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# Actuaries testify on Social Security retirement age

As the search continues for a solution to the U.S. Social Security system's financing problems, the U.S. Congress is considering raising the normal retirement age for U.S. workers. Three SOA members recently offered their actuarial expertise and perspectives on this issue in testimony before a congressional subcommittee.

The Social Security system is expected to run a deficit beginning about 30 years from now. Among the proposals before Congress is one to index the normal retirement age to longevity, potentially increasing retirement ages to 70 or beyond. Currently, the retirement age is 65, and it will rise in increments to age 67 by 2027.

The House Ways and Means Social Security Subcommittee heard testimony on Feb. 26 from Christopher Bone, chief actuary, Actuarial Sciences Associates, Somerset, N.J.; Ron Gebhardtsbauer, senior pension fellow, American Academy of Actuaries; and Robert Myers, former chief actuary of the U.S. Social Security Administration and professor emeritus, Temple University.

All discussed the impact of a higher normal retirement age. Bone stated clear support for raising the normal retirement age. He said that with this change should come policy changes that would allow workers to phase in their retirement — working part time and receiving partial pensions from Social Security, private plans, or both before fully retiring.

Gebhardtsbauer, testifying for the Academy, commented on this approach. "Under this option, people would choose their own retirement age and how to phase in their Social Security benefit rather than be subject to the earnings test," he said. "If Congress chooses this option, it should also allow pension plans to pay partial benefits to employees who switch to part-time work. However, this concept has some disadvantages, so Congress should consider them carefully."

Bone, a consultant to private pension plan managers, focused his testimony on the effect that higher retirement ages might have on employer-sponsored plans. His statement said that while "increases in retirement ages may prove less disruptive to private sector plans" than other reform proposals, several simultaneous changes are needed as well, including:

- Changes in regulations, especially those that would allow employees to "gradually reduce work hours without sacrificing pension entitlements"
- A "sufficiently long time horizon" for employers to adapt to higher retirement ages and regulatory changes

Above all, Bone said, policy makers must realize that "employers' responses to Social Security changes will be made in the context of designing retirement plans to further business and workforce goals." They should understand that employers are likely to respond to Social Security reforms in light of two primary factors: the amount and incidence of the related cost to the plan sponsor and the effect of changes on the behavior of plan participants.

Myers did not specifically address the question of whether retirees should be able to work part-time while receiving pensions. But like Bone, he supported raising the normal retirement age in part because "as people live longer, they should — and will — be able to work longer." Essentially, Myers said, "long experience" is likely to increase workers' value more than "possibly declining physical ability" is likely to reduce their value.

Myers pointed out that when the age-65 provision first went into effect, in 1940, the expected retirement-life expectancy was 8.36 years measured at age 20 — 20.8% of predicted work-life span at age 20. Rather than using age 65 as the defining point, the 20.8% rate should have been used, Myers said. "In my view, from the standpoint of the nation's well-being, the definition of 'old age' should not have been kept static over the years as longevity increased," Myers said in his statement. "By doing so, we have had a hidden continual liberalization of the program." On this basis, the retirement age at present would be about 71. He concluded, "the demographic problem involved should be solved by demographic means — namely, a continuous small annual increase in the normal retirement age in all future years."

His recommended increase was two months for each year-of-birth cohort, beginning for the 2003 cohort of persons attaining age 65. This would result in the normal retirement age rising to 70 in 2037 and 75 in 2074.

Copies of Bone's, Gebhardtsbauer's, and Myers' statements are available from them at their *Directory* addresses.

## Call for papers for ARCH

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Papers should be submitted as photo-ready copy with a one-inch margin on each side. Authors also are requested to preface their papers with a brief abstract (100 words or less). Papers should be submitted to: Sheree Baker, Society of Actuaries, 475 N. Martingale Road, Suite 800, Schaumburg IL 60173 (phone: 847/706-3565; fax: 847/706-3599; e-mail: *sbaker@soa.org*).