

# Raising Social Security's Full Retirement Age is a bad idea

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**MarketWatch Blog** by Alicia H. Munnell



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## *It puts low-wage workers who retire early at increasing risk*

Proposals are beginning to pop up once again to increase Social Security's retirement age. The notion is that if people are living longer, they can work longer. But the retirement age has little to do with how long people work, and a lot to do with how much money they get. Increasing the retirement age is a benefit cut.

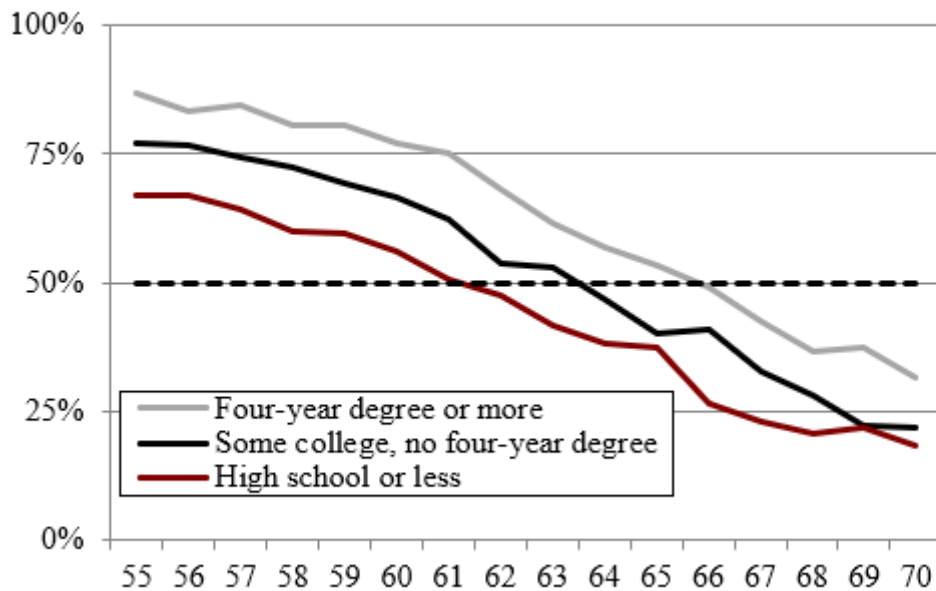
Social Security's Full Retirement Age (FRA) under current law is in the process of moving from 65 to 67. To keep lifetime benefits for the average worker roughly constant, benefits claimed earlier than the FRA are actuarially reduced and benefits claimed later are actuarially increased. That is, an FRA of 66 means that people will get 100 percent of their benefits at 66, 75 percent if they retire at 62, and 132 percent if they claim at 70. The comparable numbers for age 67 are 100 percent at 67, 70 percent at 62, and 124 percent at 70.

So as the FRA rises from 66 to 67, the worker retiring at 62 sees his *monthly* benefit cut from 75 percent to 70 percent of the full benefit. The worker who increases his retirement age from 66 to 67 sees no cut in the *monthly* benefit

but receives benefits for one less year, reducing his *lifetime* benefit. So raising the FRA is a cut in benefits either way.

Continuously increasing the FRA is particularly hard on the lower paid, because they tend to retire early. This impact can be seen in the Figure, which shows the average labor force participation rate for those with a high school degree or less (roughly the bottom third of the education distribution), those with some college but no four-year degree (the middle third), and those with a four-year degree (the top third). Although education is not a perfect proxy for lifetime earnings, the two are highly correlated. If the average retirement age is defined as the age at which half the group is still in the labor force, then the average retirement age is about 62 for the low earners, 64 for the middle earners, and 66 for the top third.

Figure. *Percentage of Individuals Participating in the Labor Force by Education and Age, 2015*



Source: U.S. Census Bureau, *Current Population Survey March Supplement 2016* (reflecting calendar year 2015).

Superimposing these “average retirement ages” on a chart of replacement rates for Social Security’s stylized “low,” “middle,” and “high” earners shows

that benefits received are on average much less than those advertised (see Table). And the average low earner – who is unlikely to be covered by any type of employer-provided retirement plan – will receive a benefit of \$8,536 (38.8% x \$22,000) in today’s dollars once the FRA goes to 67.

*Table. Replacement Rate from Social Security by Earnings and Retirement Age*

Retirement Age	Low earner \$22,000 20th percentile	Middle earner \$48,000 55th percentile	High earner \$77,000 80th percentile
62	38.8%	28.8%	23.9%
63	41.6%	30.8%	25.6%
64	44.3%	32.9%	27.3%
65	48.0%	35.6%	29.6%
66	51.7%	38.3%	31.8%
67	55.4%	41.1%	34.1%
68	59.8%	44.4%	36.8%
69	64.3%	47.7%	39.6%
70	68.7%	51.0%	42.3%

*Notes:* In the numerator, the Social Security benefit is based on current rules for an individual turning 25 in 2016 who would have an FRA of 67. The denominator of the replacement rate is equal to the average lifetime income shown in the labels for each column.

Raising the full retirement age may sound innocuous. But it is nothing more than a benefit cut, and one that puts low-paid workers at risk.