Raising the Social Security Retirement Age is Dangerous

A White Paper

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Older Women's Economic Security Taskforce[1]
National Council of Women's Organizations[2]

I. Introduction

One way to cut benefits in Social Security is to the raise the retirement age. Raising the retirement age is being touted as the most likely "fix" to Social Security's long-term funding gap, and this recommendation is likely to come out of the President's Commission on Fiscal Responsibility and Reform in early December 2010. Social Security does not directly impact the deficit because it is "off budget," meaning it has its own dedicated source of revenue, and currently runs a large surplus.

The Older Women's Economic Security Taskforce (OWES) of the National Council of Women's Organizations (NCWO) has grown increasingly concerned that Social Security is being targeted for benefit cuts in a misguided attempt to cut the federal deficit. Older women rely on Social Security for their basic needs and in the current economic climate cannot withstand benefit cuts in whatever form that may be proposed.

We need to focus on the facts. First, Social Security is not in crisis and cutting benefits will not solve a crisis that does not exist. Social Security does not contribute one penny to the federal deficit and in its current state will remain solvent for almost thirty years. Second, Social Security's trust fund was built up in anticipation of the large number of individuals who will retire in the next decade (the Baby Boomer generation). We knew this would happen, and the government built up the surplus for this very purpose. Third, the money in the trust fund has been placed into US Treasury Bonds, and much of it has been borrowed by the Federal Government to fund other items in the budget – such as the wars in Iraq and Afghanistan. The United States has sold Treasury Bonds to others besides the American people, such as China, and will be required to pay those debts in full, plus interest. These aren't "worthless IOUs," but loans the government took and owe back to American workers.

Due to the changing workforce, unemployment later in life and the vast increase in age discrimination claims, it is clear that raising the retirement age for Social Security is not a viable option for the American people. NCWO recognizes that women and men are living longer, but the data show that increased longevity is linked to income and education and does not mean that people are able to work longer before receiving their Social Security retirement benefits.

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[1] Co-Chairs: Dr. Heidi Hartmann and Ashley B. Carson, J.D. Contributing Members: Nancy Altman, Natale Zimmer, Monique Morrissey, Ashley English, Nicole Woo, Hye Jin Rho, Stacy Sanders, Ellen Bruce & Lara Hinz.
[2] The National Council of Women's Organizations is comprised of 200 women's organizations and represents over 10 million women nationally. NCWO membership is broad-based and diverse and includes organizations working on a wide spectrum of issues as well as the concerns of specific constituencies: mid-life and older women, girls and young women, women of color, religious women, business and professional women, lesbian women, homemakers and retired women.

Adjustments to Social Security's "retirement age" sound to non-experts like a work incentive or an appropriate adjustment for much longer, healthier lives, when it is simply an across-the-board benefit cut, albeit disguised, which falls heaviest on those who are in physically demanding jobs or who find themselves laid off and unable to find new employment. While an economist, lawyer or Member of Congress may find it easy to delay retirement for a few more years, the same cannot be said for autoworkers, coal miners and nursing assistants.

As an aside, if deficit-hawks were serious about linking retirement benefits to longevity or cutting back worker investments, they would also be talking about increasing ERISA's statutorily defined retirement age, which is still set at age 65, and increasing the age at which taxpayers can withdraw private retirement funds from individual retirement accounts (IRAs) and 401(k)s without penalty, which remains at 59.5. But they are not, which sheds a light on their true motives: not strengthening retirement, but cutting Social Security and forcing workers into private retirement plans that benefit Wall Street.

The goal of Social Security retirement income is to provide a base level of replacement of monthly wages in old age, when workers can no longer stay in the workforce. These benefits provide a foundation for retirement security, but are not enough to meet the basic needs of many retirees; nonetheless many retirees rely solely on Social Security, and that number continues to increase. Cuts to benefits for workers who paid in will force too many retirees to choose between rent, medicine, and food, and will take us back to the days before Social Security, when nearly half of all seniors lived in poverty.

