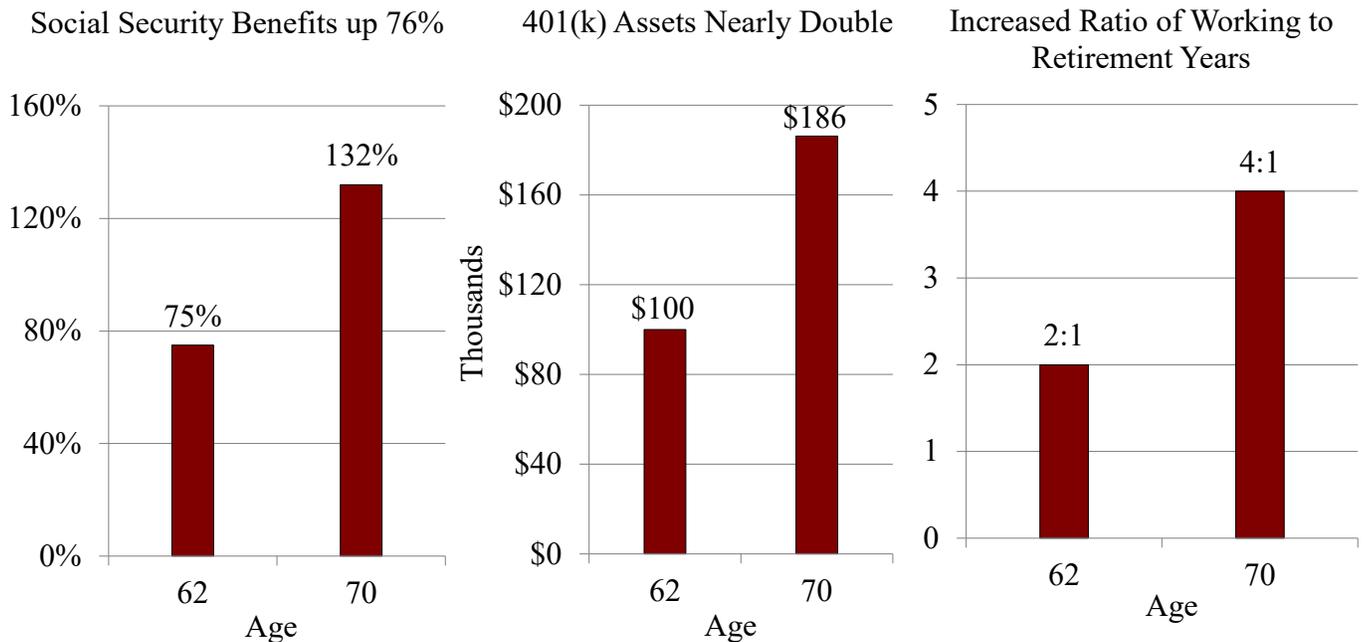


Elevator Speech: Importance of Working Longer

Many of today's workers face a serious income shortfall in retirement. They will need additional income due to rising life expectancy and soaring out-of-pocket health costs. At the same time, they will get less income from traditional sources as Social Security replacement rates are declining and traditional pensions have largely been replaced by 401(k)s. In addition, many workers do not even have a 401(k) plan and few people save much for retirement on their own.

In this environment, a few additional years in the labor force can make a big difference. Extending our work life produces additional earnings; it can lead to a large increase in monthly Social Security benefits; it allows us to contribute more to our 401(k) and for our balances to earn additional investment income; and it shortens the length of retirement, reducing the savings we will need to maintain our standard of living (see Figure 1). Those who continue to work beyond their mid-sixties will be more likely to have a reasonably comfortable retirement.

Figure 1. *Working Longer Helps Retirement Security in Three Ways*



Source: Authors' calculations, and Charles D. Ellis, Alicia H. Munnell, and Andrew D. Eschtruth. 2014. *Falling Short: The Coming Retirement Crisis and What to Do About It*. Oxford University Press.

With respect to Social Security, participants can claim at any age from 62 to 70. But, to maintain fairness, benefits claimed before 70 are actuarially reduced so that expected *lifetime* benefits are roughly equal for both early and late claimers. These adjustments are very significant. *Monthly* benefits for those who start claiming at 70 are 76 percent higher than the amount they would have received at age 62. Claiming later is particularly attractive for married couples because the survivor's benefit depends on when the higher earner claims. Widows get the higher of their own or their spouse's monthly benefit. So the later the higher earner claims, the higher the benefit their spouse will receive if they die first.