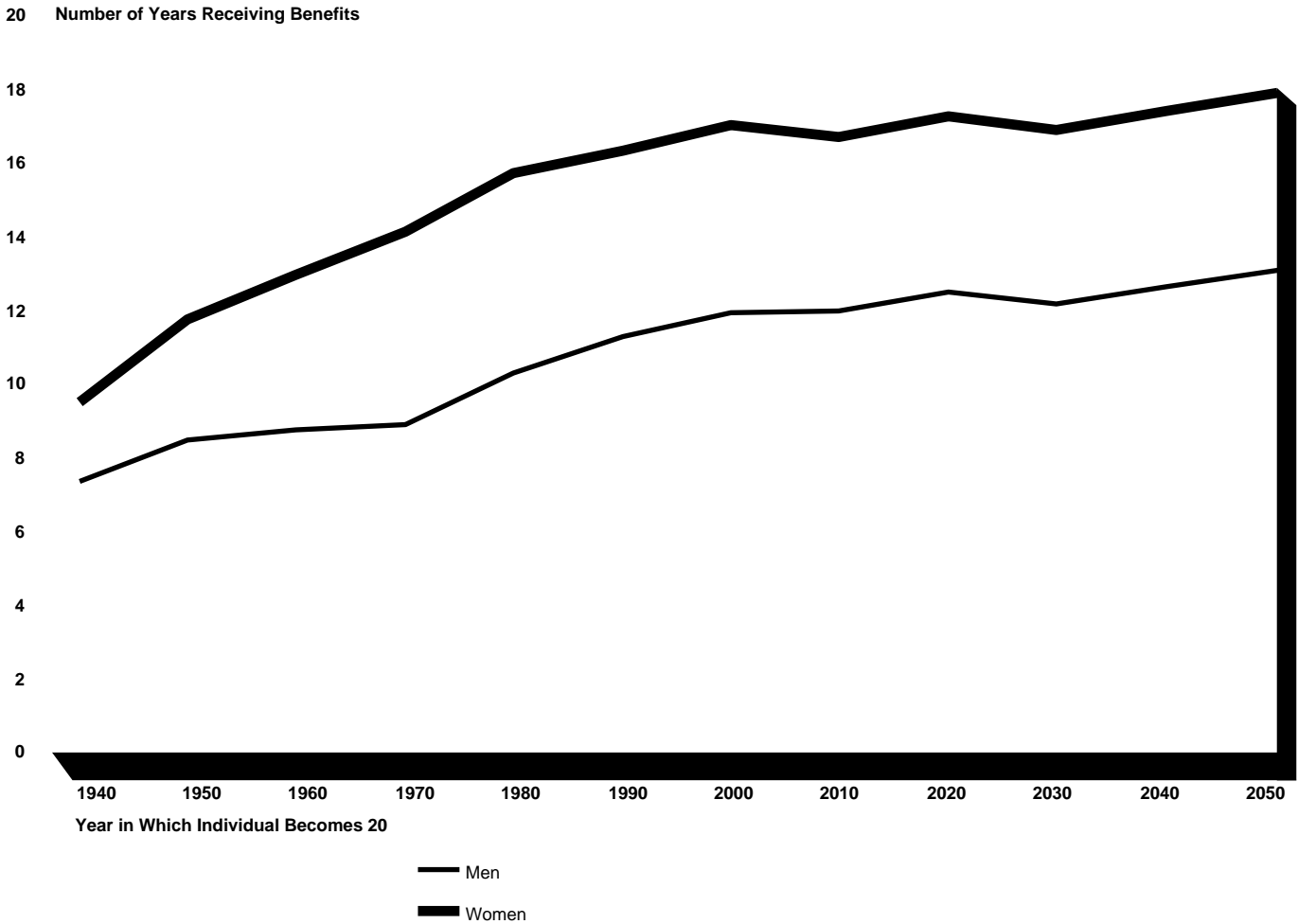
The Social Security Trust Funds have a projected financial shortfall or funding gap of approximately \$3 trillion over the next 75 years. This long-term financing problem is largely a result of greater life expectancy, lower birth rates, and the forthcoming retirement of the baby-boom generation (persons born from 1946 through 1964). Social Security is financed primarily on a pay-as-you-go method, which means that current workers pay current retirees' benefits. In 1997, there were approximately 3.4 workers for every beneficiary, and by 2030 this number is projected to fall to 2.1. Thus, in the foreseeable future relatively fewer people will be paying into the system and more people will be drawing benefits.

Legislative proposals introduced during the 105<sup>th</sup> Congress (1997-98) and 106<sup>th</sup> Congress (1999-2000) would raise the retirement ages faster and higher than the increases mandated in 1983. These proposals are being driven by the recognition that people are living longer and spending a growing proportion of their lives in retirement. In 1940, the first year Social Security benefits were paid, men and women aged 20 were expected to receive benefits for 7 years and 9 years, respectively, if they retired at the NRA.<sup>6</sup> This "expected benefit period" has now climbed to 12 years for men and 17 years for women and is projected to increase further over the next several decades. (See figure 1.) Raising retirement ages would alter this trend toward drawing benefits for an increasing portion of one's lifetime.

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<sup>6</sup>In 1937, Social Security provided one-time payments to beneficiaries. Regular monthly payments were initiated in 1940.

Figure 1: The Expected Number of Years Men and Women Will Receive Social Security Benefits If They Retire at the NRA



Source: Life Tables for the United States Social Security Area 1900-2080, Actuarial Study No. 107, Office of the Chief Actuary, Social Security Administration, U.S. Department of Health and Human Services.

For many proposals, raising the retirement age is only a part of a more comprehensive package of revisions to the Social Security program. Other provisions include such items as the establishment of individual accounts (either mandatory or voluntary), increasing the wage base of the Social

Security payroll tax, modifying cost-of-living adjustments made to Social Security benefits, expanding program coverage to newly hired state and local government employees, eliminating the so-called earnings test, and revising the benefit computation formula.<sup>7</sup>

## Raising Retirement Ages Would Improve Trust Fund Solvency but Increase Disability Caseloads

Increasing the Social Security retirement ages could have substantial positive effects on the financial integrity of the Social Security program. OASI Trust Fund solvency would improve as employees remained in the labor market longer, contributing more to payroll tax revenue and receiving Social Security benefits for a shorter time. In addition, the economy might grow because workers would be likely to extend their careers. These positive effects would vary, depending on how high and how fast the ages were raised, particularly with the NRA, and how the retirement behavior of workers responded to the change. Raising the retirement ages could result in increased caseloads for DI and SSI. However, for all the options we assessed, the increased costs from a higher DI caseload would not offset the significant cost savings that would accrue to the OASI portion of the Social Security Trust Funds.<sup>8</sup> Because SSI is financed by general revenues, any increase in SSI caseloads would affect federal general funds but would not affect the solvency of the Social Security Trust Funds.

## Changes to Retirement Ages Could Positively Affect Trust Fund Solvency

Our analysis of different options for raising retirement ages illustrates their potentially substantial effects on the solvency of the trust funds and the financial integrity of the Social Security program. The amount of the funding shortfall that could be erased by retirement age increases depends on the size and the speed of the changes, particularly with the NRA. The size of a change would affect the amount of lifetime benefits paid to retirees. If workers responded to the increase in retirement ages by working more years, they would receive benefits for a shorter period of time. If workers did not choose to work additional years, they would receive smaller monthly benefits. The speed of a change could have a large

<sup>7</sup>For example, see H.R. 2768, H.R. 3082, H.R. 4256, S. 1792, and S. 2313, introduced in the 105<sup>th</sup> Congress. The earnings test refers to the amount of income Social Security recipients can earn without having their benefits reduced. Currently, retirees younger than 65 can earn \$9,600 a year, with benefits reduced by \$1 for every \$2 earned above that amount. For retirees aged 65 to 69, the ceiling is \$15,500 per year, with every \$3 earned above that amount reducing benefits by \$1. There is no ceiling for retirees aged 70 and above.

<sup>8</sup>The options we chose to assess are meant to illustrate a wide range of retirement age changes and their effect on solvency.



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effect on solvency if it were made in time to affect the benefits that are paid to the baby-boom generation.<sup>9</sup>

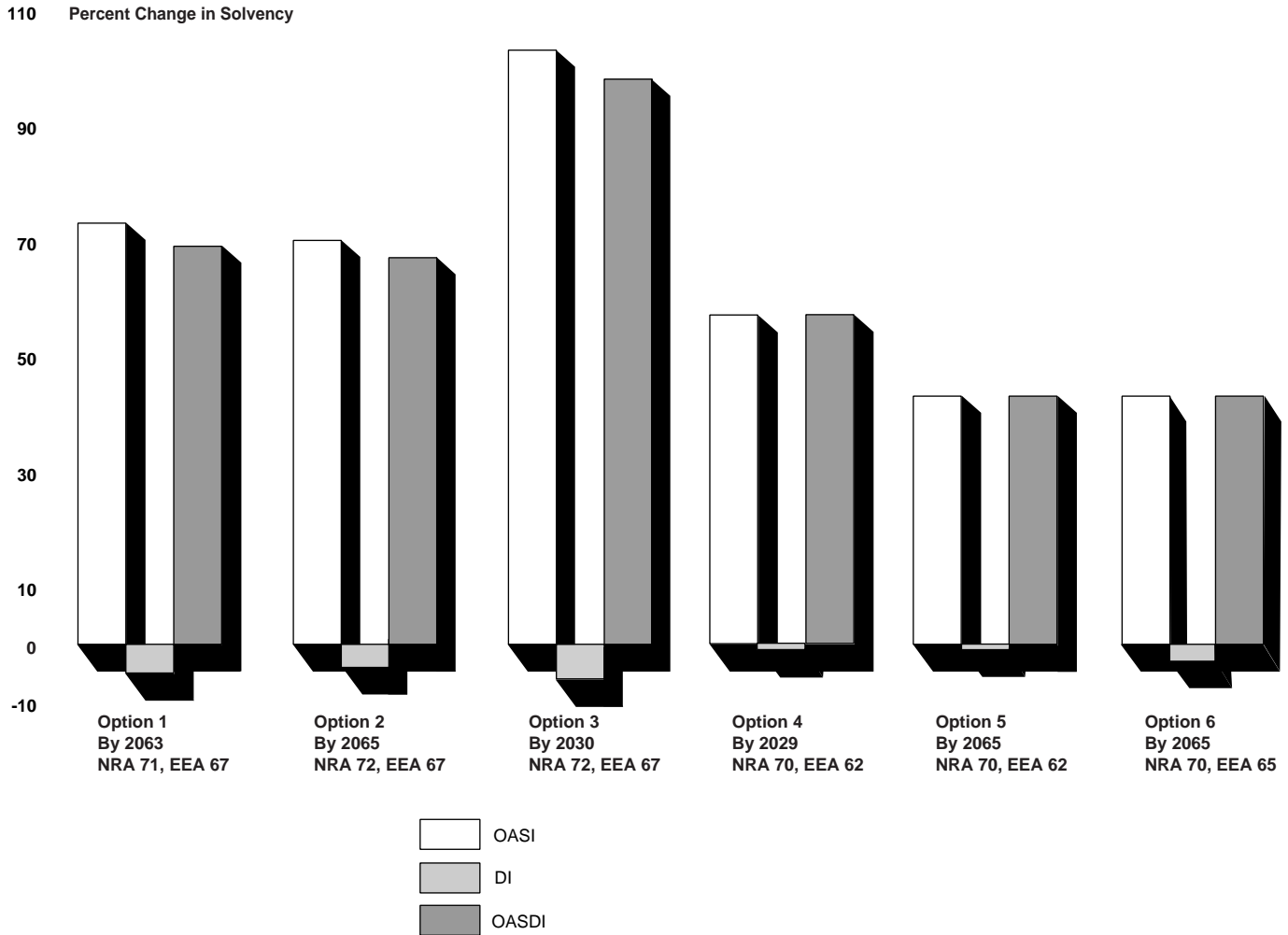
Figure 2 displays the effects of different retirement age changes that have been discussed by policymakers and others seeking to restore solvency to the trust funds. Currently, the OASDI Trust Funds have a payroll tax shortfall of 2.07 percent over the next 75 years—OASI accounts for 1.70 percent of the shortfall and DI 0.36 percent.<sup>10</sup> The payroll tax shortfall refers to the immediate increase in Social Security payroll taxes, expressed as a percentage of taxable wages that would be necessary to make the trust funds solvent. The first three options for retirement age changes depicted in figure 2 demonstrate how relatively large increases in retirement age could reduce a substantial amount of the Social Security Trust Funds financial shortfall. Option 1 shows that raising the EEA to 67 and the NRA to 71 by 2063 would reduce the shortfall by nearly 70 percent. Options 2 and 3 depict relatively similar changes to the retirement ages but the time periods for making the changes are different. Option 2 would phase in the changes more slowly, option 3 more quickly, than option 1. Thus, option 2 would have a smaller effect on solvency than option 1 whereas option 3 would have a larger effect.

