Chapter 5

RETIREMENT AGE

Before the Social Security Act was passed, there was no typical retirement age in the United States. Most people worked until they (or their employer) decided they could work no longer. A more fortunate minority stopped working when they had accumulated sufficient reserves so they could live out their lives at leisure.

The architects of Social Security arbitrarily selected 65 as the age of benefit entitlement. "There was no scientific, social or gerontological basis for the selection . . . it was the general consensus that 65 was the most acceptable age."[1/] Members of the Committee on Economic Security thought that 60 was too low and 70 too high for a retirement age. What private pensions were in force generally used that age, as did the Railroad Retirement System.

Sixty-five has become ingrained in people's expectations. It has become the normal retirement age at which full benefits are paid under Social Security and the great majority of private pension plans. It is very possible that, as workers draw close to 65, they begin to feel the need to stop working full time, quite apart from the effect of the aging process itself. Employers may feel they should encourage workers to retire at 65 quite apart from the worker's ability. If this is true,

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1/ Cohen, Wilbur J., Retirement Policies Under Social Security, University of California Press, Berkeley and Los Angeles, 1957, p. 24. Contrary to legend, 65 was not selected by Count Otto von Bismarck, who sponsored the first Social Security program, in Germany in 1889. The retirement age in Germany was 70 until 1916, when it was reduced to 65.

then had the architects of Social Security chosen an age other than 65, the Nation's retirement institutions and the mindset of its workers and employers might have settled around that age.

The National Commission recommends raising the "normal" retirement age--the age at which full benefits are paid and Medicare eligibility begins--to 68 in the 21st century, through legislation enacted now. The major reasons for this proposal are:

(1) Americans are living longer.

(2) Older workers will be in greater demand in future years.

(3) The disability program can provide cash benefits and Medicare to those between 62 and 68 who, for reasons of health, are unable to continue working.

(4) Because the ratio of workers to beneficiaries is projected to decline after the turn of the century, younger generations will have to pay the significantly increased taxes to support the system in the 21st century. Reversing the trend toward earlier retirement will lessen the increase.

(5) Given sufficient notice, coming generations of beneficiaries can adjust to a later retirement age just as earlier generations adjusted to 65. A/

A/ See dissenting statement on raising the retirement age by Mr. Cohen, Ms. Duskin, and Ms. Miller.

The Commission recommends that as the earliest age for full retirement benefits is increased from 65 to 68, the age at which reduced benefits are first available should be raised from 62 to 65.[B/] These changes should be made gradually, beginning at the turn of the century, by raising the ages over a 12-year period by three months per year. (see Table 5-l). If the phase-in process began in January 2001 for workers who turned 65 after 2000, such age would be 65¼ in 2001.[2/]

Table 5-l

COMMISSION PROPOSAL FOR PHASING-IN LATER RETIREMENT AGES

Year	Age for full benefits	Age for reduced benefits
1997	65	62
1998	65	62-1/4
1999	65	62-1/2
2000	65	62-3/4
2001	65-1/4	63
2002	65-1/2	63-1/4
2003	65-3/4	63-1/2
2004	66	63-3/4
2005	66-1/4	64
2006	66-1/2	64-1/4
2007	66-3/4	64-1/2
2008	67	64-3/4
2009	67-1/4	65
2010	67-1/2	65
2011	67-3/4	65
2012	68	65

2/ The increase in the age at which reduced benefits are payable starts 3 years before the increase in the age at which full benefits are payable. Thus, workers in a particular "birth cohort" (age group) who reach age 63 in 2001 and 66 in 2004, for example, would be affected equally regardless of whether they chose to claim early retirement in 2001 at age 63 or full benefits in 2004 at age 66.

B/ By Mr. Cohen, Ms. Duskin, and Ms. Miller: We do not join in changing the rules of the game by which actuarially reduced benefits would become available at age 65 instead of age 62 as at present. Such a change would make it impossible for persons with declining health or 'inability to work at sustained levels of performance to draw any benefits. This would be a cruel hardship for many persons.

In addition, the Commission recommends that the age for payment of benefits for spouses, widowed persons without young children in their care, and dependent parents of deceased workers be increased in the same manner.[3/]

The Commission recommends that the age at which the earnings test can no longer reduce benefits should be kept at age 72, rather than reduced to 70 beginning in 1982, and then should be increased gradually up to 75 beginning in the year 2001, in tandem with the changes in the normal retirement age.

