# RETIREMENT AGE FROM THE VIEWPOINT OF ECONOMIC AND SOCIAL POLICY

*by Ken Buffin*

The United States Social Security system is currently financed by joint employer and employee payroll taxes, each at 6.2 percent of workers' annual wages up to a maximum of $106,800. According to the latest financial report of the Social Security trustees, projected payroll taxes, together with the current trust fund assets, are adequate to meet scheduled benefits until the year 2037. Thereafter, payroll taxes are projected to fall short of the level required to meet scheduled benefits. According to the trustees, an increase of one percent of covered annual wages, to 7.2 percent for both employers and employees, would be required at the present time to bring the relationship between the actuarial values of future benefits and future contributions into balance over the 75-year projection period to 2083.


There are many ways in which the projected actuarial balance over 75 years might be improved so as to eliminate the projected deficit beyond the year 2037. The two major categories of adjustments to the system that have been extensively debated in recent years include increasing contributions and/or decreasing scheduled benefits. Actuaries typically focus on the concept of the 75-year actuarial balance as an important criterion for maintaining the solvency and sustainability of the system. A great deal of literature exists describing various proposals to make parametric changes to the system, such as: increasing the payroll tax rate; increasing the limit on taxable earnings; changing the components of the primary benefit formula by reducing the benefit percentage rates or adjusting the ranges of covered earnings associated with each of the benefit percentage rates; reducing the amount of cost-of-living adjustments; changing auxiliary benefits on death or disability; and changing the definition of normal retirement age so as to continue to increase gradually to higher ages in future. (The normal retirement age is already in the process of moving in steps from 65 to 67 as provided under the present Social Security law).

Advocates of increasing the normal retirement age beyond 67 point to the effects of a secular trend in declining mortality rates and the corresponding increase in life expectancy from generation to generation. From an actuarial perspective, there is a certain logic to the concept of increasing the normal retirement age to counterbalance the financial effect of improving longevity expectations. However, economists often take a different view and tend to consider the economic and social aspects of proposals for changes to the normal retirement age in addition to their financial effect alone. A recent research paper published by the Washington-based Economic Policy Institute takes issue with the concept of increasing the normal retirement age, presents the issue in the broader context of economic and social policy, and presents a rationale for "why raising the social security retirement age is not the answer."

In a briefing paper published in May, the Economic Policy Institute makes several points in support of not raising the Social Security retirement age. (1) Retirement security is declining as fewer individuals are covered by tradition-

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al defined benefit retirement plans and older persons face rising health care costs. (2) Life expectancy should not be viewed in isolation. Other long-term trends, such as an increase in women's labor force participation have had an important financial effect on Social Security's finances. Aggregate Social Security contributions have grown faster than life expectancy at retirement. (3) Today's workers pay more into the system. They live longer than previous generations, work more hours and retire later. (4) Working women have helped to strengthen Social Security finances. Today's employed generation works six days more a year than the generation of fifty years ago due to women's participation in the labor force. The financial effect has been positive since the system subsidizes spouses who do not work and those who earn much less than their partners. (5) Forcing people to work longer may hurt those it is meant to help. Retiring early makes sense for workers with shorter life expectancies. Raising the retirement age would hurt those who have little choice due to poor health or little prospect of employment. (6) Raising the retirement age would hurt low-income and minority workers. Most of the increase in life expectancy in recent decades has been among higher-income workers. (7) The shortfall has more to do with widening income inequality and other labor market factors. Earnings of most workers have stagnated except for higher-income workers. Earnings above the current limit of $106,800 are not subject to the Social Security payroll tax. (8) It makes no sense to cut benefits at a time when retirement insecurity is rising. Other changes, including an increase in the payroll tax rate and raising the limit on taxable earnings, together with implementing comprehensive health care reform, are more aligned with national social and economic policy needs.

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