

Retirement Age Issues in the United States

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Donald E. Fuerst, MAAA, FSA, FCA, EA
American Academy of Actuaries
Senior Pension Fellow



Life Expectancy

- No one disputes that we are living longer
- Life expectancy at age 65
 - 1940: Males 12.7, Females 14.7
 - 2011: Males 18.7, Females 20.7
- More improvement expected, perhaps a year increase in life expectancy per decade.



Effects of Fixed Age

- Longer life expectancies contribute to Social Security's financing issues
 - Monthly benefits remain unchanged
 - Benefits are paid for longer period, increasing lifetime benefits
 - Contributes to higher cost
- Fixed retirement age results in increasing the proportion of life spent in retirement without increasing working years



Consequences

- Increasing retirement age results in several favorable outcomes
 - Compensates for increased longevity, a demographic solution to a demographic problem
 - Increases labor force participation
 - Preserves current benefit structure
 - Preserves current disability structure



Consequences

- There are negative consequences also
 - Disproportionate effect on low-wage workers
 - Longevity improvement is not uniform
 - Low-wage workers more dependent on social security
 - Some occupations are physically demanding
 - Job availability for elderly might be lacking



Part of the Solution

- Retirement age changes should be a small part of larger changes to produce sustainable solvency
- Revenue could be increased through higher tax rates or increasing compensation subject to taxation
- Benefit growth could be slowed through formula changes, CPI changes, means testing, etc.



Methods

- Various approaches for changing full retirement age are available
 - Fixed-schedule increases
 - Index based on years in retirement
 - Index based on ratio of retirement to working years
 - Index to maintain actuarial balance



Earliest Retirement Age

- Reduced benefits at age 62 have been available to all workers since 1961
- Originally a three year acceleration of benefit commencement, as full age increases to 67, acceleration increases to five years
- If full age is increased, what happens to earliest age?



Early Retirement Reduction

Full Retirement Age	Reduction at age 62
65	20%
66	25%
67	30%



Early Retirement

- Age 62 is the most popular age for electing commencement of benefits
 - 44% commence at age 62
 - 95% commence at or before full retirement age
- Lifetime benefits and spousal benefits are reduced
- Adequacy of benefits, especially for low-income workers, could be threatened



Do We Need to Retire at 62?

- Proportion of jobs that are physically demanding has shrunk to less than 8%
- Less than 20 percent of workers who retire early do so for health reasons

Source: Munnell and Sass, "Working Longer," and Lakdawalla, Bhattacharya and Goldman, "Are The Young Becoming More Disabled."



Private Sector Retirement Age



Private Sector Requirements

- Private sector retirement plans governed by Employee Retirement Income Security Act of 1974
- ERISA requires a plan to define a Normal Retirement Age that must be:
 - Not later than age 65 or, if later, the fifth anniversary of entry into the plan
 - Not earlier than typical retirement age for industry
 - Safe harbor age 62 (50 for public safety employees), facts & circumstances test for ages 55-62



Normal Retirement Age

- Effects of Normal Retirement Age
 - Participant must be 100% vested
 - Participant who leaves employment must have right to immediately commence receiving benefit
 - Participant who remains employed must receive “notice of suspension” or payment of benefits, or actuarial increase in benefits upon commencement
 - This provision causes many administrative challenges for plans with employees working beyond NRA



Implications of NRA

- Full benefits are not required at NRA
 - Full benefits could be provided at later age with reduction at NRA
 - Generally considered cumbersome and not utilized
- Current accruals payable at NRA cannot be changed regardless of age
- Sponsors cannot coordinate NRA with Social Security which is now 66 or 67



Innovation is Stifled

- Consider a new idea in retirement design:
 - A defined contribution plan targeted to produce a balance at retirement that would provide sufficient income to sustain standard of living for 20 years (say age 65-85)
 - A defined benefit plan that provides same target income but commencing at age 85 and payable for remainder of life
 - Sponsor would have more stable cost, less risk
 - Although benefits and cost might be comparable to traditional design, this concept is not permissible under current law



Signaling Effect

- Coordination of Social Security and private sector retirement age could send an important signal to workers
- Alternative proposals that reduce benefits but keep same retirement ages are less likely to effect the behavior of workers



Summary

- Academy supports:
 - Increase in SS full retirement age as part of changes to provide sustainable solvency
 - Enabling private sector to voluntarily increase NRA
- Healthy workers productively employed longer will:
 - Promote a vibrant economy, increase productivity and increase GNP
 - Provide greater financial resources for retirees thus promoting security in retirement



Academy Resources

- Raising the Retirement Age for Social Security
http://actuary.org/files/Social_Sec_Retirement_Age_IB_October-2010.pdf
- Academy testimony to Congressional Subcommittee on Social Security regarding retirement age
<http://actuary.org/files/AcademyTestimonytoCongressionalSubcommitteeonSocialSecurity.pdf>
- Rethinking Normal Retirement Age for Pension Plans
http://actuary.org/files/Normal-Retirement-Age_Issue-Brief_March_2013.pdf