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<sup>9</sup>The effects of various retirement age options are also sensitive to participant behavior—that is, how workers react to the policy change. See appendix I for a detailed description of the retirement age changes and the associated behavioral assumptions we applied in using the EBRI-SSASIM2 policy simulation model.

<sup>10</sup>Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, The 1999 Annual Report (Washington, D.C.: U.S. Government Printing Office, 1999), p. 113.

**Figure 2: The Effect of Raising the Retirement Ages on the Solvency of the Social Security Trust Funds**



Note: The percentage change in trust fund solvency refers to changes in the current 75-year trust funds balance (negative or positive) expressed as a percentage of taxable payroll. For example, if OASDI solvency is improved by 69 percent, the payroll tax shortfall would be 0.65 percent, since the current shortfall is 2.07 percent (the amount taxes would have to be raised to erase the funding deficit). See appendix I for a description of the time periods in which the retirement age changes were assumed to be made for each option.

Options 4-6 show the effects of more modest changes to the retirement age and the significance of changes in the NRA. Option 4 shows that increasing the NRA to 70 without a change in the EEA would reduce the solvency problem by more than 50 percent. Options 5 and 6 would also raise the NRA to 70 but would phase in the change over a longer time period, resulting in a smaller effect on solvency. Option 6, which is the same as option 5 but also raises the EEA to 65, would have only a slightly greater effect on solvency. This suggests that increasing the EEA has only a small effect on trust fund solvency, although its effect of encouraging people to work longer could be beneficial for the economy as a whole in facilitating growth.<sup>11</sup>

## Raising Retirement Ages Could Create Incentives Leading to Increased DI Participation

Raising the EEA or the NRA or both could provide incentives for individuals in relatively poor health to apply for disability benefits. First, workers who remain in the labor force longer are more likely to become disabled, so increasing retirement ages would increase the number of disabled workers and the DI caseload. An additional incentive would arise because a higher retirement age would increase the gap between retired worker benefits and disability benefits that existed before the increase.<sup>12</sup> Workers who are awarded DI benefits receive a benefit amount comparable to what they would have received if they had retired at the NRA. Thus, disabled workers who are awarded DI benefits at age 62 currently receive a 25-percent higher benefit than if they received retired worker benefits. If the NRA were increased to 67, the gap between retired worker and DI benefits at age 62 would grow to 43 percent. To the extent that the NRA were raised further, the gap between DI and retired worker benefits would also grow. Raising the EEA would have an even greater effect, because retired worker benefits would now be available only at the new higher EEA. This would greatly increase the incentive for workers to apply for DI benefits once they reached the previous EEA.

Medicare eligibility offers another incentive for individuals to apply to the DI program. DI participants are eligible for medical coverage under Medicare 2 years after DI benefits commence. Thus, individuals awarded DI

<sup>11</sup>Workers who retire at earlier ages receive lower monthly benefits throughout their lifetimes. SSA benefits are designed such that the total lifetime value of benefits received by a person retiring at the EEA is about equal, on average, to that received by a person who retires at the NRA. For those who retire before the NRA, the reduced payroll tax receipts from the forgone years of work approximately offset the lower monthly benefit level paid over the retirement years.

<sup>12</sup>Once a person is placed on the DI rolls, benefits continue until death, until SSA determines that he or she no longer meets the eligibility requirements, or until benefits are converted to Social Security retirement benefits at the NRA.

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benefits before age 63 get extra Medicare coverage for which they would not otherwise be eligible until age 65. If Medicare eligibility were raised along with the EEA and NRA, individuals would thus have an incentive to try to attain DI benefits. Medicaid represents an additional medical coverage issue in that individuals who are dually eligible for DI and SSI benefits are also generally eligible to receive Medicaid, thus possibly increasing costs to this program.

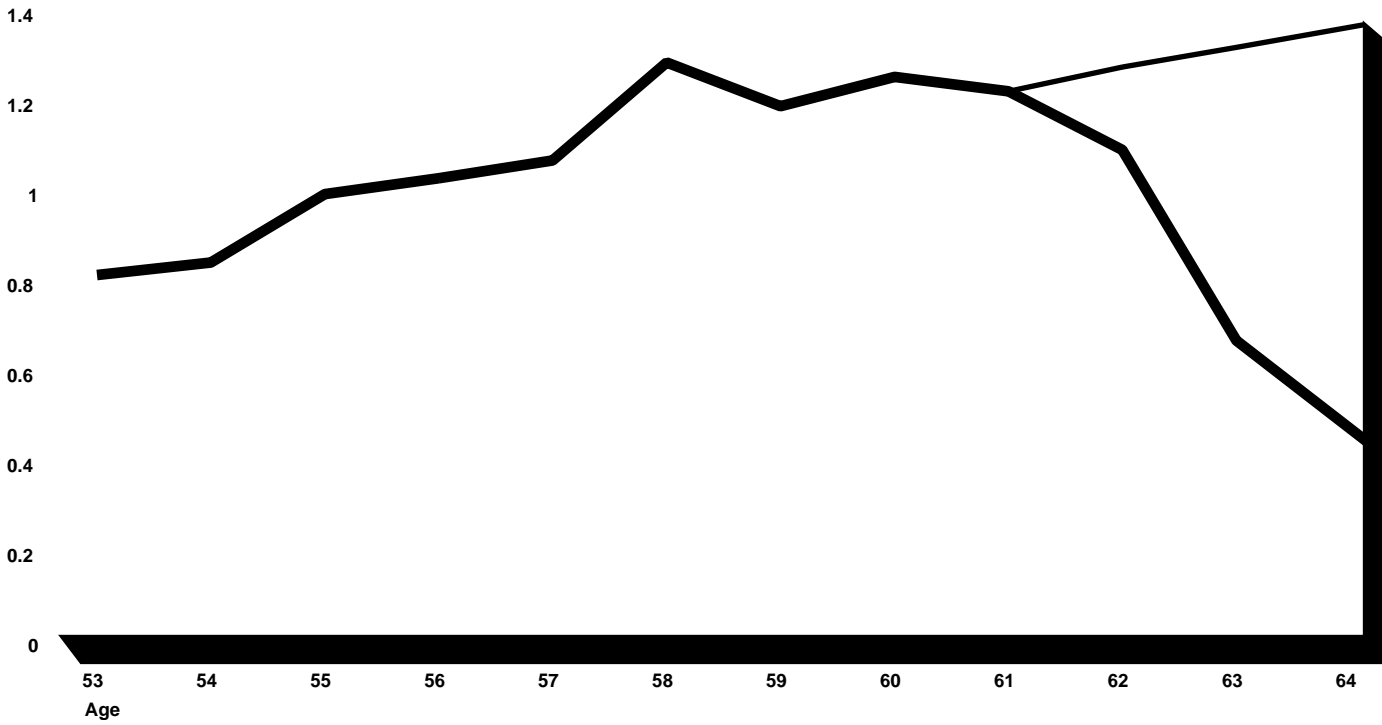
Raising retirement ages would also change some of the administrative disincentives that currently keep people from applying for DI benefits at age 62. Although DI applicants can earn retired worker benefits while their application is being processed, DI participation is likely discouraged at ages 62 to 64 because of the lengthy disability determination process and restrictions on earnings.<sup>13</sup> Figure 3 illustrates this effect, showing a steady increase in the rate of new disability awards from age 53 to age 61, which drops substantially at age 62 and falls further through age 64. This decline could occur for a number of reasons. There is a 5-month waiting period after the onset of the disability until a person can apply for benefits and the subsequent disability determination process is complex and can prove lengthy. In comparison, the application process for Social Security retirement benefits is straightforward—applicants must only meet the coverage and age requirements.

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<sup>13</sup>J.L. Mashaw and V. Reno (eds.), *Balancing Security and Opportunity: The Challenge of Disability Income Policy* (Washington, D.C.: National Academy of Social Insurance, Disability Policy Panel, 1996).

Figure 3: New Disability Awards as a Percentage of the DI-Covered Population, Ages 53-64

1.6 Percent of DI-Covered Population



Actual

Projected

Note: Predicted values are based on the trend from ages 55 to 61.

Source: SSA, Annual Statistical Supplement (Washington, D.C.: 1993-96), table 6.A4.