The maximum age for disability benefits would be raised gradually from 65 to 68. The test of disability now applied to workers 60 to 65 would be applied to those 60 to 68.

This change in the minimum retirement age would result in a significant decrease in the long-range cost of the program--an estimated net average of 1.07 percent of taxable payroll ($13.5 billion at 1981 earnings levels) over the 75-year valuation period. This takes into

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3/ There would be parallel, conforming changes in the point for indexing the earnings record, but no change would be made for computing the years to be used for determining the Average Indexed Monthly Earnings (AIME) and for determining fully insured status, as follows:

(1) Earnings would be indexed to the second year before the calendar year in which the person would first be eligible for early-retirement benefits--that is, the fifth year before the calendar year in which the person would first be eligible for full benefits (e.g., to age 63 for those attaining age 68 in 2012 and later).

(2) Insured status would still be measured to age 62, requiring no more than the maximum of 40 quarters of coverage now contained in the law.

(3) The period for computing the AIME would still be measured to age 62, requiring no more than 35 years to be averaged.

account an offsetting increase in the cost of Disability Insurance of 0.3 percent of taxable payroll. Because the implementation would be gradual, the major reductions in cost would not be realized until some time during the second decade of the next century, when the projected ratio of beneficiaries to workers begins to peak (see Table 5-2).

Although Congress does not normally enact legislation which will not become effective for 20 years, it is important to act on this recommendation promptly. People should be given ample advance notice of this important change. If the trends in birth and mortality rates, the state of workers' health and the economy do not materialize as expected between now and the year 2000, thereby making a change in the retirement age unnecessary, it will become clear early enough for Congress to take corrective action. Time is also needed to amend private pension plan provisions to correspond both to this change and to the increase in the minimum mandatory retirement age from 65 to 70 enacted by Congress in 1978.

Longevity and the Ability to Work

Although 65 may have been the most acceptable age for retirement in 1935, it cannot be assumed that it will be the most appropriate age for normal retirement in the year 2000.

At the start of the 21st century, people are likely to have at least as many retirement years left after age 68 as they did after age 65 in the early years of Social Security. For men, life expectancy at age 65 in 2000 is estimated to be nearly 3-1/2 years higher than in 1940; for women, 7-1/2 years.[4]

4/ Office of the Actuary, Social Security Administration.

Table 5-2

ESTIMATED REDUCTION IN COST OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM AS A RESULT OF RECOMMENDATION TO RAISE THE NORMAL RETIREMENT AGE

Period	Reduction in Cost (percentage of taxable payroll)
Years before 2000	.00
2000	.05
2005	.68
2010	1.31
2015	1.57
2020	1.83
2025	1.93
2030	1.75
2035	1.61
2040	1.51
2045	1.54
2050	1.71
2055	1.70
1980-2004	.07
2005-2029	1.55
2030-2054	1.62
1980-2054	1.07

As important as longevity in assessing ability to work is whether people are sufficiently healthy to function in their jobs. Although this is not as easy to assess, the Commission anticipates that increased longevity will be accompanied by a corresponding increase in active life.

Medical science today has expanded from emphasis on merely extending life, and is concerned with improving people's capacity to discharge more fully their day-to-day responsibilities at work, in their family, and in society.5/ Significant progress has been made in treating arthritis and cardiovascular disease, two of the most important barriers to good health at older ages. Expert opinion in the field of research on aging holds that the period of "diminished vigor" associated with aging will decrease so that "chronic disease will occupy a smaller proportion of the typical life span".6/ Other studies of the elderly today show that a large majority of people under 70 are free of physically disabling limitations.7/

5/ Rodgers, David E., M.D., President of the Robert Wood Johnson Foundation, Personal Medical Care: Its Adaptation to the 1980's, an address delivered before the Institute of Medicine, October 15, 1980, p. 19.

6/ Fries, James, "Aging, Natural Death and the Compression of Morbidity", New England Journal of Medicine, July 17, 1980, pp. 130-135. According to Dr. Robert N. Butler, Director of the National Institute on Aging, Dr. Fries' article fits the pattern of the best modern thinking in research on aging, New York Times, October 21, 1980, p. C-l.