II. The Baby Boomers and Social Security

Life expectancy is not the major cause of demographic imbalance

The Baby Boomers are retiring! As it turns out, this is not a surprise, and they are not bankrupting Social Security. Economists have known for decades that Baby Boomers would start to retire this year, and so nearly 30 years ago, workers started contributing more to the program so that when they all retired there would be enough money to cover them. If you don't know the whole truth, it might sound like we're living beyond our means, but in reality, the Social Security program has been saving up for this rainy day, and it has the funds to cover new beneficiaries.

Nonetheless, the numbers matter, and we should understand the facts. The Baby Boomer retirement will cause a significant bump in spending—from 4.4% of GDP in 2008 to 6.2% in 2034.[3] However, the Social Security trust fund is sufficient to last through the bulk of the Baby Boomer retirement, and spending as a share of GDP is projected to *decrease* afterward and level off at around 5.8%, just 0.8% of GDP more than the system currently collects in revenues.[4] In other words, contrary to deficit-hawk wisdom, Social Security costs are not spiraling upward due to an increase in life expectancy, but rather are projected to level off at a rate less than one percentage point above current revenues as a share of GDP, and we can cover that amount with some simple changes that do not require benefit cuts.

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[3] Unless otherwise noted, figures cited are from the 2009 Social Security Trustees Report.

[4] The projected 75-year shortfall is slightly smaller—0.7% of GDP—because Social Security has been running a surplus, which is expected to be largely but not entirely offset by a decline in revenues as a share of GDP due to projected health care cost inflation. The 2009 Trustees report, however, predates the health care overhaul.

It is reasonable to ask how Social Security outlays will level off and whether an increase in life expectancy implies an increase in the beneficiary-to-worker ratio. The answer: not necessarily. Since the mid-1980s, when Social Security was last in balance, cohort life expectancy at 65 increased by almost two years.[5] However, the labor force grew quick enough to keep the beneficiary-to-worker ratio stable, as immigration and an increase in women's labor force participation offset the increase in life expectancy.

In other words, benefit cuts in the form of a gradual increase in the retirement age from 65 to 67 were not necessary to counter a demographic imbalance. Rather, the emerging shortfall was caused by other factors, including rising inequality, lower personal retirement savings and health care costs (fringe benefits and earnings above a cap are not taxed). In any case, indexing the normal retirement age to life expectancy in retirement would be overkill, because it means work years would continue to increase, regardless of ability to work, while retirement years would be fixed.

Going forward, Social Security actuaries conservatively project a long-term decline in immigration and a leveling off of women's labor force participation. Nevertheless, with a fertility rate close to the replacement rate, any positive net immigration will contribute to labor force growth, which can in turn offset increases in life expectancy and stabilize the beneficiary-to-worker ratio. Thus, though the beneficiary-to-worker ratio is expected to rise with Baby Boomer retirement, it will level off after 2035 despite projected increases in life expectancy at retirement.

Raising the retirement age is a benefit cut

Workers currently qualify for full Social Security retirement benefits at the age of 66. If they retire early, their benefits are reduced by a fraction of a percent for each month before the full retirement age -- which currently means a 25% reduction in benefits for a worker who retires at 62. An increase in the full retirement age for Social Security would drive some workers to work longer and result in even greater reductions in benefits for those who retire early, creating a double hit for those who are forced into retirement because they cannot continue in their profession and for those who cannot find employment, as we have seen in the current economic downturn, and choose the only option available to support themselves. These retirees are not making an informed choice to take early Social Security benefits, knowing that they receive a reduced benefit, because they want to retire early and have sufficient additional income through pensions, private retirement accounts, or other sources. These people are taking the reduced benefit because it is the only income available to them, and for many, the only way to prevent losing their homes and to ensure they can feed themselves and their families.

What does an increase in the retirement age mean to beneficiaries? If your benefit at age 66 would have been $1,000 a month and Congress raises the retirement age to 67, beneficiaries would have to wait until age 67 to collect $1,000/month. This means beneficiaries lose a year of collecting full benefits and lose again because instead of receiving $1,080/month at age 67, as one

[5] Bell, Felicitie , K. Mark Bye, and Al Winters. 2008. "Unisex life expectancies at birth and age 65," *Actuarial Note*, Social Security Administration Office of the Chief Actuary, June.

would under current law, the new benefit at 67 would be just $1000/month. But for those who can't work to 67, they are forced to take benefits even earlier, which results in an even greater reduction for those who need the benefits most.