For participants with wage earnings, DI benefits are also generally subject to a more stringent earnings test; they are reduced to a greater degree than are Social Security retirement benefits. Currently, retired beneficiaries who are younger than 65 may have average monthly earnings up to \$800 with no benefit reduction, after which benefits are reduced by \$1 for every \$2 over that amount. In contrast, after a trial period, DI recipients have their full benefit withheld if they earn more than the amount considered to

be substantial gainful activity (average monthly earnings of \$700). Finally, DI benefits are offset by workers' compensation benefits, while Social Security retirement benefits are not. Thus, the availability of retired worker benefits at age 62 currently creates an incentive for many workers to apply for retired worker benefits rather than DI benefits. If the EEA were raised, these incentives would change and more workers would apply for DI.

Our analysis indicates that the increase in DI participation would not offset a substantial amount of the cost savings that could accrue to the OASI portion of the trust fund if retirement ages were raised to levels comparable to those in figure 2. For example, if option 3 (which raises the EEA to 67 and the NRA to 72 by 2030) were adopted, the incentives mentioned above that encourage workers to apply for Social Security retirement benefits instead of DI benefits would be applicable at age 67 rather than age 62. Figure 3 illustrates the expected rate of increase in new DI participation if retired worker benefits were no longer available at ages 62-67.<sup>14</sup> This trend line assumes that the new increase in DI participation would be similar to the rate of increase in participation at ages 53 to 61, when retired worker benefits are currently not available.<sup>15</sup> If we assume this rate of change in new DI participation, the DI Trust Fund would incur an increasing payroll tax shortfall. However, the improvement in solvency for the OASI Trust Fund would offset the DI cost increases, resulting in a net improvement in solvency for the OASDI Trust Funds.

## Raising Retirement Ages Would Slightly Increase SSI Participation

The SSI program would also experience an increase in the number of participants as a result of raising the retirement ages. Seventy-nine percent of SSI participants receive benefits because they are disabled or blind and have income and other resources below specified thresholds. The remaining 21 percent are qualified participants by being 65 years old or older with income and other resources below the specified thresholds. As with DI, the number of disabled SSI recipients would likely increase with a higher OASI retirement age because more individuals are likely to become disabled as the number of working years increases. The increase in participation would depend on the extent to which these disabled individuals have income and other resource levels that qualify them for SSI.

<sup>14</sup>Figure 3 extends the trend line only to age 64. For purposes of the estimation, we continued the trend until age 67.

<sup>15</sup>According to SSA officials, the rate of increase in DI participation could be even higher than the estimates we present in figure 3 because the likelihood of meeting disability requirements increases with age.

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On the basis of our estimations of increased participation in the DI program, we expect a small increase in SSI participation from disabled individuals if retirement ages are raised. In addition, according to SSA, if the NRA is raised but the EEA is not, the reduction in benefits at the early eligibility ages may cause some individuals' benefits to be sufficiently low as to make them eligible for SSI. Because SSI is financed through general revenues, increases in program participation would affect the overall federal budget rather than the Social Security Trust Funds. Moreover, individuals who receive SSI benefits are generally eligible for Medicaid benefits.<sup>16</sup> Thus, raising retirement ages might also indirectly affect the Medicaid program.

In contrast to the increase in the number of disabled SSI participants, the number of older SSI participants might actually decrease if the EEA were changed. This is because SSI currently creates an incentive for low-income, nondisabled individuals to retire at the EEA. Raising the EEA could induce prospective SSI recipients to stay in the labor force, likely reducing their eligibility for SSI.

SSI's incentive for low-income, nondisabled individuals to retire at the EEA is that such retirement maximizes their lifetime benefits from Social Security and SSI.<sup>17</sup> Individuals who elect to receive Social Security benefits at age 62 and subsequently qualify for SSI at age 65 earn more total benefits than if they first receive Social Security benefits at age 65. For individuals aged 65 or older with incomes below the SSI threshold, benefit payments are raised to the SSI threshold even if they began receiving Social Security benefits before age 65. For example, an individual who was entitled to a Social Security benefit of \$400 at age 62 in 1993 could have received this benefit from age 62 to age 64 and then applied to the SSI program at age 65. His or her monthly benefit would then be \$470 at age 65 (\$400 from Social Security and an additional \$70 from SSI). If the EEA were raised, this could induce prospective SSI participants who can work to remain in the labor force, which would increase the amount of their Social Security benefit and their accumulation of assets. Both of these factors would reduce their ability to qualify for SSI and reduce the number of older SSI beneficiaries.

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<sup>16</sup>Medicaid is a joint federal and state entitlement program providing medical assistance for low-income children and pregnant women, members of families with dependent children, and low-income persons who are aged, blind, or disabled.

<sup>17</sup>D. Neumark and E. Powers, *Welfare for the Elderly: The Effects of SSI on Pre-retirement Labor Supply*, working paper 6805 (Cambridge, Mass.: National Bureau of Economic Research, 1998).

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Thus, an increase in the EEA may decrease the number of older SSI participants.<sup>18</sup>

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## Raising Retirement Ages Would Increase the Number of Older Workers in the Labor Market

Raising the retirement ages would increase the number of older workers in the labor market, particularly as the baby-boom generation ages. The magnitude of this increase would depend on whether the EEA, the NRA, or both were raised, the size of the increase, and the transition period allowed for the change to be implemented. Although the health of the older population has improved, older workers may face significant barriers to continued employment. Employers' needs for particular skills and their perceptions about older workers' productivity may form potential barriers to older workers retaining their current jobs, finding new jobs if they are laid off, or reentering the labor force after retirement. However, many older workers are currently leaving a career job and then finding similar full- or part-time work.

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## Social Security Is One Factor Among Many Affecting the Retirement Decision

From 1950 to 1985, there was a downward trend in labor force participation among men aged 55 and older.<sup>19</sup> (See figure 4.) However, labor force participation among older men has been relatively constant since 1985, varying between 66 and 68 percent of all men 55 to 64 years old and between 16 and 17 percent of all men 65 and older. Labor force participation rates for older men are projected to increase slightly over the next decade.<sup>20</sup>

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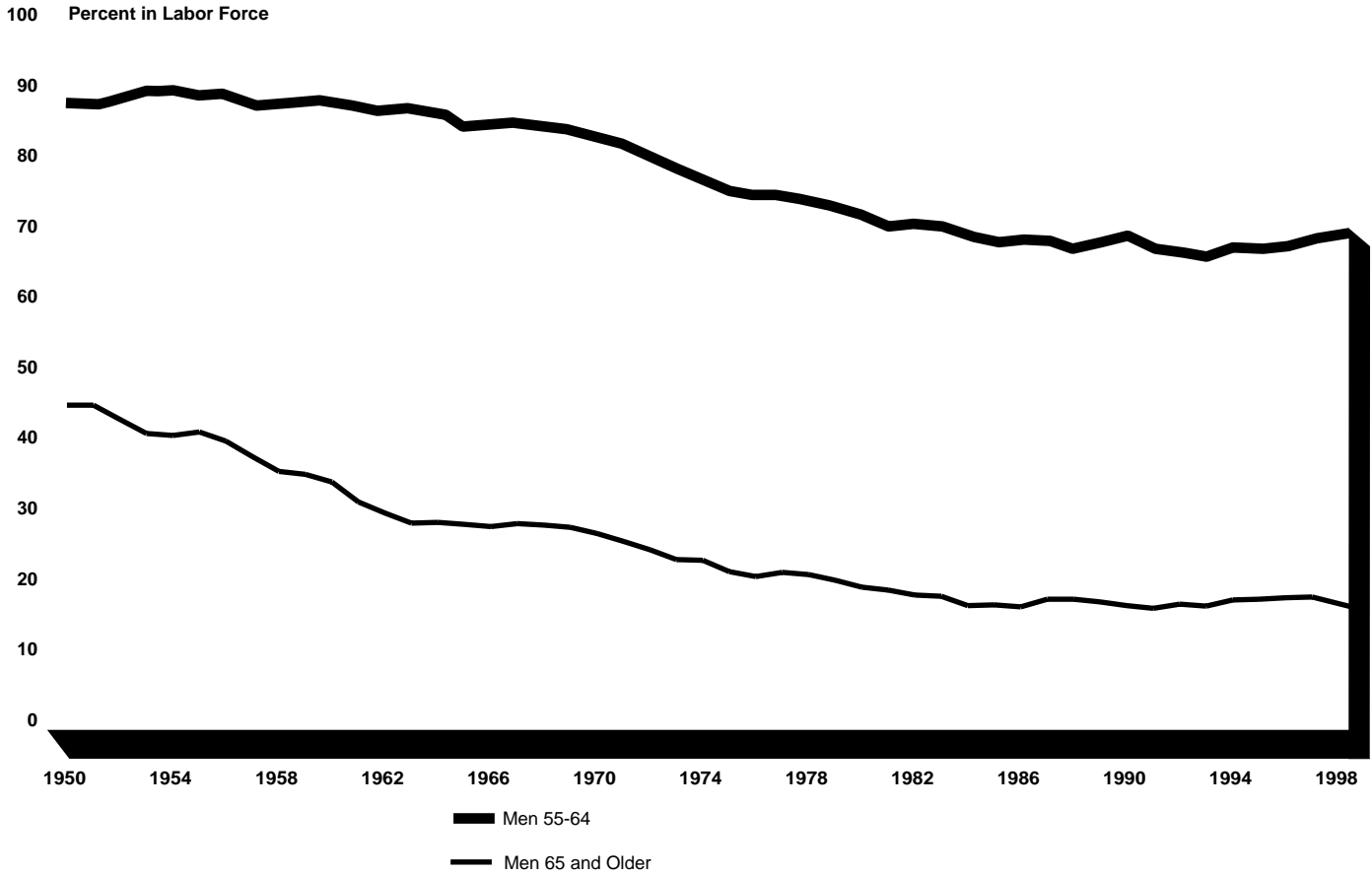
<sup>18</sup>If the NRA but not the EEA were raised, then the incentive to take retired worker benefits at the earliest possible age would not change. Under this scenario, raising the NRA would be likely to have little effect on the number of older SSI participants.

<sup>19</sup>Much of the literature concerning long-term trends in labor force participation has focused on men. It is often assumed that past employment patterns of men should reflect the future employment patterns of women, as more women enter the labor force at earlier ages.

<sup>20</sup>H.N. Fullerton, "Labor Force 2006: Slowing Down and Changing Composition," Monthly Labor Review, Nov. 1997, pp. 23-38.



Figure 4: Labor Force Participation Rates of Men Aged 55 and Older, 1950-98



Source: Current Population Survey, Bureau of Labor Statistics.

