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WHO RETIRES EARLY?

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Proposals to 'increase the retirement age' under Social Security now appear frequently as part of plans to close the program's projected long-term deficit. These proposals usually call for an increase in the age at which unreduced benefits are paid. That age, now 66, is scheduled to increase to 67 for everyone turning 62 in 2022 or later.

Few propose raising the age when benefits can first be claimed. The reason is that raising the 'unreduced benefits age' lowers program costs, while increasing the age of initial eligibility does not. The effect on long-term outlays is negligible because the delay in the payment of benefits until a later age triggers an increase in the amount of benefits paid in each period, calculated so that the expected present value of lifetime benefits is approximately unchanged.

One justification advanced for cutting annual benefits is that life-expectancy has increased. However, increases in longevity have not been concentrated among high earners. In contrast, across-the-board benefit cuts affect high and low earners alike. In fact, life expectancy among low earners has risen little in the last forty years.

Cutting benefits while continuing to permit workers to claim benefits at age 62 creates the possibility that early claimants who fail to anticipate the exhaustion or erosion of other income sources. The capacity of the 'young-old' to supplement pensions with earnings from part time work usually diminishes with age. Inflation erodes the value of most private pensions, as few are inflation adjusted. And private assets may be depleted, including defined-benefit pensions, which increasingly carry a lump-sum payment option.

For all these reasons, dependence on Social Security increases with age. These factors also help explain why the proportion of people with incomes below or near poverty increases with age. To avoid leaving the very old with meager Social Security benefits, some analysts have proposed that any increase in the 'unreduced benefits' age should be matched to an increase in the 'initial entitlements' age.
In this paper, we compare certain characteristics of people in their early 60s who stop working with those who continue working. Over the early retirement ages, the differences appear to be small and to have changed little in recent years. We then estimate a simple equation that generates the degree to which various personal characteristics contribute to the decision to retire. Next, we use as weights the coefficients from this equation to compute a retirement vulnerability score for each person in a large longitudinal survey and show the distribution of retirement vulnerabilities of both those who do and those who do not retire. The overlap of these distributions is substantial.

Because of the large weight of poor or deteriorating health in the retirement vulnerability score, attention should be given to changes in rules governing access to disability insurance for workers at age 62. People are ruled ineligible for Disability Insurance benefits if they have not worked in jobs covered by Social Security for five of the last 10 years, even if they satisfy all other requirements. People may fail this continuity of work requirement if they have been ill or unemployed for a sizeable portion of the decade before they reach age 62. They may also fail the continuity of work test if they have been employed by one of the four states whose employees are not covered by Social Security. It would be straightforward to relax this requirement for workers once they reach age 62. Doing so would permit people with spotty work records who become disabled to receive disability insurance benefits, which are equal to the retirement benefits they would have received had they claimed benefits at age 66, the full benefits age. These benefits are 25 percent higher than the early retirement benefits they receive at age 62. This change in rules would boost the long term cost of Social Security by about 2 percent (0.3 percent of payroll) and increase the projected long-term funding gap by 15 percent. The budgetary impact of these added program costs would be offset to the extent that increasing the age of initial entitlement encouraged some of early claimants to remain economically active.

Similarly, it would be possible to modify Supplemental Security Income in various ways at age 62. The age of eligibility for SSI benefits for the elderly could be lowered from age 65 to age 62. The definition of disability under the SSI program could be relaxed at age 62. The asset test for SSI disability benefits could be relaxed at age 62.

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