Raising the retirement age hurts workers in physically demanding jobs

In particular, raising the retirement age is likely to place a greater burden on older workers in occupations that require physically demanding work, as they may not be able to continue to work in their jobs into their mid-to-late 60s. In 2009, over 7 million (about 45% of) workers aged 58-69 had jobs with physical demands or difficult physical working conditions. For women aged 58-69, over onethird (2.6 million) had jobs with physical demands or difficult working conditions. See table below.

Elderly Workers in Jobs with Physical Demand or Difficult Work Conditions in 2009

Gender/ Age Group	Physical Demand (PD)	Difficult Work Conditions (DWC)	PD or DWC
All			
58-61	2,967,790	2,286,702	3,833,712
%	34.4	26.5	44.5
62-65	1,737,695	1,283,753	2,242,904
%	34.7	25.6	44.8
66-69	868,346	669,938	1,131,826
%	35.2	27.1	45.8
Women			
58-61	1,238,225	525,738	1,391,948
%	30.2	12.8	34
62-65	755,112	312,137	846,220
%	32.1	13.3	36
66-69	388,066	156,624	430,345
%	34.4	13.9	38.1

Sources: CEPR analysis of Occupational Information Network (O*NET 14.0) and CEPR extract of 2009 Current Population Survey Outgoing Rotation Group (CPS ORG) data.

III. Life Expectancy vs. Wealth

Over the last century there have been large increases in life expectancy for both men and women at birth. This is not as significant as it may appear with regard to retirement, since a significant part of the increase has been between birth and age 20. The average number of years a 20year old man could expect to work by age 65 rose from 39.0 to 42.0 years between 1899 and 1949.[6]

Those born in 1999 will average about 45.0 years of work before they reach retirement age. Under current law, the younger generations will work considerably longer than past generations of workers.[7]

Numerous studies have documented that improvements in life expectancy, including life expectancy in retirement, have been skewed in favor of those with higher incomes and more education.[8] Most of the improvement in life expectancy in recent decades has occurred among higher-income and more educated men, with lower-income and less educated men seeing little or no change. For example, a male in the top half of the earnings distribution who retired at 65 in 2006 could expect to live 21.5 more years, an increase of 5.0 years compared to his counterpart in 1982. Meanwhile, a male in the bottom half of the earnings distribution who retired in 2006 would have a life expectancy of 16.1 years, just 1.1 year more than his counterpart in 1982.[9]

In the case of women, overall life expectancy has stagnated, with lower-income women seeing *declines* in life expectancy, and upper-income and more educated women seeing modest improvements. The general pattern appears to hold with older women as well, where there is a substantial increase in mortality differentials by lifetime earnings for women aged 50-64, and a smaller increase among women aged 65-75.[10]

This widening inequality in health outcomes may be tied to widening income inequality, which affects private retirement savings, and could reflect differences in access to medical care, environmental factors, or increasing complexity of management of chronic health problems. It does not, however, appear to be linked to behavioral risk factors, such as smoking, obesity, hypertension and cholesterol. These are important determinants of population health, but "changes in these risk factors do not explain the widening educational gap in mortality since the 1970s."[11]

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[6] CEPR – Social Security and the Age of Retirement By David Rosnick June 2010

[7] *Id*

[8] Congressional Budget Office. 2008. "Growing disparities in life expectancy," April 17; Cristia, Julian. 2009. Rising Mortality and Life Expectancy Differentials by Lifetime Earnings in the United States. IDB Working Paper, January (subsequently published in *Journal of Health Economics*); Singh, Gopal K. and Mohammad Siahpush. 2006. "Widening socioeconomic inequalities in US life expectancy, 1980-2000," *International Journal of Epidemiology*, May 9; Waldron, Hilary. 2007. Trends in Mortality Differentials and Life Expectancy for Male Social Security-Covered Workers, by Socioeconomic Status, Vol. 67, No. 3.

[9] *Id*. Waldron

[10] *Supra* Note 7 Cristia

[11] Cutler, David M., Fabian Lange, Ellen Meara, Seth Richards and Christopher J. Ruhm. 2010. "Explaining the rise in educational gradients in mortality," NBER Working Paper 15678, January.