The specified eligibility ages for benefits under Social Security provide an important benchmark for considering when to retire; however, many other aspects of the Social Security program also influence the retirement decision, such as the level of Social Security benefits. Social Security benefits, adjusted for inflation, increased substantially during the 1970s and this tended to encourage early retirement, although benefit increases

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leveled off during the 1980s and 1990s.<sup>21</sup> Other changes in the program have encouraged continued employment. For example, the amount of income Social Security recipients can earn without having their Social Security benefits reduced (the earnings test) has been increased in recent years. Recently enacted legislative changes raising the delayed retirement credit, which boosts Social Security benefits for working beyond the NRA, will further increase the attractiveness of employment at later ages.<sup>22</sup>

Other factors besides the Social Security program affect workers' decision to retire, and many of these tend to encourage employment in later ages. For example, between 1945 and 1985, up to half of all workers were subject to mandatory retirement policies, usually at age 65, limiting the labor force participation of older workers. However, the Age Discrimination in Employment Act of 1986 (ADEA) eliminated most forms of mandatory retirement.<sup>23</sup> Increasing levels of income and wealth following World War II also meant that a greater number of individuals could afford to retire at earlier ages. However, real wage growth for many employees has declined since the late 1970s, picking up only during the past few years. The shift from defined-benefit to defined-contribution pension plans has also provided incentives for employees to work to later ages.<sup>24</sup> In the past, a greater percentage of pension plan participants were covered by employer-sponsored defined-benefit pensions, which could encourage early retirement because they often provide relatively little additional retirement benefit after the worker reaches the plan's target retirement age, usually specified in terms of years of service with that employer. However, over the past 2 decades, an increasing percentage of

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<sup>21</sup>See Richard A. Ippolito, "Toward Explaining Early Retirement After 1970," *Industrial and Labor Relations Review*, Vol. 43, No. 5 (July 1990), pp. 556-69. This study attributed a 20-percent decline in labor force participation among men aged 55 to 64 years old from 1970 to 1986 primarily to a 50-percent increase in Social Security benefits in the 1970s and to changes in employer-sponsored pension plans that favored early retirement.

<sup>22</sup>Under current law, workers who delay retirement until after the NRA receive delayed retirement credits (DRC). Such credits increase benefits by additional amounts for every year up to a maximum. The Congress has increased the DRC since the early 1980s. The DRC was 1 percent per year for workers who attained age 65 before 1982 and 3 percent per year for workers who attained age 65 between 1982 and 1989. Starting in 1990, the DRC began increasing by one-half of 1 percent every other year until it reaches 8 percent for workers reaching age 65 after 2007.

<sup>23</sup>This federal law protects older workers, those aged 40 or more, from employment discrimination. However, some forms of mandatory retirement are still permissible under federal law. For example, a state or political subdivision may institute a mandatory retirement program pursuant to a bona fide retirement plan in effect before March 3, 1983. Tenured faculty members may be subject to compulsory retirement at age 70. Finally, bona fide executives or high policy makers who are age 65, have been in such positions for 2 years, and are entitled to an immediate nonforfeitable annual retirement benefit of at least \$44,000 may be subject to compulsory retirement.

<sup>24</sup>A defined benefit pension plan promises the worker a benefit based on a specific formula linked to the worker's earnings and years of employment. In a defined contribution plan, a percentage of the worker's pay is contributed to an account from which the worker receives a benefit upon retirement.

workers have been covered by defined contribution plans. These plans, because they are dependent on workers' and employers' contributions, do not create incentives for retiring early.<sup>25</sup>

## Increasing the EEA Can Have a Major Effect on Older Workers' Labor Force Participation

The EEA of 62 encourages early retirement. The availability of Social Security benefits allows workers to substitute nonlabor income for earnings, which induces many older workers to retire. Social Security replaces about 40 percent of an individual's preretirement income, on average, if benefits are taken at the EEA of 62.<sup>26</sup> Thus, individuals who work beyond age 62 pass up the opportunity to obtain a substantial portion of their salary without working. Although individuals who work beyond 62 gain increased benefits, they must continue to pay Social Security taxes with the possibility that they will not fully collect these additional benefits. According to one study on the effects of these factors on the retirement decision, the lifetime benefits from Social Security are roughly equivalent whether benefits start at age 62, 63, or 64.<sup>27</sup> Thus, individuals who work a few years beyond the EEA are fairly compensated, in terms of Social Security benefits, for staying in the labor force.<sup>28</sup> However, a person who works beyond 64 is not currently fully compensated for the extra years in the labor force because the benefit increases beyond the NRA do not offset benefits forgone and extra taxes paid.<sup>29</sup>

Raising the EEA is likely to substantially affect older workers' retirement decisions. Although the lifetime benefits that a retiree earns from Social Security are nearly equivalent whenever benefit payments are started from age 62 through age 64, the EEA is the preferred age for initially receiving

<sup>25</sup>See J. Quinn, "New Paths to Retirement," in O. Mitchell, B. Hammond, and A. Rapport (eds.), *Forecasting Retirement Needs and Retirement Wealth* (Philadelphia: University of Philadelphia Press (forthcoming)) for a complete discussion of the factors influencing retirement.

<sup>26</sup>P. Diamond and J. Gruber, "Social Security and Retirement in the United States," *Social Security and Retirement around the World* (Chicago: University of Chicago Press, 1999).

<sup>27</sup>Diamond and Gruber, "Social Security and Retirement in the United States."

<sup>28</sup>The approximate equivalency in lifetime benefits at the earliest eligibility ages is referred to as "actuarial fairness." This actuarial fairness means that substantial cost savings to the OASDI Trust Funds will likely not occur if the earliest eligibility age is raised, because the total payment of benefits will continue to be roughly the same in the absence of a change in the NRA. The lower benefits when retiring at the EEA are counterbalanced by the forgone payroll taxes that would have been paid if the worker retired at a later date. For example, we estimated a change in the EEA to age 64 with the currently mandated change in the NRA to age 67. The change in the EEA actually worsened the solvency of the trust funds (the change in solvency was less than 1 percent) because the small cost savings that accrued to OASI from raising the EEA were more than offset by increased costs to DI.

<sup>29</sup>As noted earlier, the delayed retirement credit is steadily being increased until it reaches 8 percent in 2007. This will increase the level of benefit payments for persons choosing to retire after the NRA and bring benefit payments closer to actuarial fairness.

Social Security benefits. As table 1 shows, 60 percent of new retirees begin to receive benefits at age 62. This preference for retirement at age 62 can be partially explained by the many older workers who cannot afford to stop working until they can receive Social Security benefits. Also, many older workers leave a career job and work part-time before age 62 in jobs that provide enough income to finance their retirement until they are eligible to receive Social Security benefits. If the EEA were raised, these workers might be inclined to stay in the labor force until they attained the new EEA. Thus, raising the EEA could keep workers in the labor force longer.

**Table 1: Percentage of Individuals Electing to Start Receiving Social Security Benefits at Age 62 and Later, 1940 to 1996**

Year	Age 62	Ages 63-64	Age 65	Ages 66+	Average age
1940	a	a	8.3%	91.7%	68.7
1950	a	a	23.1	76.9	68.5
1960	10.0%	7.9%	35.3	46.7	66.2
1970	27.8	23.2	36.9	12.1	64.2
1980	40.5	22.2	30.7	6.6	63.7
1990	56.6	20.2	16.6	6.7	63.6
1996	60.2	17.8	16.2	5.8	63.5

<sup>a</sup>Benefits not available before age 65.

Source: Staff, Committee on Ways and Means, U.S. House of Representatives, 1998 Green Book (Washington, D.C.: U.S. Government Printing Office, 1998).

A change in the EEA, particularly if it were implemented quickly, could affect a substantial number of older workers. In 1996, there were nearly 21 million persons (11 percent of the labor force) in the United States aged 55 to 64 and 42 percent of them did not participate in the labor force. Over the next decade, the number of persons aged 55 to 64 is projected to grow to 30 million (14 percent of the labor force), and 37 percent are not expected to be in the labor force.<sup>30</sup> Raising the EEA could induce many of these persons to change their retirement plans.

**The Effects of Increasing the NRA Will Depend on Its Relationship to the EEA**

Raising the NRA could also affect an individual’s decision to continue working, depending on how high it is raised in relation to the EEA. If the NRA rises without increasing the EEA, as was legislated in 1983, then benefit levels at all ages between the EEA and the NRA will be reduced. (See table 2.) In other words, as the gap between the EEA and the NRA grows,

<sup>30</sup>Fullerton, “Labor Force 2006.”

individuals will earn lower benefit rates at pre-NRA ages. However, if the structure of benefits is maintained such that lifetime benefits are the same at all EEAs and the NRA, as now, then incentives might not be created to keep workers in the labor force beyond the EEA. The extent to which a rise in the NRA will affect decisions to work to older ages will depend on the degree to which individuals need to obtain additional income from other sources to offset the cut in benefit rates. On one hand, individuals can expect the same lifetime benefit if they retire before the NRA; therefore, they might be likely to continue to retire at the EEA. On the other hand, the lower benefit rates at pre-NRA ages might induce many individuals to continue to work in order to earn a higher monthly benefit.

**Table 2: The Percentage Reduction in Benefits Upon Retirement Before the Current NRA Compared With the Reduction When the NRA Rises to 67 According to the 1983 Legislation**

Age of retirement	NRA = 65	NRA = 67
62	20.0	30.0
63	13.3	25.0
64	6.7	20.0
65	a	13.3
66	a	6.7

<sup>a</sup>Not applicable.

Source: Staff, Committee on Ways and Means, U.S. House of Representatives, 1998 Green Book (Washington, D.C.: U.S. Government Printing Office, 1998).

## Improved Health Among Older Workers Increases Their Ability to Work to Later Ages

Raising the retirement ages would be consistent with the findings of recent studies about the health of the elderly population that show that people have the ability to continue working as they age. One study estimated that from 1982 to 1994 the disability rates among persons aged 65 to 69 fell from 11.7 percent to 9.7 percent.<sup>31</sup> This study found a similar trend toward improved health among persons 70 years old and older. Another study estimated that the expected number of disability-free years after age 65 rose during the 1980s in the United States for men from 6.8 to 7.4 and for women from 9.3 to 9.8.<sup>32</sup> This research suggests that improvements in life expectancy have been accompanied by improvements in “work life” expectancy.

<sup>31</sup>K.G. Manton, L.S. Corder, and E. Stallard, “Chronic Disability Trends in Elderly United States Populations: 1982-1994,” Proceedings of the National Academy of Sciences of the United States of America, Vol. 9 (March 1997), pp. 2593-98.