7/ Branch, L. G., Understanding the Health and Social Service Needs of People Over Age 65, University of Massachusetts and Joint Center for Urban Studies of M. I .T. and Harvard University, report submitted in partial fulfillment of grants 90-A-641/01 and 90-A-641/02 from the Administration on Aging, Department of Health, Education, and Welfare, 1977; and Retirement History Study, Office of Research and Statistics, Social Security Administration, unpublished tabulations, 1975 survey.

Moreover, a long-term shift in employment has taken place, from mining and manufacturing where health hazards are relatively high to trade and service jobs which older workers can perform with less strain and threat to good health.

Retirement Age and the Economy

Retirement age policy has adapted to labor market conditions in the past and can do so in the future. In the past, retirement policy was used, in part, to reduce unemployment. When the original Social Security program was enacted, the national unemployment rate was about 20 percent. The program enabled and encouraged workers to leave the labor force at age 65, in order to open up jobs for younger workers.[8/]

In 1961, when early-retirement benefits were extended to men 62 to 64, the action was again supported as a way to reduce unemployment. Later in the 1960's, members of the post-World War II baby boom began entering the labor market. At the same time, women were entering and remaining in the work force in unprecedented numbers. The rapid growth in the supply of workers strained the Nation's capacity to provide enough new jobs. Earlier retirement was a way to alleviate the pressure. Private pension plans responded by offering attractive early pension options to those retiring well before 62.[9/] Many older workers accepted the offer. Between 1970 and 1978,

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8/ "The Finance Committee added an amendment which provides that a man will receive this annuity only if he has retired from regular employment. This was based on the belief that no person holding a regular job should retain this job after 65, receiving an annuity along with his pay check. Rather, he should retire and make it possible for others to obtain work." Remarks of Senator Pat Harrison, Committee Chairman and floor manager of the bill, Congressional Record, 74th Congress, 1st Session, June 14, 1935, p. 9268.

9/ Skolnik, Alfred M., "Private Pension Plans, 1950-74," Social Security Bulletin, June 1976, p. 8.

the proportion of older men in the work force dropped sharply: from 75 to 62 percent of those age 60-64 and from 42 to 30 percent of those age 65-69 (Table 5-3). Yet over the IO-year period ending in 1978, total employment grew by 21 million workers, or over 28 percent, as younger workers were absorbed into the work force.[10/]

The labor market of the future will be very different. According to projections, the growth in the size of the work force will taper off at the turn of the century, when the Commission's recommendation would begin to take effect (Chart 5-l). As the low birth rates of today produce fewer new workers at the turn of the century, older workers will be in greater demand. The Nation will need the experience and skills that they can provide. Employers and unions will need to adapt their policies to encourage older workers to remain on their jobs. The Commission believes that plans should be laid now to achieve this result, and that a change in the Social Security program represents an essential first step.

The older workers in the year 2000 and beyond will be better equipped to adapt to the changing technological demands of the work place. They will be twice as likely to have a high school diploma as were older workers in 1970. To utilize fully their talents will require a change in attitudes toward their ability as well as a change in their retirement expectations. For example, opportunities for on-the-job retraining and skill enrichment could be extended to mid-career workers now to forestall skill obsolescence at older ages.