Longevity is an average, which means that some people live longer and some don't. Social Security has smoothed its actuarial calculations so that if people retire before the retirement age, their benefits are less and if they work longer, their benefits are increased. Therefore, the benefit structure already encourages those who can work longer to work longer, while at the same time applying punitive reductions for those who must take benefits early, due to health issues that do not qualify for disability, being unable to find or continue employment in their profession or family responsibilities that force them to leave the workforce, as opposed to those who choose an early retirement when they could continue to work.

IV. Age Discrimination & Unemployment

There has been a 17% increase in age discrimination cases since 2007, according to the Equal Employment Opportunity Commission (EEOC), and at the same time, the Supreme Court decided in *Gross v. FBL Financial* to make it harder to file an age discrimination suit, by placing the burden of proof on the plaintiff. "When the economy tanks, older workers bear the brunt through layoffs and reductions in force. And, once they've lost their jobs and they're trying to reenter the workforce, they get hit on the other end. In past recessions, we saw older workers who lost their jobs dabbling in the job market if they didn't find anything full time. We're not seeing that now. The number of unemployed older workers has increased by 330 percent over the last 10 years, and many unemployed older workers do not have the option of making a go of it in retirement," stated Laurie McCann, a senior attorney with the AARP Foundation, in a Newsweek Magazine interview in March of this year.[12]

An analysis of the latest Bureau of Labor Statistics data revealed that during April 2010, the job market for Americans 55 and older had never been worse.

There are a growing number of individuals unemployed longer than 6 months and reaching the end of their unemployment benefits. They are called the long-term unemployed. Of the 15 million unemployed, over 7 million have been out of work for more than six months, 5 million for a year and over 1 million for two years. These are the worst statistics since the government started tracking back in 1948.[13]

Additionally, many mid-life individuals are "structurally unemployed" meaning that demand for their now increasingly obsolete skills will not suddenly increase in demand after the recession ends. Many of them are underwater on mortgages and faced with family caregiving responsibilities for aging parents and children or adult children who cannot find work.[14]

Unemployment for this category of workers is the highest it has ever been, it is taking longer for older workers to find jobs, if they can find jobs, and age discrimination claims are near record levels. Further challenges to secure income for older workers who are at or near retirement age are not in the interests of workers or their families.

[12] Newsweek, Nancy Cook April 17, 2010 "Keep Young and Beautiful – Especially at Work"
[13] Washington Independent - By Annie Lowrey June 10, 2010 "People Who Have Exhausted Benefits Seek Recourse"
[14] *Id.*

V. Early Retiree Benefits – Increased Applicants Ages 62-70

Last year, the Office of the Chief Actuary of Social Security Administration (SSA) estimated that even in the absence of the recession, applications for retired worker benefits under the Social Security program FY2009 would be about 15% higher than the number in FY2008, solely due to the increase in numbers of insured workers reaching the retirement ages of 62 -70. The increase was anticipated because of the aging of the Baby Boomers and the increased percentages of women reaching retirement ages having attained insured status. The actual data showed that for FY2009, there was an increase of 21% over the number of applications in FY2008, an additional 6% over what SSA expected.

As mentioned earlier in this paper, individuals taking Social Security benefits before age 66 receive a gradually lower benefit depending on how early one begins drawing. What we see here is that either because workers were unemployed or could not continue to meet their job requirements and were forced to retire early, without another source of income, beneficiaries are taking an early, reduced benefit. This is not because they have abundant resources upon which to retire early, but because Social Security is the only source of income they can access.

VI. Benefit Adequacy

Although never intended to be the sole source of income in retirement, Social Security represents all or most of many elders' income in retirement, particularly for older women. Social Security provides more than 90 percent of income to three out of ten retired elders and two of out of five older women have only Social Security income. Women, who on average earn less income during their working years, disproportionately rely on Social Security benefits as they age. Given this, it is critical to understand to what extent Social Security provides an adequate benefit and how well benefits help seniors age in place with dignity and economic security.