<sup>32</sup>E.M. Crimmins, Y. Saito, and D. Ingegneri, “Trends in Disability-Free Life Expectancy in the United States, 1970-1990,” Population and Development Review, Vol. 23, No. 3 (1997), pp. 555-72.

In addition to the findings about improved health at older ages, it appears that poor health is not the primary reason why many people retire early. Some evidence suggests that raising the EEA would have only a limited effect on individuals in poor health.<sup>33</sup> For example, one study found that the majority of persons who retire at the EEA do so because they are financially able and not because of poor health. Thus, if the EEA were increased, the primary effect would be to deny benefits to individuals who retired early for financial reasons rather than to deny benefits to individuals who retired early because of poor health.<sup>34</sup>

## Older Workers Face Barriers to Continued Employment

Although the improved health of the elderly population suggests the potential for increased employment by older workers, those workers must still seek and secure employment in the labor market. Employers may not want to hire or retain older workers for several reasons. Recent research suggests that employers who provide health care coverage are less likely to hire older workers.<sup>35</sup> The researchers who found this negative correlation indicate that it is probably the result of a provision in the ADEA that firms must offer workers who have similar experience the same level of benefits.<sup>36</sup> Since younger employees are less costly to insure, firms prefer them. The shorter potential length of time an older worker may remain with an employer is another obstacle to hiring older workers, because some employers are less likely to recoup recruitment and training

<sup>33</sup>R.V. Burkhauser, K.A. Couch, and J.W. Philips, "Who Takes Early Social Security Benefits? The Economic and Health Characteristic of Early Beneficiaries," *The Gerontologist*, Vol. 36, No. 6 (1996), pp. 789-99. A 1999 study by the Congressional Budget Office, Raising the Earliest Eligibility Age for Social Security Benefits (Washington, D.C.: Jan. 1999), came to a similar conclusion.

<sup>34</sup>The Burkhauser, Couch, and Philips study is the culmination of a shift in conclusions about retirement from health toward financial determinants. In 1990, J. Quinn, R. Burkhauser, and D. Myers documented this shift in thinking that began in the middle 1960s in Passing the Torch: The Influence of Economic Incentives on Work and Retirement (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 1990). Before this time, health was thought to be the primary consideration for an individual's decision to retire. However, research in the 1970s and 1980s began to highlight the role of employer-provided benefits, household wealth, and Social Security benefits in individual retirement decisions.

<sup>35</sup>F.A. Scott, M.C. Berger, and J.E. Garen, "Do Health Insurance and Pension Costs Reduce the Job Opportunities of Older Workers?" Industrial and Labor Relations Review, Vol. 48, No. 4 (1995), pp. 775-91.

<sup>36</sup>The ADEA makes it unlawful for an employer to discriminate against individuals with respect to their compensation, terms, conditions, or privileges of employment because of their age. However, the act applies only to firms with 20 or more employees, excluding a not insignificant proportion of the labor force. Although the states have their own laws protecting older workers at small firms, some do not provide additional coverage of such small businesses. For example, Alabama and Louisiana cover only businesses with 20 or more employees, and Nebraska covers only employers with 25 or more employees. Other states, like California and Illinois, still fail to cover all small employers, exempting those with fewer than five employees.

costs for them than for younger workers.<sup>37</sup> Recruitment involves such activities as job advertising and conducting applicant interviews. Newly hired employees may also require significant training to perform their jobs. If turnover rates between younger and older workers do not differ, younger workers provide employers a longer period to recoup these costs than older workers do.

A final obstacle that older workers face is a negative perception among employers about their productivity.<sup>38</sup> Surveys have found that managers have both positive perceptions about the productivity of older workers—for example, that they have superior judgment and commitment to quality, have better work habits, and are very reliable—and negative perceptions—for example, that they have reduced ability to learn new skills or technologies and lower physical vigor. However, these studies conclude that most managers believe that the so-called negative aspects of older workers outweigh the positive aspects, suggesting that they may be less likely to hire, or retain, older workers when given the opportunity.

## Questions Remain About the Access and Adequacy of Transitional Employment for Older Workers

A major issue facing many older workers is the availability and the income adequacy of so-called bridge jobs—the transitional employment from a career job until complete retirement. Increasingly, workers who retire from career jobs are continuing to work.<sup>39</sup> In addition, many companies that are downsizing their workforces offer early retirement incentives.<sup>40</sup> Older workers who act on an early retirement incentive may underestimate their need for financial resources during retirement and may need to reenter the labor force to earn additional income to meet their retirement needs. If Social Security retirement ages are raised and employers continue to offer early retirement incentives, then these bridge jobs are likely to become more important. Individuals will have longer time periods to fill between leaving a career job and qualifying for Social Security benefits.

<sup>37</sup>R.M. Hutchens, "Do Job Opportunities Decline with Age?" *Industrial and Labor Relations Review*, Vol. 42, No. 1 (1988), pp. 89-99.

<sup>38</sup>M.C. Barth, "Older Workers: Perception and Reality," paper delivered by the Executive Vice President, ICF Kaiser Consulting Group, at the U.S. Senate Special Committee on Aging Forum, n.p., July 25, 1997.

<sup>39</sup>D.E. Herz, "Work After Retirement: An Increasing Trend Among Men," *Monthly Labor Review*, April 1995, pp. 13-20, and Quinn, "New Paths to Retirement."

<sup>40</sup>M.L. Marks, "Restructuring and Downsizing," in *Building the Competitive Workforce: Investing in Human Capital for Corporate Success* (New York: John Wiley & Sons, 1993), pp. 60-94.

In 1996, nearly half of all workers aged 55 to 65 who had left their career job were employed in a bridge job.<sup>41</sup> The baby boom generation appears to be ready to seek more employment in bridge jobs. According to a survey of persons born from 1946 through 1964, 80 percent expect to work during their retirement years.<sup>42</sup> Most older workers move into bridge jobs that are similar to their career jobs. (See figure 5.) For example, 79 percent of workers who had a highly skilled white-collar job during their careers were able to find a highly skilled white-collar bridge job. However, there is a shift in employment toward lower-skilled blue-collar occupations and part-time work as workers leave their career jobs and move into bridge jobs. Twenty-one percent of bridge jobs were in a lower-skilled blue-collar occupation compared with 13 percent of career jobs. Because of the increased percentage of lower-skilled labor and part-time work, bridge jobs tend to pay less than career jobs. According to one study, 65 percent of career jobs pay more than \$10 per hour but only 39 percent of bridge jobs pay this much.<sup>43</sup> Employment in bridge jobs is likely to shift further toward the lower-skilled service sector. The Bureau of Labor Statistics projects that employment in service-producing industries will grow at more than twice the rate of all other nonfarm industries over the next decade.<sup>44</sup>

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<sup>41</sup>Approximately 46 percent of workers in this age group were still employed in their career job according to Quinn, "New Paths to Retirement."

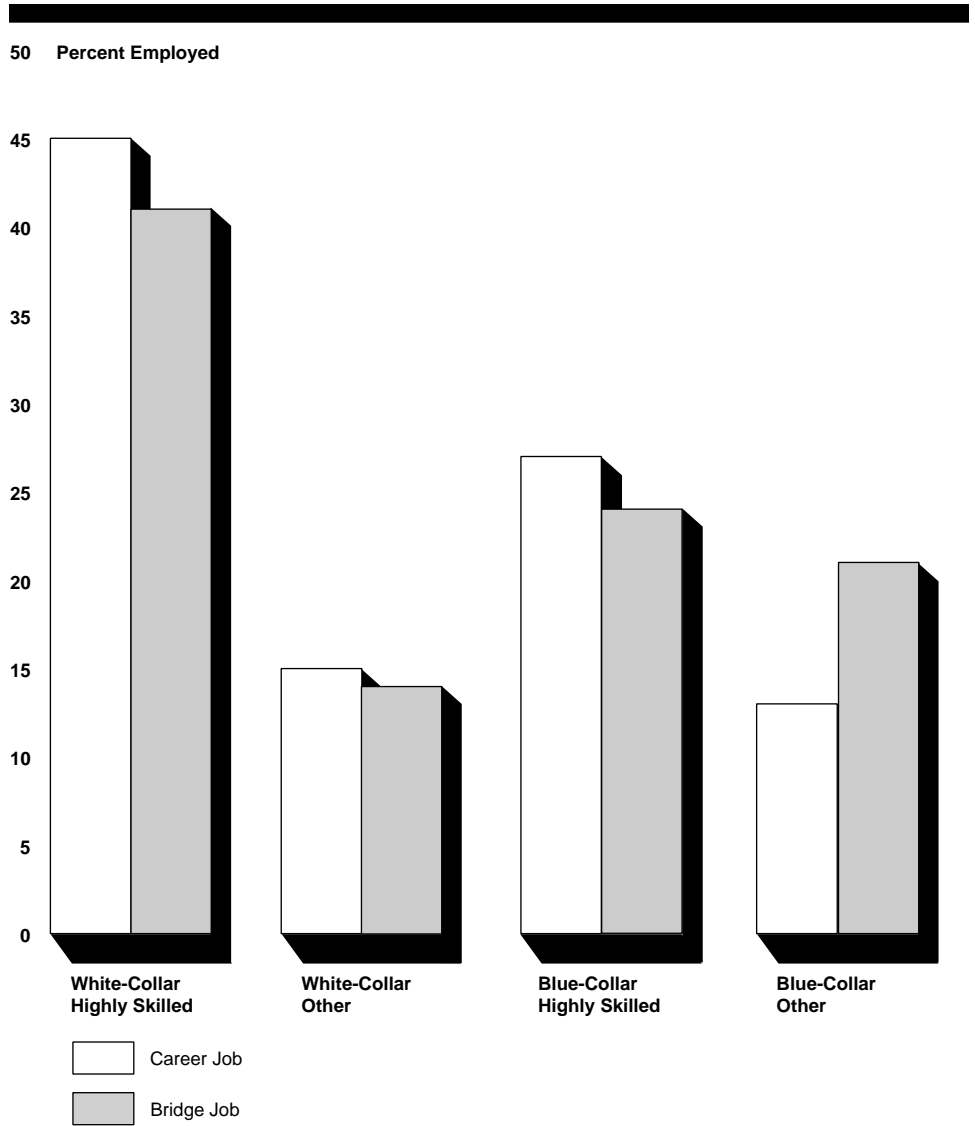
<sup>42</sup>This finding is based on an American Association of Retired Persons survey of 2,001 members of the baby boom generation. The survey was conducted by Roper Starch Worldwide. According to the survey, 35 percent of respondents expect to work part-time, mainly for the interest and enjoyment work provides, 23 percent expect to work part-time for income, 17 percent expect to start their own business, and 5 percent expect to retire from their current jobs and work full-time doing something else.

