Why Raise the Full Retirement Age?

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MarketWatch Blog by Alicia H. Munnell

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It's aimed at cutting program outlays rather than getting people to work longer.

Last week's blog post argued that Social Security's official retirement age is 70. Monthly benefits are highest at age 70 and are actuarially reduced for each year claimed before that age. Claiming at 62 instead of 70 lowers a hypothetical monthly benefit from $1,000 to $568. Age 70 became Social Security's official retirement age with the maturation of the Delayed Retirement Credit, which now provides an actuarially fair adjustment for benefits claimed after 66 (the current Full Retirement Age). That means, assuming average life expectancy, people who take a lower benefit early would expect to receive about the same total amount in benefits over their lifetimes as those who wait for higher monthly benefits but start receiving them later.

But nobody talks about age 70; all of the discussion is focused on the so-called Full Retirement Age, which historically was 65, is now 66, and is scheduled to rise to 67 for those born in 1960 and after. The Full Retirement Age used to be the age after which monthly benefits would not increase and

lifetime benefits would decline. It signaled an official retirement age: take these benefits now or you will lose out.

With the maturation of the Delayed Retirement Credit, which increases monthly benefits for those who claim after the Full Retirement Age, the value of lifetime benefits does not decline after the Full Retirement Age. It remains the same up to age 70. So the Full Retirement Age no longer has any effect on lifetime benefits.

Increasing the Full Retirement Age, however, does have an impact on the *level* of benefits. When the Full Retirement Age moves from 66 to 67 as scheduled under current law, benefits for those claiming at each age will be about 7 percent lower for life. Benefits at 62 will continue to be 57 percent of benefits at 70, but they will be 7 percent lower for claims at each age.

Those advocating increases in the Full Retirement Age are responding to the fact that, generally, we are living longer and can work longer. But increasing the Full Retirement Age to, say, 70 (after we reach 67) would be equivalent to about a 20-percent reduction in benefits. And these cuts are across the board. If people can change their retirement plans in response to the lower benefits, and delay their claiming date by three years, they might not be that badly hurt. Yes, they would need to work longer and their lifetime benefits will be lower, but their monthly benefit will be unchanged.

The problem is that a significant portion of the roughly 40 percent of participants who claim benefits at age 62 is low-wage workers who cannot easily change their retirement plans. They have health problems and/or outdated skills that make continued employment impossible. And, if they cannot retire later, their much-reduced benefits will be totally inadequate.

(Interestingly, those who retire at age 70 cannot replicate their previous monthly benefit by working longer, because the Delayed Retirement Credit is not applicable after 70. No matter what they do, they will see a reduction in their monthly as well as lifetime benefits. Right now, this is not a significant problem. The age-70 retirees today are largely lawyers, doctors, and Ph.Ds. But if larger numbers start retiring at 70, we can worry about this issue.)

This discussion is not to argue that Social Security benefits can never be cut. People are healthier, better educated, have less physically demanding jobs, and can work longer. They are also living much longer. So keeping benefits unchanged results in ever increasing costs.

But constantly reducing benefit levels by increasing the Full Retirement Age is very hard on low-income, vulnerable people who cannot change their retirement date.   If we want to cut benefits, it makes much more sense to directly change the benefit formula. Such an approach allows for larger cuts for the higher-paid than for those at the bottom of the earnings distribution.

More fundamentally, let's start being clear and candid about changes aimed at getting people to work longer and those aimed at cutting program outlays.

(The issues discussed in this blog post are covered in more detail in a **new issue brief** from the Center for Retirement Research at Boston College.)