Social Security

Policy Brief

Distributional Effects of Accelerating and Extending the Increase in the Full Retirement Age

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This policy brief compares two options set forth by the Social Security Advisory Board to increase the full retirement age (FRA), the age at which claimants may receive unreduced Social Security old-age benefits. One option would raise the FRA from the current target of 67 years to 68 years; the other would raise the FRA to 70 years. The brief examines the effects of both options on the level of benefits of Social Security beneficiaries aged 62 or older in 2070 using Modeling Income in the Near Term (MINT) projections, and on Trust Fund solvency using estimates from the Social Security Administration's Office of the Chief Actuary. The brief finds that both options would reduce benefits, improve solvency, and slightly increase the poverty rate. Within each option, effects on benefits are relatively uniform across beneficiary characteristics, although some surviving spouse and disabled beneficiaries would be shielded from benefit reductions.

Summary

This policy brief analyzes the distributional effects of increasing Social Security's full retirement age (FRA), the age at which Social Security pays full unreduced benefits. Under current law, the FRA is 66 years for newly eligible beneficiaries and is scheduled to increase incrementally to 67 years between 2017 and 2022. This brief compares the effects of two FRA options studied by the Social Security Advisory Board. Both options would set an earlier date by which the FRA is increased to 67 years. The first option would subsequently increase the FRA to 68 years (FRA 68), and the second option would subsequently increase the FRA to 70 years (FRA 70).[1] The distributional effects were estimated using data from the Modeling Income in the Near Term (MINT) microsimulation model. MINT's comparison of projected benefits under current law with those under each option is static—that is, it does not assume any changes in retirement behavior caused by either option's effect on benefits or income.[2] Consequently, for the purpose of this analysis, beneficiaries were not assumed to retire later in response to the increase in the FRA. Solvency estimates were developed by the Social Security Administration (SSA)'s Office of the Chief Actuary.

Major Findings

- FRA 68 and FRA 70 would reduce benefits and improve solvency. When fully phased in, FRA 68 could reduce average Social Security benefit amounts from 6.2 percent to 7.4 percent relative to current-law benefits, and eliminate 23 percent of Social Security's actuarial imbalance. When fully phased in, FRA 70 could reduce average Social Security benefit amounts from 18.1 percent to 20.0 percent, and eliminate 31 percent of Social Security's actuarial imbalance.
- Average benefit reductions would be proportional across different income and lifetime wage groups under FRA 68 and FRA 70. Microsimulations project that FRA 68 would reduce benefits by a median of 6.5 percent in 2070 relative to current-law benefits. FRA 70 would reduce benefits by a median of 11.3 percent relative to current-law benefits in 2070 but, because it would still be phasing in, FRA 70 would reduce benefits more for those aged 62–69 (13.9 percent) than for older beneficiaries (for example, 6.4 percent for those aged 90 or older).
- FRA 68 and FRA 70 would shield large numbers of surviving spouse and disabled beneficiaries. Social Security's benefit rules would shield more than 40 percent of surviving spouse beneficiaries from any benefit reduction under FRA 68 and FRA 70. Likewise, the structure of disability benefits would shield approximately 90 percent of disabled and retired disabled beneficiaries from any reductions under FRA 68 and FRA 70.

Selected Abbreviations

EEA	early eligibility age
FRA	full retirement age
PIA	primary insurance amount
SSA	Social Security Administration

- FRA 68 and FRA 70 would reduce spouse benefits more than other benefit types. FRA 68 and FRA 70 would affect slightly more spousal beneficiaries and reduce benefits more for spousal beneficiaries than for other beneficiary types. Based on the MINT simulations, the median benefit reduction relative to current-law spouse benefits in 2070 would be 7.0 percent under FRA 68 and 14.1 percent under FRA 70.
- FRA 68 and FRA 70 would increase poverty slightly. FRA 68 would increase poverty among aged beneficiaries in 2070 from 0.9 percent under current-law benefits to 1.1 percent. FRA 70 would increase the poverty rate to 1.2 percent. Poverty under FRA 68 and FRA 70 would remain substantially lower than the 2.2 percent rate projected under current law assuming Trust Fund exhaustion in 2037.