<sup>43</sup>Quinn, "New Paths to Retirement."

<sup>44</sup>J.C. Franklin, "Industry Output and Employment Projections to 2006," *Monthly Labor Review*, Nov. 1997, pp. 39-57.



**Figure 5: Comparison of Career Job Employment With Bridge Job Employment by Job Type and Skill Level**



Source: J. Quinn, "New Paths to Retirement," in O. Mitchell, B. Hammond, and A. Rapport (eds.), Forecasting Retirement Needs and Retirement Wealth (Philadelphia: University of Philadelphia Press, forthcoming).

Another issue concerning the expansion of bridge job employment is the matching of available employment with the physical conditions or needs of older workers. While the number of service-sector jobs (cleaning,

protection, food preparation, health, and personal services) is expected to increase, these jobs may not be suitable for retirees. According to our analysis of the HRS, many service jobs require older workers to exert themselves physically or to lift heavy loads. Sixty-two percent of workers aged 53 to 63 in the service sector reported that their jobs required a lot of physical exertion all or most of the time.<sup>45</sup> Twenty-seven percent of these workers said that their jobs required them to lift heavy loads all or most of the time. Thus, many bridge jobs may not be suitable for individuals who are in poor health.

Another question about the growth of employment in bridge jobs concerns the effective balancing of employers' and workers' scheduling needs and flexibility. Employees may prefer to work fewer hours with their current employers rather than take bridge jobs. According to our analysis of the HRS, more than half of employees aged 53 to 63 want to reduce the hours they work on their current jobs as they get older while keeping their hourly pay the same. Thus, many older workers would prefer a more flexible schedule even if it reduced their total compensation. Some employers accommodate older workers by offering them "less demanding" jobs. Thirty percent of older employees said their employers would let older workers move to a less-demanding job with less pay.<sup>46</sup>

## Raising Retirement Ages Could Hurt Some Groups of Workers

Although the long-term health prospects of older workers have improved, the main factor that impedes individuals from working to later ages remains poor health. Furthermore, poor health remains concentrated among certain groups of workers, particularly blue-collar workers, who constitute 41 percent of workers aged 53 to 63. Physically demanding blue-collar work tends to lead to health problems that inhibit work at older ages. According to our analysis of the HRS, more than twice as many blue-collar workers as white-collar workers reported that poor health was an important factor in their decision to retire. Moreover, because racial minorities make up a disproportionate share of blue-collar workers, they are more likely to be adversely affected by retirement age increases. Many individuals who have poor health but are not able to qualify for DI benefits may have difficulty affording retirement. Their poor health makes them less employable than healthy workers and, thus, their wages tend to be lower and their unemployment rates higher. Such individuals may find

<sup>45</sup>Excluding workers who are fully or partially retired and self-employed.

<sup>46</sup>This statistic comes from an HRS question that asked respondents, "Would your employer let older workers move to a less demanding job?" The question did not define whether "less demanding" meant less responsibility or less physically demanding duties.

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themselves both unable to afford to retire and unable to find or retain appropriate work should Social Security retirement ages rise.

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### Blue-Collar Workers Have More Health Problems at Older Ages Than White-Collar Workers

Our analysis of HRS data suggests that older blue-collar workers are likely to have more difficulties in extending their careers than older white-collar workers if retirement ages are raised.<sup>47</sup> Because of the nature of their jobs or their socioeconomic status, many older blue-collar workers experience health problems that may both inhibit their ability to continue working to later ages and make them less employable. Older blue-collar workers are at greater risk for having several health problems than older white-collar workers. (See table 3.) After the effects of employment status, age, race, gender, alcohol consumption, and smoking are controlled for, blue-collar workers are more likely to have musculoskeletal problems, respiratory diseases, diabetes, and emotional disorders than white-collar workers. Blue-collar workers are 58 percent more likely to have arthritis, 42 percent more likely to have chronic lung disease, and 30 percent more likely to have a foot or leg problem. In addition, these workers are 33 percent more likely to have asthma, 21 percent more likely to have diabetes, and 25 percent more likely to have emotional disorders.<sup>48</sup> White-collar workers are not at greater risk for any of the health problems examined in table 3. White-collar workers do have higher rates of cancer, but the difference is not statistically significant.

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<sup>47</sup>For this analysis, we defined blue-collar workers as those employed in the following occupational categories: cleaning services (1.0 percent of the labor force); protection services (1.8 percent); health services (1.9 percent); material handlers (2.4 percent); farming, fishing, and forestry (2.6 percent); food preparation services (2.7 percent); construction and mining (3.8 percent); mechanics and repair (3.8 percent); precision production (3.8 percent); transportation operators (4.9 percent); personal services (5.0 percent); and machine operators (6.2 percent). We defined white-collar workers as those employed in the following occupations: sales (9.9 percent), clerical (16.2 percent), professional specialty (16.4 percent), and managerial (17.4 percent). These data are from the HRS.

<sup>48</sup>The logistic regression models were specified according to J.S. Petersen and C. Zwerling, "A Comparison of Health Outcomes Among Older Construction and Blue-Collar Employees in the United States," *American Journal of Industrial Medicine*, Vol. 34, No. 3 (Sept. 1998), pp. 280-87.

**Table 3: Health Outcomes of Blue-Collar Workers Compared With White-Collar Workers Aged 53-63**

Outcome	Likelihood: blue-collar	Frequency	
		Blue-collar	White-collar
Arthritis	1.583****	45.1%	37.8%
Asthma	1.328*	4.8	4.3
Back problem	1.108	27.3	25.4
Cancer (other than skin)	1.096	5.1	6.4
Chronic lung disease	1.423***	9.0	6.6
Diabetes	1.207*	12.2	8.8
Emotional problem	1.245**	10.3	8.8
Foot or leg problem	1.302****	28.3	24.2
Heart problem	0.932	13.4	13.2
Hypertension	1.048	42.9	39.2
Kidney or bladder problem	1.140	7.2	6.2
Stomach or intestine ulcer	1.254	6.5	4.9
Stroke	0.926	2.2	1.9

Note: Number of observations = 6,589. Independent variables = blue-collar occupation, completely retired, partially retired, age, gender, race, smoking behavior, alcohol consumption, and alcoholic tendencies.

\*\*\*\*Statistically significant at the .0001 percent level.

\*\*\*Statistically significant at the .001 percent level.

\*\*Statistically significant at the .01 percent level.

\*Statistically significant at the .05 percent level.

Source: Wave 2 of the HRS, 1994.

When all blue-collar occupations are grouped together, blue-collar workers are 80 percent more likely than white-collar workers to experience pain that affects their ability to perform their jobs. (See table 4.) The blue-collar occupations with risk factors for pain affecting performance are personal services; farming, fishing, and forestry; mechanics and repair; construction and mining; precision production; machine operators; transportation operators; and material handlers. Moreover, twice as many blue-collar workers (27 percent) as white-collar workers (13 percent) reported that poor health is a very important factor in their decision to retire.<sup>49</sup>

<sup>49</sup>This statistic refers to individuals who reported themselves as completely retired.

**Table 4: Pain Affecting Ability to Do Normal Work Among Blue-Collar and White-Collar Workers Aged 53-63**

	Odds ratio for pain	Frequency of pain
All blue-collar occupations	1.813****	12.9%
All white-collar occupations	a	8.4
<b>Specific blue-collar occupations</b>		
Cleaning services	1.145	11.1
Construction and mining	2.428****	13.7
Farm, fish, forestry	1.710*	10.7
Food preparation services	1.494	13.5
Health services	1.565	14.8
Machine operators	2.074****	15.1
Material handlers	2.050**	13.2
Mechanics and repair	2.061***	11.9
Personal services	1.632**	13.4
Precision production	1.588*	10.4
Protection services	1.649	10.8
Transportation operators	2.057****	12.5

Note: Number of observations = 6,582. Independent variables = blue-collar occupation, completely retired, partially retired, age, gender, race.

<sup>a</sup>Not applicable.

\*\*\*\*Statistically significant at the .0001 percent level.

\*\*\*Statistically significant at the .001 percent level.

\*\*Statistically significant at the .01 percent level.

\*Statistically significant at the .05 percent level.

Source: Wave 2 of the HRS, 1994.

The health problems of older blue-collar workers could diminish if the labor market shifts toward less physically demanding work or if technological improvements make blue-collar work less physically demanding. However, physically demanding jobs currently do not show signs of diminishing. SSA reported that in 1982 11.4 percent of newly retired workers had jobs with heavy strength requirements.<sup>50</sup> In this study, SSA predicted that 8 to 10 percent of workers will be in jobs with heavy strength requirements by 2000 and 7 to 9 percent will be in such jobs by 2027. However, our analysis of the HRS shows that 15 percent of older workers reported that they had jobs that required them to lift heavy loads

<sup>50</sup>SSA, "Increasing the Social Security Retirement Age: Older Workers in Physically Demanding Occupations or Ill Health," *Social Security Bulletin*, Vol. 49, No. 10 (1986), pp. 5-23.

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all or most of the time in 1994, a significantly larger estimate. Thus, it appears that the proportion of jobs that require older workers to perform physically demanding work is still significant.

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**Health Problems Reduce  
Individuals' Financial  
Ability to Retire**

Older blue-collar workers with health problems have lower earnings and are less employable. Since blue-collar work is often physically demanding, employers may foresee a risk of more workers' compensation claims or health care costs from hiring older employees and thus may be less likely to hire them. This greater difficulty in obtaining employment means some older workers will accumulate less wealth, which makes it more difficult for them to afford to retire. For example, while it might be expected that persons who have health problems would have significantly higher rates of retirement, 18 percent of blue-collar workers who have two or more health problems are retired compared with 14 percent of those with no problems. (See table 5.) In addition, individuals who have more health problems are in jobs that have lower rates of pension coverage. Pension coverage can give individuals the flexibility to be able to afford to retire if they have poor health and cannot work to later Social Security retirement ages.

**Table 5: Earnings, Retirement Rate, Unemployment Rate, and Pension Coverage by Health Status Among Blue-Collar Workers Aged 53-63, 1994**

Number of health problems <sup>a</sup>	Percent with number of health problems	Percent of all older workers	Median earnings	Percent retired	Unemployment rate (percent)	Percent with pension coverage
0	36.8	14.7	\$14,114	14.2	6.2	63.5
1	32.4	13.0	11,616	15.8	7.7	59.6
2	20.3	8.1	8,524	18.4	8.2	56.9
3 or more	10.5	4.2	3,278	19.8	9.4	53.3

<sup>a</sup>The number of health problems refers to the health problems that blue-collar workers were at greater risk for developing compared with white-collar workers.