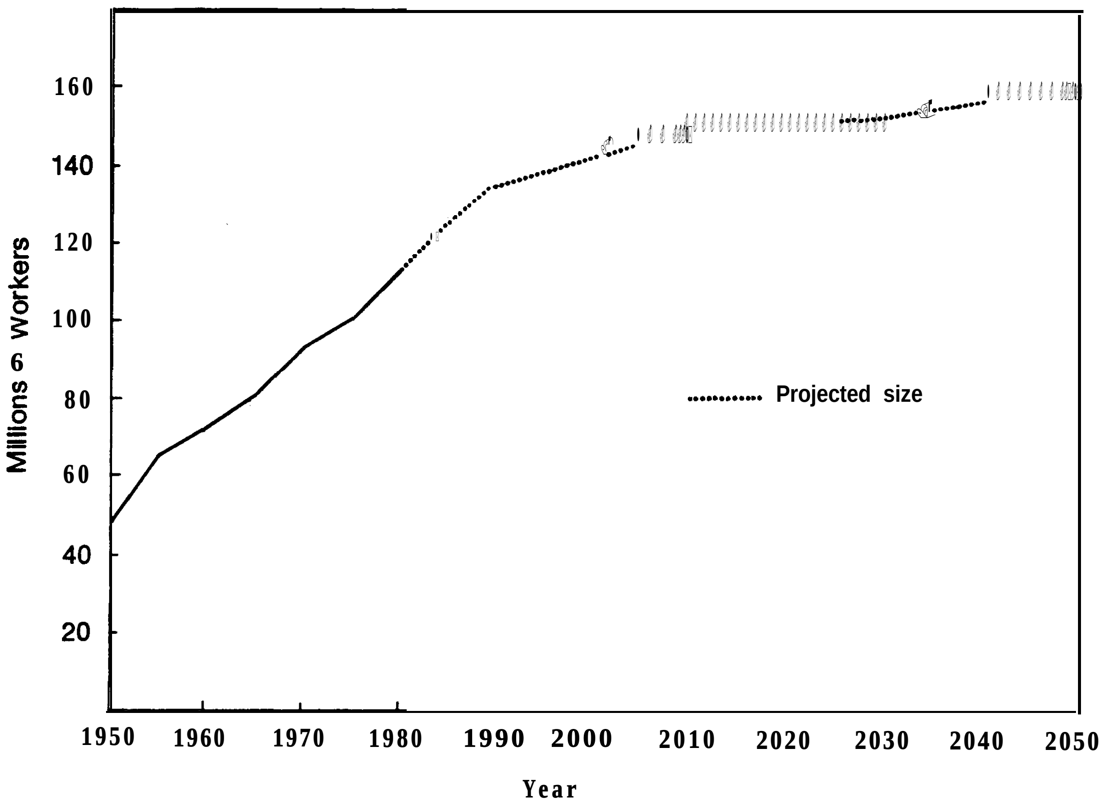
10/ Employment and Traininq Report of the President, 1980.

Table 5-3

LABOR FORCE PARTICIPATION OF OLDER MEN

	Age 60-64	Age 65-69
1955	82.5%	57.0%
1960	81.2	46.8
1965	78.0	43.0
1970	75.0	41.6
1975	65.7	31.7
1976	63.7	29.3
1977	62.9	29.4
1978	62.0	30.1
1979	61.8	29.6

Graph 5-l
Size of the Covered Work Force



There is some evidence that the trend toward earlier retirement is already tapering off. Between 1970 and 1976, the proportion of older men in the work force dropped sharply, but has stablized in the past few years (see Table 5-3). In a time of high inflation, older workers may feel more financially secure on their jobs than entering retirement. Bankers Life and Casualty Company of Chicago indicates that over the past five years, some 70 percent of all their workers reaching age 65 chose to stay on their jobs.[11/]

Containing Future Costs

Social Security is based upon a social compact between generations. Those who are retired depend for their benefits on the taxes of those who are working, just as their taxes paid the benefits to those who came before them. For the younger generation, the deduction from their earnings for Social Security is justified by the understanding that the system will support them when they retire. This is a major reason why the public expresses less objection to the Social Security tax than to other major taxes, and why almost half the population, according to the Commission's survey, have no objection to the tax at all.[12/]

An important part of the long-term financing problem of Social Security results from the declining birth rate. Since 1960, the birth rate in the United States has been reduced by 50 percent, and projections indicate that low fertility rates will probably continue for at

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11/ Bankers Experience with Over-65 Workers, Bankers Life and Casualty Company, Chicago, Illinois, 1980.

12/ A Nationwide Survey of Attitudes Toward Social Security a report prepared for the National Commission on Social Security by Peter D. Hart Research Associates, Inc., 1979, p. 64.

least the next several decades.[13/] At present, there are approximately 3 workers for each Social Security beneficiary. By 2030, under current estimates, the ratio will fall to 2 workers for each beneficiary.[14/]

The present tax rate for Social Security and Hospital Insurance combined is 13.30 percent of taxable payroll divided equally between employer and employee. If no changes are made in the retirement age, the cost of these programs will increase to about 15.1 percent in 2000 and 25.2 percent in 2030, according to the intermediate-cost estimates.