Many Americans do not save outside of Social Security for retirement. In 2009, only 20 percent of private sector workers under age 65 were enrolled in employer pension plans that will pay a defined benefit in retirement (US BLS 2009). Another 43 percent worked for employers that offered retirement savings plans such as 401(k)s, but only 70 percent of them elected to participate. Pension coverage and participation for public sector workers is much more common. Workers can also contribute to individual retirement accounts (IRAs), but only about 10 percent did so in 2004 (Bryant 2008).

The Elder Economic Security Standard™ Index (Elder Index), developed by Wider Opportunities for Women (WOW) and the Gerontology Institute at the University of Massachusetts Boston, can be used to assess the adequacy of Social Security benefits in allowing seniors to meet basic needs. Drawing from publicly available national and state data sources, the Elder Index provides data on the cost-of-living for elders (age 65+) living in the community. The Elder Index incorporates the cost of basic needs, including housing, health care, transportation, food and other essentials, such as toiletries and clothing. The Elder Index is specific to household size, geographic area and life circumstances.

A comparison of the Elder Index to average Social Security benefits makes clear the need to strengthen Social Security and address benefit adequacy, particularly for older women. In 2008, the average Social Security benefit for an older woman amounted to just over $11,300, compared to over $15,800 for an older man. According to the Elder Index, average annual Social Security income provides an older woman renter with only 56 percent of the income required to achieve economic security, compared to 74 percent for an older man. Given that 40% of older women rely on Social Security alone, they are forced to make difficult decisions that impact their health and welfare to try to stretch every dollar and to rely on help from loved ones where available.

The Elder Index data illustrates that while Social Security provides a critical foundation for economic security in retirement, average benefits are not enough to meet basic needs. As shown by the Elder Index, cutting Social Security would be detrimental to those who rely solely or primarily on its benefits for retirement income, particularly for older women. Further, the findings make a case for strengthening benefits and ensuring benefit adequacy, since they are clearly insufficient for those with the greatest need, who are at high risk for homelessness and unmet medical and nutritional needs.

VII. The Changing Workforce

According to a New York Times article published in early May 2010, many of the jobs that have been lost during this recession will not come back even after the economy starts to recover. A weak economy has provided employers with an opportunity to lay-off millions of people who can be replaced by technological advances and international trade.[15]

Many of the individuals feeling the impact of these decisions are older and more experienced workers. There were 1.7 million Americans working in clerical and administrative jobs when the recession began who were not working in those jobs by the end of 2009. The demand for new types of skills is more prevalent than the demand for workers, which inevitably hits older and less mobile workers harder. Data also shows a significant divide in the unemployment pool. Most unemployed workers find jobs after a short amount of time, but there is a large group that is unable to find work after months or even years of applying. The individuals making up the latter group are largely older workers.

One industry where older workers are finding more employment opportunities is in professional caregiving. These jobs are largely taken by women and are among one of the fastest growing segments of the workforce. A recent study by PHI, a nonprofit organization that advocates on behalf of caregivers, found that in 2008, 28 percent of home care aides were over age 55, compared with 18 percent of women in the overall work force. The organization also projects that from 2008 to 2018, the number of direct care workers, which includes those in nursing homes, will grow from 3.2 million to 4.3 million. The percentage of older caregivers is projected to grow from 22 percent to 30 percent. These are very physically demanding jobs, where lifting is required and are therefore more difficult to do as one ages.

VIII. Older Workers During the Great Recession

Older workers are the only group in the labor force whose employment (numbers and percent of population employed) actually increased in the Great Recession (Table 1). Only the oldest group, 65+, experienced an increase in the employment-to-population ratio, and women's increase was much larger than men's, but all workers 55 and older actually gained jobs from December 2007 to December 2009, the only age group to do so. We do not know exactly what lies behind this increase in employment but we suspect the recession has had an effect on the ability to retire earlier by reducing the value of their assets. Also this employment growth is not incompatible with the increased unemployment of older Americans cited above: apparently many more older workers have rejoined the labor force and are looking for work.