Source: Wave 2 of the HRS, 1994.

Our analysis also shows that older blue-collar workers with health problems have higher unemployment rates than healthy blue-collar workers. (See table 5.) Blue-collar workers also have higher unemployment rates than white-collar workers with similar health status. Corresponding to these higher unemployment rates, the blue-collar workers with health problems have lower earnings. For example, the older blue-collar workers who have arthritis or chronic lung disease have 38-percent and 27-percent lower median earnings, respectively, than those who do not.

### Raising Retirement Ages Would Have a Disproportionately Adverse Effect on African American and Hispanic Workers

Racial minorities are particularly likely to be adversely affected by retirement age changes because they make up a disproportionate share of blue-collar workers. Table 6 shows that African Americans are 9.5 percent of older workers and 15.4 percent of older blue-collar workers while the comparable percentages for Hispanics are 5.4 and 9.1. Thus, the health problems that tend to arise among older blue-collar workers would be disproportionately spread across these populations. Older African Americans and Hispanics are also more likely to be unemployed than older white workers. Although members of each racial group are about as likely to report themselves as retired, approximately 30 percent of older African Americans and Hispanics report that poor health is a very important factor in their decision to retire compared with 16.4 percent of older whites. (See table 7.)

**Table 6: Employment Among Workers Aged 53-63 by Race, 1994**

	White	African American	Hispanic	Other	Total
Population of all older workers	82.5%	9.5%	5.4%	2.6%	100%
Blue-collar workers	73.1	15.4	9.1	2.4	100

Note: Blue-collar workers constituted about 41.4 percent of all workers aged 53-63.

Source: Wave 2 of the HRS, 1994.

**Table 7: Selected Employment Statistics for Workers Aged 53-63 by Race, 1994**

	White	African American	Hispanic	Other	All workers aged 53-63
Unemployment rate	4.7%	9.1%	13.7%	8.8%	5.7%
Retired	16.8%	18.5%	14.3%	10.6%	16.6%
Those who retired citing poor health as a very important factor in their decision	16.4%	29.9%	28.6%	22.6%	18.3%

Source: Wave 2 of the HRS, 1994.

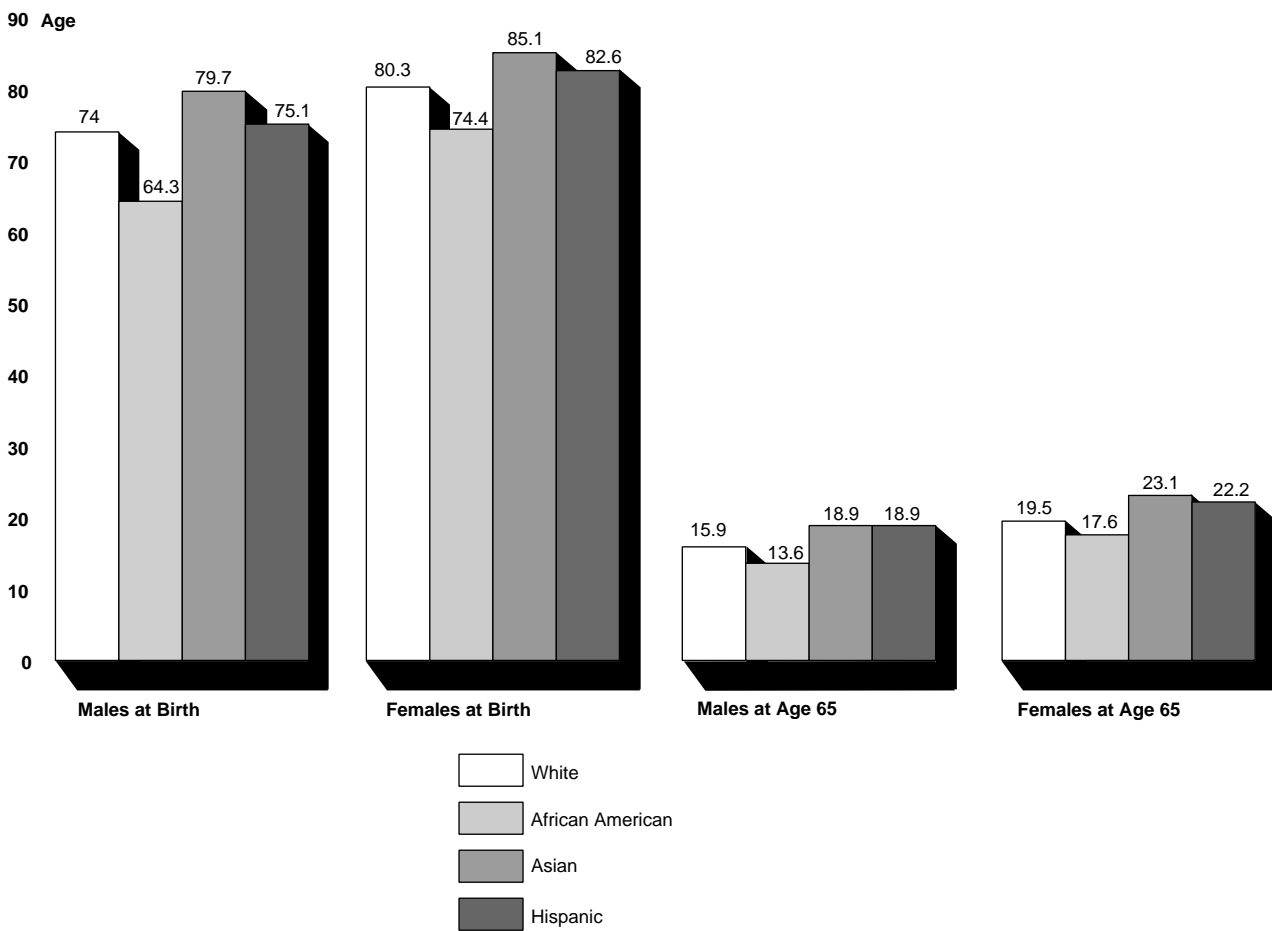
African American men and women will be further disproportionately affected by an increase in retirement ages because they have lower life expectancies than any other racial group. Figure 6 shows that African American males and females have the lowest life expectancy at birth and at age 65. In addition, the projected rate of growth in life expectancy is slower for African Americans compared with most other racial groups.<sup>51</sup> Therefore, if retirement ages were raised, African Americans would experience the largest percentage decline in their expected lifetime benefit compared with other racial groups because they will have fewer years in which to collect benefits. For example, African American men and women at age 20 can expect 8.6 and 13.4 years of retirement, respectively, if they retire at age 65. In contrast, the comparable projected numbers for whites at age 20 are 12.5 years for men and 16.8 years for women. The expected number of years of retirement at age 20 with a retirement age of 70 is 5.8 years for African American men, 8.8 years for white men, 9.7 years for African American women, and 12.6 years for white women. African American men who retired at a new NRA of 70 would receive benefits for 33 percent fewer years compared with 30 percent fewer for white men,

<sup>51</sup>For example, the rate of growth in men's life expectancy at age 65 over the next 50 years is 35 percent for whites and Hispanics, 15.9 percent for Asians, and 20.4 percent for African Americans.



and African American women would receive benefits for 28 percent fewer years compared with 25 percent fewer for white women.

Figure 6: Life Expectancy at Birth and at Age 65 by Race, 1998



Source: U.S. Department of Commerce, Bureau of the Census, Population Projections of the United States by Age, Sex, Race, and Hispanic Origin: 1995 to 2050 (Washington, D.C.: 1999).

## Concluding Observations

Raising the retirement age can have many positive implications for the Social Security program. Depending on how high and how fast the ages were raised, the solvency of the Social Security Trust Funds could be

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significantly improved. In addition, raising retirement ages would create financial incentives for workers to extend their careers. To the extent that older workers who continued to work did not displace younger workers, their lengthened work lives should contribute to economic growth. However, such proposals also pose clear costs for some segments of the population, particularly workers who are in poor health and older minority workers, groups that already fare less favorably in the labor market.

While it is useful to assess the effects of individual proposals, such as increasing the retirement age, these proposals are often only elements of larger, more comprehensive Social Security reform packages. Many of these broader initiatives contain a variety of provisions for addressing the trust funds' solvency difficulties. These range from adjusting the programs' current tax and benefit provisions to introducing features such as individual accounts that could substantially alter the existing program structure. In this context, it is important to analyze the distributional consequences of the individual components of each initiative, and their interaction, to determine the cumulative effect on different segments of the population. Such an understanding is essential to keep certain groups, particularly those who may already be at risk, from bearing a disproportionate portion of the costs of reform. Analyzing the distributional effects of comprehensive Social Security reform proposals can also assist in developing remedial provisions. For example, older minority workers could be helped by policies to direct federal job training resources to facilitate their efforts to obtain bridge jobs. In any case, such analysis is necessary to ensure that both the benefits and the burdens of reform are borne by all segments of the population and not only by a few.

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## Agency Comments

We provided a draft of this report to SSA and the Employee Benefit Research Institute. In commenting on our report, the reviewers generally agreed with our characterization of the factors that need to be evaluated when considering an increase in the retirement ages. Their comments were primarily technical and clarifying in nature and we made changes where appropriate.

SSA expressed concern that limitations in the HRS because of the age range of the group of respondents would preclude making conclusive cause and effect statements about their possible reaction to an increase in the retirement ages. We were aware of the HRS limitations and, as indicated in the report, our conclusions are based on other academic and government studies. SSA's written comments are printed in appendix II.

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We are sending copies of this report to the Commissioners of the Social Security Administration and others who are interested. We will also make copies available to others on request. If you or your staff have any questions concerning this report, please call me on (202) 512-5491. The major contributors to this report are Charles A. Jeszeck, Assistant Director, (202) 512-7036; Jeffrey S. Petersen, Evaluator-in-Charge; and Barbara Smith, Senior Economist.

A handwritten signature in black ink that reads "Barbara D. Bovbjerg". The signature is written in a cursive style with a large, stylized initial "B".