13/

Year	Total Fertility Rate Live Births Per 1,000 Women
1960	3,608
1965	2,885
1970	2,434
1975	1,770
1980*	1,803
1990*	1,942
2000*	2,086
2005 and later*	2,100

* From intermediate estimates.
The rate equals the number of children who would be born to 1,000 women in their lifetime if they were to experience observed age-specific birth rates and were to survive the entire child-bearing period (1980 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Table 11.)

14/ 1980 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors insurance and Disability Insurance Trust Funds, Table 31.

Disabilitv and the Retirement Aae

In recommending an increase in the retirement age from 65 to· 68, the Commission recognized the important role that the Disability Insurance program would play in the transition. In a sense, this program is similar to an early retirement program for people who are forced to stop working because of a severe mental or physical impairment.

Current law takes age into account in deciding whether a person is disabled. The test of disability is applied more liberally to those age 60 or older. People 60 or older can receive disability benefits if their impairments keep them from continuing in jobs that require a medium amount of strength or endurance.[15/] At present, 80 percent of those who apply for disability at age 60 or over are awarded benefits.

The Commission believes that under its plan, most of those between 62 and 68 who cannot work because of ill health will qualify for cash benefits and Medicare protection under Disability Insurance. The Commision's recommendations for improvements in Disability Insurance benefits, especially the reduction in the waiting period for Medicare, will make this option more attractive. Some of those from 65 to 68 may also receive supplements under Supplemental Security Income and Medicaid. They are discussed in Chapter 9.

15/ Jobs requiring a medium amount of endurance or strength are those that require workers to be on their feet most of the day, to lift up to 50 pounds, or to frequently carry or lift up to 25 pounds.

The Commission recognizes that these programs would not cover all of those who have to stop working for reason of ill health before reaching the new retirement age. For this reason, the Commission considered several proposals to further liberalize the definition of disability for older workers. It concluded that a change is not needed at this time. If the Commission's retirement age recommendation is adopted, there will be 20 years of experience in which to determine whether a change in the disability program is needed for workers affected by the new retirement age.

Voluntary Incentives for Later Retirement

The Commission believes people should be encouraged to defer retirement voluntarily, particularly in the remaining years of this century. This would speed public acceptance of later retirement. To accomplish this objective, the Commission recommends a change in the adjustment factors for late retirement.

At present, those retiring before 65 have their benefits reduced for "early" retirement. The earlier the retirement, the greater the reduction. Those who first claim benefits after 65 have them increased for "late" retirement--the later the retirement the greater the increase. But the reductions are larger than the increases. Retiring at 62 reduces benefits by 20 percent compared to retirement at 65. Working to 68, rather than 65, only increases benefits by 9 percent.

To provide an incentive to work longer, the Commission recommends larger increases in benefits for retirement after 65. Various schedules of adjustment factors were considered by the National Commission and are recommended for consideration by Congress. (see Table 5-4).

Table 5-4

BENEFIT ADJUSTMENT FACTORS FOR AGE OF RETIREMENT

	Percent of Full Benefit Payable Under:					
			Alternatives			
Age at Retirement	Present Law	Actuarial Eauivalent	A	B	C	D
62	80%	79.5%	80%	80%	78.7%	78%
63	86.67	87.0	86.67	86.67	86.1	85
64	93.33	93.5	93.33	93.33	92.6	92
65	100	100.0	100	100	99.0	99
66	103	107.2	107	107	106.1	106
67	106	115.1	114	115	114.0	113
68	109	124.0	121	124	122.8	122
69	112	134.0	128	134	132.7	132
70	115	145.4	135	145	144.0	143
71	118	158.3	142	158	156.7	156
72	121	172.9	149	173	171.2	170
Estimated Long-Range Cost as Percentage of Taxable Payroll		.09	.09	.11	.oo	-.03

Because the aging process affects some people earlier than others, it is best to maintain a range of retirement ages. This allows people to choose the age that is best for them. When the increase in the normal retirement age goes into full effect in the year 2012, the range of ages would be 65 to 75, instead of 62 to 72.

