In Brief

Raising the Retirement Age Would Impact the Most Vulnerable

This In Brief examines the characteristics of workers who claim Social Security benefits at the earliest entitlement age. It finds that many are less educated, less healthy and more likely to work in physically demanding jobs than those who postpone receipt. These workers might find it particularly difficult to work beyond age 62, but they might also find it financially infeasible to retire early.

Study Seeks Answers to Entitlement-Age Increase Impact

In an effort to improve the long-term finances of the Social Security system, Congress in 1983 acted to gradually raise the normal retirement age from 65 to 67. It left in place the early entitlement age of 62 with actuarially reduced Social Security benefits.

Some analysts believe that those reforms did not go far enough. A growing body of research highlights the financial advantages to people who postpone their retirement and delay receipt of Social Security benefits. In addition, by postponing retirement and benefit receipt, workers continue to pay income taxes, make Social Security contributions, and contribute to economic growth.

However, raising the eligibility age for Social Security benefits could create a financial hardship for workers who must retire due to disability, health problems, or job loss. It might also induce some early retirees to apply for Social Security disability benefits, aggravating the financial strain on that program.

The Characteristics of Social Security Beneficiaries Who Claim Benefits at the Early Entitlement Age by Xiaoyan Li, Michael Hurd, and David S. Loughran of RAND Corporation uses eight waves of the Health and Retirement Study to examine the characteristics of those who receive Social Security benefits at age 62 (Takers); are eligible for benefits at 62 but claim them after that age (Postponers); are ineligible for benefits (Ineligibles); or receive Social Security Disability Insurance (DI claimants). The study paints a picture of workers who would be vulnerable if the Social Security early eligibility age is increased.

Many Early Benefit Claimants Face Work-Related Problems

- Overall, almost 40 percent in the sample studied by RAND collect Social Security retired worker
benefits at age 62 based on their own earning records. Nearly the same percentage is eligible for retired workers benefits but postpones receipt, while 13 percent claim Social Security disability benefits. Most of the rest are eligible for benefits based on the earnings of a spouse (or ex-spouse).

- Takers (those who claim retirement benefits at age 62) are less educated than those who claim them later.

- Takers tend to be in somewhat poorer health than Postponers: 16 percent of male workers who opt for benefits at age 62 report being in poor to fair health compared to 11 percent of male Postponers. Fourteen percent of female Takers and just over 11 percent of Postponers claim fair or poor health.

- Health problems limit the kind of work early beneficiaries can do. Among men, 17 percent of Takers and 8 percent of Postponers report having a work-limiting health condition. The figures are similar for women.

- Takers, regardless of sex, are far more likely than Postponers to stop working for pay before age 62.

- Workers who claim early Social Security benefits are more likely to have been employed in physically-demanding jobs. Almost 41 percent of male Takers versus 33 percent of Postponers report having been in jobs that required lots of physical effort almost all or most of the time. Although slightly fewer women are in such jobs, a comparable gap between Takers (37 percent) and Postponers (30 percent) exists.

Disability Insurance Program Could Be Hard Hit

Raising the early Social Security entitlement age could impose a financial burden on a sizable minority of workers. About 19 percent of Takers (including those receiving spousal benefits) report a work-limiting condition when they first become eligible for benefits. Changes in the entitlement age could have a particularly adverse impact on workers with work-limiting conditions who have no or low private pension wealth.

A higher entitlement age would not affect Old Age and Survivors Insurance expenditures assuming monthly benefits continue to be adjusted for early retirement in an actuarially fair manner. However, it could result in an increase in applications for DI benefits, thus increasing demands on a program that already has a huge backlog of pending claims.

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