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# FINANCIAL HARDSHIP BEFORE AND AFTER SOCIAL SECURITY'S EARLY ELIGIBILITY AGE

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Although poverty rates for Americans ages 65 and older have plunged over the past half century, many people continue to fall into poverty in their late fifties and early sixties. Disability and job displacement frequently create financial hardship for people throughout the working-age population, but the risks are particularly serious in the years just before age 62. Health problems become increasingly common with age, and older people displaced from their jobs by layoffs or business closings often face special difficulty finding work. The limited availability of public income supports magnifies economic insecurities for older workers who are not yet 62, when eligibility for Social Security retirement benefits begins. Social Security disability insurance benefits are available only to workers who successfully navigate an arduous and unpredictable application process, and may begin no sooner than five months after disability onset. Increasing numbers of displaced workers fail to qualify for unemployment benefits, and those who do qualify receive benefits for only a limited time. Raising Social Security's early eligibility age, which many analysts advocate, could leave more older Americans at risk of financial hardship.

This study examines financial hardship rates in the years before qualifying for Social Security retirement benefits at age 62 and how the availability of Social Security improves economic well-being at later ages. Data come from the University of Michigan's Health and Retirement Study (HRS), which has been collecting longitudinal employment, health, and financial data on a large sample of older Americans since 1992. The analysis follows a sample of adults from the 1937-39 birth cohort for 14 years, tracking their employment, disability status, and income as they age from their early 50s until their late 60s. It measures the share of older adults who appear to have been forced into retirement by health or employment shocks and the apparent impact of involuntary retirement on low-income rates. The study also estimates models of the likelihood that older adults experience financial hardship before reaching the Social Security early eligibility age.

The analysis defines financial hardship as having own income (and spousal income if married) below the federal poverty level. Poverty thresholds for adults younger than 65 are used throughout the analysis (even for those older than 65) because using different thresholds at different ages would obscure observed trends in financial well-being.

The results show that the likelihood of experiencing financial hardship increases significantly as people approach Social Security's early eligibility age. The increase in hardship rates is concentrated among workers with limited education and those with health problems. Hardship rates decline after age 62, when most people qualify for Social Security retirement benefits.

- The overall hardship rate increases steadily as the 1937-39 birth cohort moves from the early fifties to early sixties, growing from 9.2 percent at ages 52 to 54 to 12.3 percent at ages 60 to 61, a relative increase of roughly one-third. The pattern reverses after age 62, when people qualify for Social Security retirement benefits. The hardship rate falls to 10.4 percent at ages 63 to 64 and to 8.5 percent at ages 66 to 68.

- Hardship rates grow dramatically for people with limited education as they approach Social Security's early entitlement age. Among those who did not complete high school, hardship rates increase from 22.6 percent at ages 52 to 54 to 30.8 percent at ages 60 to 61, a relative increase of 36 percent. Hardship rates for those without a high school diploma then fall to 24.1 percent at ages 63 to 64 and to 22.3 percent at ages 66 to 68. However, the share of college graduates with incomes below the federal poverty level does not increase significantly as the cohort approaches age 62, nor does it fall significantly after age 62.

- Declines in economic well-being in the late fifties and early sixties are closely tied to work ability. Two-fifths of adults working full-time at ages 52 to 54 reduce their labor supply before age 62; one-fourth completely stop working, leaving the labor force directly from full-time employment, and another one-seventh move to part-time employment before leaving the labor force. Financial hardship rates more than quadruple between ages 52 to 54 and ages 60 to 61 for workers who exit the labor force early directly from full-time employment. The consequences are particularly serious for those with limited education, more than half of whom report incomes below the poverty level at ages 60 to 61 (up from fewer than 1 in 10 at ages 52 to 54).

- Many early labor force departures appear to be at least somewhat involuntary. More than one-quarter of those who move directly out of the labor force from full-time employment have been laid off from a job in their fifties or early sixties, and slightly more than one-half report having a health problem that limits their ability to work. By contrast, fewer than one in six workers employed full-time through age 62 report any work disabilities.

- Multivariate models that control for demographics, health status, and the overall poverty rate show that the risk of experiencing financial hardship increases significantly with age for adults in their fifties and early sixties and then declines after age 62. Health problems also significantly boost hardship rates, especially for those with limited education.

These results highlight the fragility of the income support system for Americans in their fifties and early sixties. Many people who develop health problems as they age fall into poverty before reaching Social Security's early eligibility age. Raising the retirement age would put more people at risk. As lifespans lengthen and physical job demands decline, more and more older Americans are able to work, perhaps justifying an increase in Social Security's early eligibility age. However, high poverty rates among people in their early sixties with work disabilities reveal the shortcomings in the existing safety net for people with disabilities. Efforts to shore up the disability income system will become even more urgent if Social Security retirement ages are raised.

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