These alternatives should apply only to those who reach 62 after 1978. Those who reached 62 earlier and continue to work beyond 65 already have their benefits computed in a more favorable way.[16/]

16/ Those who reached 62 before 1979 have their benefits recomputed for earnings after 62 in a much more favorable way than is used for those reaching 62 in 1979 or later. (See the discussion of the notch problem in Chapter 16.) Even with the delayed retirement credit increased from 3 percent to 7 percent per year for those who reach 62 in 1979, those who reached 62 earlier and who work after 65 are still better off when they do retire.

Under Alternative A, the present reduction in benefits for retirement before 65 would be left unchanged, but the delayed-retirement credit for those claiming benefits after 65 would be increased from the present 3 percent to 7 percent per year. The estimated long-range cost of this proposal is 0.09 percent of taxable payroll. This proposal is used to estimate the total cost of the Commission's recommendations.

Under Alternative B, the present reduction in benefits for ages below 65 would also be left unchanged, but the delayed-retirement credit would be increased so that it would be on an actuarial-equivalent basis.[17/] The estimated long-range average cost of this proposal is 0.11 percent of taxable payroll.[c/]

Under Alternative C, both the reduction for early retirement and the delayed-retirement credit would be changed to produce a no-cost proposal. In essence, they would be one percent lower relatively than those of Alternative B at all ages.

Both Alternative C and Alternative D eliminate the concept of a "normal" retirement because there is no age at which a "normal"--100 percent--benefit is paid. Alternative D costs less than present law.

[17/] A benefit that is actuarially equivalent to a benefit claimed at 65 is one which, when claimed at an earlier or later age, has the same total value over the remaining expected lifetime of the beneficiary.

[c/] By Mr. Cohen, Mr. Dillman, Mr. Rodgers: If it came to a choice, we would prefer either alternative A or B to complete repeal of the retirement earnings test. This would be a far better benefit design, because post-retirement income would then be more nearly comparable with pre-retirement income and the program would give greater incentive to continue at work after age 64. The cost of alternative B would be slightly less than either complete repeal of the test or eliminating it only after age 65. Mr. Rodgers concurs in this dissent, but would prefer alternatives D, C, B, or A, in that order.

A choice among the alternatives involves trade-offs among goals to encourage later retirement, increase the flexibility of the retirement age, provide equity between workers who retire at different ages, provide adequate benefits to early retirees, and enhance the public understanding of the system.[D/]

Tax Incentives

Social Security benefits are not subject to the Federal income tax. People over 65 who have substantial earnings have some or all of their benefits withheld because of the earnings test.[18/] Their income from earnings is not tax-free. The Commission believes that if further encouragement to delay retirement is needed, the cost should be borne by society as a whole and should come from the general Treasury.

18/ The annual earnings test for beneficiaries age 65 and over is $5,500 in 1981 and the annual exempt amount in 1982 will be $6,000, with the amount in later years to be determined under indexing provisions based on increases in average wages. For those under age 65, the amount is $4,080 in 1981, with the amount in later years determined under indexing provisions.

D/By Mr. Laxson and Mr. Myers: If the credit for voluntarily deferring retirement to age 68 is increased from 9 percent to the 21-24 percent range, it could well make it more difficult to accomplish the later change to retirement at age 68 without any delayed-retirement credit being available then. The claim is likely to be made that future retirees will “lose” too much through the change and, if concessions are made to continue any portion of the credit, the cost savings anticipated and needed through the retirement age change could be materially diluted.

To further encourage later retirement, the Commission recommends a partial refundable income tax credit for people 65 and older who forego Social Security benefits under the earnings test. This credit would be equal to the lowest Federal income tax rate (currently, 14 percent) multiplied by a specific factor based on the age attained in the year and then applied to the Social Security benefits withheld during the year. The multiple increases with age, so as to encourage people to work longer. The schedule of factors based on age are:

Age Attained in Year	Tax Credit Multiple
65	.6
66	.7
67	.8
68	.9
69	1.0
70	1.1
71	1.2
72 or over	1.3

For example, if a 66 year old worker earned $20,000 in 1982 and had his full benefit of $6,000 withheld under the earnings test, the income tax credit would be computed as 14 percent times .7 multiplied by $6,000--or $588.

This tax credit would not be applicable to persons attaining age 62 before 1979 (for the same reason that this group would not receive an increase in the delayed-retirement credit). E/

E/ See dissenting statement on refundable tax credit and taxation of Social Security benefits by Mr. Laxson and Mr. MacNaughton.