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THE IMPLICATIONS OF CAREER LENGTHS FOR SOCIAL SECURITY

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Many argue that growing fiscal pressures and increasing life expectancy require an increase in retirement ages to concentrate benefits more on older ages. Some suggest, however, that if other adjustments are not made, an increase in retirement ages might harm long-career, lower-wage workers. Tying retirement benefit eligibility to years of service is offered as one possible solution: it might protect lower-wage workers if they start their careers earlier and work more years by time of retirement than higher-wage workers. It may be ineffective, however, if higher disability rates and greater employment volatility among low-wage workers offset early labor force starts. Using Survey of Income and Program Participation data matched to administrative earnings and benefit receipt records, we describe variation in work histories for current and near retirees by gender, education, and other important characteristics. We compare segments of these workers' career paths with younger workers' to draw implications for a range of future Social Security policies, in particular, retirement ages.

We find that career paths are changing significantly — and in different ways for different parts of the population — over time. For women, work history is increasing rapidly, with more educated women demonstrating the strongest average work histories. For men, work histories are more similar by education; still, men with less than a high school education on average work less — not more — than other men by middle and pre-retirement age. Some patterns are similar for men and women. In both cases, those whose best earnings years over their careers were less than the national average typically do not have high numbers of service years. These findings suggest that using years-of-service-based retirement ages would not disproportionately benefit the most vulnerable workers. At the same time, they suggest that tying minimum benefit policies to a high service-year requirement might reduce those minimum benefits' ability to reach some of those with the greatest need.

A finding for the “average” for any group of people tells only part of the story. Work experience differs both within and across groups in myriad ways. For example, while less-educated men work significantly fewer years on average than more-educated men, the majority of men without a high school diploma still work many years under Social Security definitions. So while service year provisions would not be progressive overall, they could benefit a significant number of less-educated men with long careers. An alternative adjustment, such as allowing all years of service to count toward higher benefits, could be a more direct way of addressing the issues of this type of subgroup and also of addressing the important criteria of fairness and good work incentives, which one ought to consider in addition to progressivity.

The SIPP data also show that women's work histories differ significantly from men's. Career history differences by race, for example, vary by gender. Black women, for instance, work more over a career than do non-black women, but the situation reverses for men. Even though gender differences in work histories have been declining over time, women with children work less than other women, who in turn work less than men. This again warns that moving toward a years-of-service concept to define retirement benefit eligibility would not reach the most vulnerable workers, since women are over represented in this group. Once more, though, we see that all of these groups are quite diverse: for example, some women with several children have earnings in virtually all years. This again raises equity issues, particularly associated with policies like caregiver credits and current law spouse and survivor benefits.

Our analyses provide some additional lessons about Social Security and labor force policy. First, a sizable fraction of workers with low levels of education receive Disability Insurance benefits, so policy-makers concerned with this group need to be mindful of how any proposals interact with DI and related safety-net programs. Second, lifetime employment patterns are changing fairly rapidly across cohorts. Policies that might maximize equity for near retirees today may be less appropriate for later cohorts. Third, we show that the precise definition of a work year can matter greatly for designing policies based on work years. This underscores the importance of details when designing changes to Social Security. Finally, a single policy option — no matter how carefully detailed — often needs to be considered as part of a larger package of changes. Packages can offer greater opportunity to build in offsetting adjustments in order better to reconcile competing objectives.

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