[15] New York Times By Catherine Rampell "In Job Market Shift, Some Workers Are Left Behind" May 12, 2010

Table 1: Men and Women's Job Growth and Employment-to-Population Ratios in The Great Recession

	Men	Women
Net Job Growth (Dec 2007- Dec 2009)		
55-64	134,000	447,000
65+	209,000	197,000
Total	343,000	644,000
Employment-to-Population Ratio		
55-64 (December 2007)	67.6%	57.2%
55-64 (December 2009)	63.9%	56.0%
Employment-to-Population Ratio Change	-3.7%	-1.2%
65+ (December 2007)	20.0%	12.7%
65+ (December 2009)	20.1%	13.1%
Employment-to-Population Ratio Change	0.1%	0.4%

Source: IWPR Calculations Based on the Current Population Survey 2010

At the same time older workers are working more, they are also increasingly taking up Social Security at age 62. The Social Security take up rates among women and men aged 62 and over have increased beyond the Social Security Administration's expectations in the Great Recession. Women's Social Security take up rate has increased 3.7 percentage points from 32.9 percent in 2007 to 36.6 percent in 2009. Men's Social Security take up rates increased even more, by 4.6 percentage points, from 21.1 percent in 2007 to 25.8 percent in 2009.[16] Those who retire before the full retirement age of 66receive reduced benefits. Whether one takes benefits early or late has no effect on lifetime benefits for those who live to average life expectancy (benefits are actuarially fair). Since women tend to live longer than men, however, and therefore are more likely to live longer than average life expectancy, taking early retirement can have a negative impact on their lifetime Social Security benefit receipt, not only in total dollars, but also in lower available monthly resources. For women, waiting longer to receive benefits pays off. Again, we do not know exactly what lies behind this increase in take up for both men and women – increased unemployment is surely a factor as could be the need to supplement now reduced asset income or reduced wages.

IX. Caregiving

Caregiving is an essential part of our society's aging culture and has a significant impact on caregivers' abilities to achieve and maintain economic stability in retirement. Women are especially impacted since the overwhelming majority of caregivers in the US are females who are providing unpaid care for loved ones. According to the National Alliance for Caregiving, 66 percent of our nation's 65.7 million caregivers are female. But this comes at a cost; when women assume caregiver roles, they are 2.5 times more likely than non-caregivers to end up

[16] Richard W. Johnson and Corina Mommaerts, *Social Security Retirement Benefit Awards Hit All-Time High in 2009* (Washington, DC: The Urban Institute). <http://www.urban.org/UploadedPDF/412010_retirement_benefit_awards.pdf>(June 15, 2010).

living in poverty. Because around half of all caregivers spend more than eight hours each week providing care, and 13 percent spend more than 40 hours each week, caregiving often results in adverse financial consequences for the caregiver.

Some of the consequences are obvious and include having to decrease employment hours from full- to part-time, declining promotions that may require longer hours, the inability to take advantage of training opportunities that involve travel, and not being considered for promotions because of time spent out of the office. More subtle consequences include lost opportunities for compounded returns on 401(k) matching contributions, reduced savings and investment opportunities, and the inability to afford home improvements that could increase resale value. In addition, Social Security benefits, which women overwhelmingly depend on in retirement, are tied to the number of years they were able to work.

When women take time out of the workforce to provide care, they risk reducing their Social Security benefits, which are already a vital part of their income in old age. Therefore, they cannot afford any additional cut in benefits, either through further reductions in monthly benefits or an increase in the retirement age.

X. Conclusion

Raising the retirement age is an across-the-board reduction in lifetime benefits. Raising the retirement age negatively impacts individuals who work in physically demanding jobs and essentially leaves all people with less money in retirement. There are no current studies available on the already increased retirement age with regard to the impact it is having on older adults in the context of the economic downturn, but no evidence suggests that the current increased retirement age is beneficial to retiring older Americans. Additionally, older unemployed adults are having a hard time reentering the workforce and age discrimination lawsuits have skyrocketed. The types of jobs older adults have lost are not being recreated and the workforce landscape is changing. Finally, women often have fewer dollars in retirement savings due to years spent in lower- paid positions, reduced savings, and time spent out of the workforce due to family caregiving responsibilities. Older women especially are vulnerable to benefit reductions because of their reliance on Social Security income, and any benefit cuts, whatever the form, will negatively impact women as they age.