Barbara D. Bovbjerg, Associate Director  
Education, Workforce, and Income Security Issues

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# Contents

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<b>Letter</b>		1
<b>Appendix I</b>		36
<b>Description of the Social Security Simulation Model</b>		
<b>Appendix II</b>		40
<b>Comments From the Social Security Administration</b>		
<b>Tables</b>		
	Table 1: Percentage of Individuals Electing to Start Receiving Social Security Benefits at Age 62 and Later, 1940 to 1996	18
	Table 2: The Percentage Reduction in Benefits Upon Retirement Before the Current NRA Compared With the Reduction When the NRA Rises to 67 According to the 1983 Legislation	19
	Table 3: Health Outcomes of Blue-Collar Workers Compared With White-Collar Workers Aged 53-63	26
	Table 4: Pain Affecting Ability to Do Normal Work Among Blue-Collar and White-Collar Workers Aged 53-63	27
	Table 5: Earnings, Retirement Rate, Unemployment Rate, and Pension Coverage by Health Status Among Blue-Collar Workers Aged 53-63, 1994	29
	Table 6: Employment Among Workers Aged 53-63 by Race, 1994	30
	Table 7: Selected Employment Statistics for Workers Aged 53-63 by Race, 1994	30
	Table I.1: Economic and Demographic Intermediate Assumptions	38
<b>Figures</b>		
	Figure 1: The Expected Number of Years Men and Women Will Receive Social Security Benefits If They Retire at the NRA	5
	Figure 2: The Effect of Raising the Retirement Ages on the Solvency of the Social Security Trust Funds	8
	Figure 3: New Disability Awards as a Percentage of the DI-Covered Population, Ages 53-64	11
	Figure 4: Labor Force Participation Rates of Men Aged 55 and Older, 1950-98	15

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<b>Figure 5: Comparison of Career Job Employment With Bridge Job Employment by Job Type and Skill Level</b>	<b>23</b>
<b>Figure 6: Life Expectancy at Birth and at Age 65 by Race, 1998</b>	<b>31</b>

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**Abbreviations**

ADEA	Age Discrimination in Employment Act of 1986
DI	Disability Insurance
DRC	delayed retirement credit
EEA	earliest eligibility age
HHS	Department of Health and Human Services
HRS	Health and Retirement Survey
NRA	normal retirement age
OASDI	Old-Age, Survivors, and Disability Insurance
OASI	Old-Age and Survivors Insurance
SSA	Social Security Administration
SSI	Supplemental Security Income

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# Description of the Social Security Simulation Model

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To assess how changes in the Social Security retirement ages affect the solvency of the Social Security Trust Funds, we conducted a variety of simulations using the EBRI-SSASIM2 model. EBRI-SSASIM2 was originally developed under a series of contracts from the Social Security Administration (SSA) as part of the 1994-96 Advisory Council on Social Security's activities and has been enhanced subsequently with support from the Employee Benefit Research Institute (EBRI) and the American Association of Retired Persons (AARP). The model can simulate a variety of policy reforms to the Social Security program, from incremental changes to the OASI and DI programs to broader structural reforms that would introduce a defined contribution (individual account) component to the Social Security system.

The EBRI-SSASIM2 model simulates the dynamic interaction of the labor force, the economy, and the Social Security programs and can be used to generate aggregate program cost and income estimates as well as estimates for the OASI and DI Trust Funds. Changes in program structure can be analyzed for any specified future time periods.

For this report, we relied on the model for its capability in analyzing the implications of revisions in the EEA, the NRA, or both on the actuarially adjusted cumulative solvency of the trust funds over a specified time period. Consistent with SSA's annual projections, we explored the effect of such changes on OASDI Trust Fund solvency for the 75-year period 1999-2073. The implications of a reform relative to current-law policy are determined by comparing the output results from a simulation that assumes the reform policy with results from a simulation that assumes the current law.

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## Options Illustrating the Effects of Revising the Retirement Ages on Trust Fund Solvency

To illustrate the sensitivity of differential changes in the magnitude and timing of the EEA and NRA on the solvency of the Social Security Trust Funds, we used the EBRI-SSASIM2 model to estimate the effect of six different options:<sup>52</sup>

Option 1: Increase in both the EEA and NRA. After 2015, when EEA = 65 and NRA = 69, both the EEA and NRA are indexed to projected life expectancy. By 2063, EEA = 67 and NRA = 71.

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<sup>52</sup>We consulted with the model's developer, Martin Holmer of Policy Simulation Group Inc., in using the model to conduct our own simulations.

Option 2: Slower increase in both the EEA and NRA than in option 1 until 2029. Thereafter, increases occur more quickly. EEA = 65 and NRA = 70 in 2029. By 2065, EEA = 67 and NRA = 72.

Option 3: Large and rapid increase in the EEA and NRA. EEA = 66 and NRA = 70 in 2015. By 2030, EEA = 67 and NRA = 72.

Option 4: Rapid increase in the NRA with no increase in the EEA. NRA = 68 in 2017 and 70 in 2029.

Option 5: Slower increase in the NRA than option 4. NRA = 68 in 2017 and 70 in 2065.

Option 6: Option 5 with an increase in the EEA. EEA = 63 in 2017 and 65 in 2065.

These options were constructed to reflect a range of possible changes in the EEA and NRA.<sup>53</sup> Because of the large number of years over which the projections are made, the estimates corresponding to these options should not be interpreted as precise estimates of the effects on trust fund solvency.

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## **Assumptions Used in the Construction of the Solvency Scenarios**

In our analysis, we made a number of assumptions. With respect to population and economic projections, we used the intermediate assumptions in *The 1999 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*. (See table I.1.)

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<sup>53</sup>We also estimated a change in the EEA to age 64 with the currently mandated change in the NRA to age 67.

**Appendix I  
Description of the Social Security  
Simulation Model**

**Table I.1: Economic and Demographic Intermediate Assumptions**

<b>Assumption</b>	<b>Ultimate value</b>	<b>Year ultimate value attained<sup>a</sup></b>
<b>Annual percentage</b>		
Labor force participation		
Women	60.6	2075
Men	73.8	2075
Unemployment rate	5.5	2009
Inflation rate	3.3	2007
Labor productivity growth rate	1.3	2008
Growth rate of wages as share of compensation	-0.2	2008
Growth rate of hours worked	-0.1	2008
Nominal interest rate	6.3	2007
Mortality rate decline	0.6	2023
<b>Annual number</b>		
Total fertility rate	1.9 <sup>b</sup>	2023
Net immigration	900,000 <sup>c</sup>	1999

Note: The intermediate assumptions represent the trustees' "best estimates" of likely future economic and demographic conditions.

<sup>a</sup>The ultimate value is maintained for the remainder of the 75-year projection period.

<sup>b</sup>Number of children per woman.

<sup>c</sup>Number of persons per year.

We actuarially adjusted the benefits as appropriate when the NRA and EEA changed. We also needed to make assumptions about the behavior of program participants—that is, the ages at which workers elect to receive Social Security benefits.

Most workers begin receiving benefits at either age 62, the earliest age when benefits can be received, or at age 65, the age when full benefits can be received.<sup>54</sup> The Office of the Chief Actuary at the Social Security Administration, in its projections, assumes that the average age for receiving initial benefits increases by 3 months each time the NRA increases by 1 year. Because of the way the EBRI-SSASIM2 model is structured, we incorporated this assumption into the model by assuming that workers do not change their retirement behavior as the NRA increases

<sup>54</sup>Benefits received at age 62 are actuarially reduced to compensate for the greater number of years they are received, assuming a normal life span. Actuarial reduction ensures that lifetime benefits received remain approximately the same, regardless of when workers retire.



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**Appendix I**  
**Description of the Social Security**  
**Simulation Model**

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first to 66 and then to 67. That is, workers are assumed to continue to retire primarily at age 62 or 65, even though the level of initial benefits received at those ages will decline as the NRA increases. This assumption enabled us to replicate the estimates for the actuarial balance under current law made by the Office of the Chief Actuary. We further assumed that when the NRA increased to ages greater than 67, workers originally receiving benefits at age 62 would continue to do so. However, we also assumed that persons originally receiving benefits at age 65 would now choose to receive benefits at the new NRA—that is, at ages 68 or older, depending on the option and year. These assumptions enabled us to replicate estimates made by the Office of the Chief Actuary on similar policy options.

# Comments From the Social Security Administration



## SOCIAL SECURITY

Office of the Commissioner

August 12, 1999

Ms. Cynthia Fagnoni  
Director, Education, Workforce,  
and Income Security Issues  
United States General Accounting Office  
Washington, DC 20548

Dear Ms. Fagnoni:

Enclosed are our comments on the Government Accounting Office's (GAO) draft report Social Security Reform: Implications of Raising the Retirement Age (GAO/HEHS-99-112). We appreciate the opportunity to review the report and hope these comments will prove useful.

We are pleased that this GAO report addresses the myriad issues related to raising the retirement age. Improved understanding of how various populations may fare is important in evaluating whether raising the retirement age is an appropriate policy change to achieve solvency. The information in this report will certainly increase the public's level of understanding of the many factors that need to be considered in raising the retirement age.

In particular, we are pleased that the report emphasizes that raising the retirement age for Social Security benefits could have a disproportionate effect on certain vulnerable populations. The report suggests weighing the merits of raising the retirement age in the context of considering other options that have a more balanced distributional effect. We commend your suggestion that distributional analysis be used to identify proposals that may offset some of these adverse effects. As discussed in the report, those who are less healthy and those in blue-collar occupations are less likely to be able to continue working, either in their career jobs, or in bridge jobs, which tend to be service-oriented blue-collar positions. These

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

**Appendix II  
Comments From the Social Security  
Administration**

individuals, in particular, have an increased incentive to apply for Disability Insurance (DI) benefits.

In turn, this raises concerns about whether the Social Security DI program, as currently structured, would be adequate to accommodate the kinds of disabilities that workers at older ages may experience. Currently, the DI system is infrequently used to identify disability beyond 65 and we are particularly concerned about capturing "partial" disability for increasingly older workers, as the Normal Retirement Age (NRA) rises.

GAO has certainly used the best data source available, the Health and Retirement Study, for analyzing the impact of raising the retirement age. It is important, however, to recognize the deficiencies of this data base. While the survey questions are more comprehensive than others in addressing the factors affecting retirement, the current sample size of workers at the normal retirement age is too small to make conclusive cause and effect statements. Much remains unknown regarding the likely behavioral response of workers to an increase in the retirement age. While economic incentives certainly play a role in the decision to postpone or take retirement benefits, other factors (such as health, health insurance coverage, other income, and spousal situation) play a role in this decision as well. How each of these factors is weighed in the retirement decision is not yet known.

Our specific comments are detailed in the attached document. If you should have any questions concerning our comments, you may contact Jane L. Ross, the Social Security Administration's Deputy Commissioner for Policy, at (202) 358-6082 in Washington, or (410) 966-6756 in Baltimore. Again, we appreciate the opportunity to review the draft report. We look forward to GAO's continued involvement in this vital debate.

Sincerely,



Kenneth S. Apfel  
Commissioner  
of Social Security

Enclosure

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