

# WORKING PAPER

## *Executive Summary*

MARCH 2006, WP # 2006-8

CENTER FOR  
RETIREMENT  
RESEARCH  
AT BOSTON COLLEGE

## WORKING FOR A GOOD RETIREMENT

BY BARBARA A. BUTRICA, KAREN E. SMITH AND C. EUGENE STEUERLE

When people work longer, they produce additional goods and services for an economy. They also earn more income, usually save some of that income, allow existing assets to grow, and increase their annual Social Security benefit by withdrawing money over a shorter period of time. At the same time, they create a positive effect on Social Security deficits by delaying receipt of government benefits, and, quite importantly, paying more taxes—thereby supporting not just Social Security, but, through income and other taxes, other government programs as well.

As best we can tell, no one has examined these broad effects from additional work. For instance, the Social Security Administration does not report effects of proposed policy reforms on general revenues. To examine these complex interactions, we estimate the effect of increased work using the Urban Institute's Dynamic Simulation of Income Model (DYNASIM3). Among other items, DYNASIM calculates retirement wealth from earnings, pensions, and Social Security. It also calculates payroll tax, and federal and state income tax at the individual and family level from 1992 to 2050. These projections account for the dramatic heterogeneity of individual demographic and economic circumstances and how they evolve over time.

At the individual level, we calculate the change in net wealth and annual future consumption made possible by additional work. At the macro level, we calculate the change in total earnings and in the Social Security deficit due to additional work. We also look at the changes in general revenue that could be used to support other government spending (including spending on the elderly).

Key findings include the following:

- Workers could increase their annual income by an average of 5 percent from age 50 onward for one additional year of work and 25 percent for five additional years of work. The additional net wealth from one more year of work, if annuitized at retirement, could increase consumption by 9 percent per year. Five additional years of work could increase annual consumption at retirement by 56 percent per year.
- Lower-income workers have the most to gain from their additional labor. Workers in the bottom lifetime earnings quintile could increase annual consumption at retirement by 16 percent with one additional year of work and by 98 percent with five additional years of work. Workers in middle- income quintiles also gain relatively greater percentage increases in annual income from additional work than do the richest workers.

- At the macro level, the Social Security earnings generated from just one additional year of work are almost equal to the entire 2045 Social Security shortfall (of benefits from taxes) projected under the baseline scenario. Also, the additional Social Security taxes generated by five years of work are more than half the Social Security shortfall in 2045. Furthermore, if one takes into account additional income tax revenues, the government's gain to its unified account is far greater than the size of the Social Security deficit.
- Looking more narrowly at just the additional Social Security payroll tax, even five more years of work is not enough to close the Social Security funding gap by itself. Some additional reform, such as an increase in the normal retirement age, is still likely to be required. However, the added payroll tax from the additional work can reduce the size of any benefit cuts or tax increases needed to achieve solvency.
- There is a striking contrast between reforms that simply reduce benefits and reforms that increase work effort while partially reducing benefits. Work-inducing reforms clearly require fewer benefit cuts to achieve solvency because of the additional revenues. Perhaps more strikingly, workers on average achieve significantly higher net incomes when additional work is involved—the earnings increases can easily more than offset any benefit cut—and significantly lower net incomes when only benefit cuts are involved.
- A number of changes have recently occurred that should encourage more work at older ages. These include the increase in the Social Security normal retirement age, the shift from defined benefit to defined contribution pensions, and the scaling back of retiree health insurance. If workers would merely increase their work efforts by their increases in life spans—Social Security projects that by 2050 people would need to retire about 3 ½ years later to achieve the same 18+ years of retirement support as they get in 2005 at age 65 — budgetary pressures could be significantly reduced. Reforms are still likely to be required to deal with long-term imbalances, but some — such as decreasing early Social Security benefits and increasing delayed Social Security benefits, or eliminating the requirement that Medicare be secondary payer — are much more likely to increase work effort than are others.

---

© 2006, by Barbara A. Burtrica, Karen E. Smith and C. Eugene Steuerle. All rights reserved. The research reported herein was performed, in part, pursuant to a grant from the U.S. Social Security Administration (SSA) funded as part of the Retirement Research Consortium. The findings and conclusions expressed are solely those of the authors and do not represent the views of SSA, any agency of the Federal government, the Urban Institute or the Center for Retirement Research at Boston College.

## **CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE**

Fulton Hall 550, 140 Commonwealth Avenue, Chestnut Hill, MA 02467-3808  
phone 617.552.1762 fax 617.552.0191 [crr@bc.edu](mailto:crr@bc.edu) [www.bc.edu/crr](http://www.bc.edu/crr)