Current-Law FRA

The system of old-age insurance established by the Social Security Act of 1935 provided retirement benefits to insured workers aged 65 or older. Benefits for wives and widows aged 65 or older were added in 1939. Benefits for husbands and widowers were added in 1950. Between 1956 and 1961 an early eligibility age (EEA) of 62 years was established for insured workers, spouses, and surviving spouses. The EEA for surviving spouses was reduced to 60 years in 1965.

In 1983 Congress scheduled gradual increases in the FRA to begin in 2000. In the first stage, the FRA would increase in 2-month increments each year, starting with 65 years and 2 months in 2000, until reaching 66 years for newly eligible beneficiaries by 2005. After a 12-year hiatus, the FRA would again begin to increase in 2-month increments in 2017, until reaching 67 years for new beneficiaries eligible in 2022. The FRA for surviving spouses was also scheduled to increase to 67 years for new surviving spouses eligible (that is, attaining age 60) in 2022.

Benefits received prior to reaching the FRA are actuarially reduced for early retirement. These reductions are permanent and are designed to ensure that lifetime benefits are approximately equivalent, on average, whether a beneficiary claims upon reaching the EEA or waits until reaching the FRA.[3] Under current law, benefits for insured workers are reduced by 6.67 percent for each of the first 3 years prior to reaching the FRA and by 5 percent for the fourth and fifth years prior to reaching the FRA (Table 1). Workers with an FRA of 66 years who take benefits at age 62 would have 4 years of "early retirement" and a benefit reduction of 25 percent (3 years at 6.67 percent plus 1 year at 5 percent). Once the FRA reaches 67 years, workers who take benefits at age 62 would have 5 years of early retirement and a benefit reduction of 30 percent (3 years at 6.67 percent plus 2 years at 5 percent). Insured workers are also eligible to receive a delayed retirement credit (DRC) of 8 percent for each year of deferred benefits after reaching the FRA (up to age 70).

The spouse's benefit is one-half of the insured worker's monthly primary insurance amount (PIA), minus any early retirement reduction if the benefit is claimed before the spouse reaches the FRA. Spouse benefits are reduced 8.33 percent for each of the first 3 years, or a total of 25 percent for the first 3 years of early retirement, and 5 percent for the fourth and fifth years of early retirement. Spouse beneficiaries with an FRA of 66 years who take benefits at age 62 would have their benefits reduced by 30 percent (3 years at 8.33 percent plus 1 year at 5 percent). Spouse beneficiaries with an FRA of 67 years who take benefits at age 62 would have their benefits reduced by 35 percent (3 years at 8.33 percent plus 2 years at 5 percent). A spouse's benefit is not affected by the age at which insured worker claims benefits.

Survivor benefits for an aged spouse, with some important exceptions, range from 71.5 percent of PIA (if claimed at age 60) to 100 percent of PIA (if claimed at or after reaching the FRA for surviving spouse benefits). Prorated amounts are paid for claiming between age 60 and the FRA. The formula has two important exceptions, which depend on the insured worker's age when claiming benefits. First, if the insured worker claimed retirement benefits before his or her FRA, the surviving spouse's benefit is limited to the highest of 82.5 percent of the PIA or the monthly benefit amount the deceased insured worker would be receiving if alive. Thus, if the worker claimed benefits prior to reaching the FRA, the surviving spouse would not be eligible for the worker's full PIA even if the surviving spouse first received the survivor benefit at or after reaching his or her own FRA. The cap on the

Table 1.
Effects of FRA 68 on benefits for a retired worker with primary insurance amount (PIA) equal to the average PIA in 2008

	Current law				FRA 68			
Age when benefits first claimed	Monthly PIA ($)	Early retirement reduction (%)	Delayed retirement credit (%)	Monthly benefit amount ($)	Early retirement reduction (%)	Delayed retirement credit (%)	Monthly benefit amount ($)	Change from current-law benefit (%)
62	1,298	30.0	…	908	34.5	…	850	-6.4
63	1,298	25.0	…	973	30.0	…	909	-6.7
64	1,298	20.0	…	1,038	25.0	…	974	-6.2
65	1,298	13.3	…	1,125	20.0	…	1,038	-7.7
66	1,298	6.7	…	1,211	13.3	…	1,125	-7.1
67	1,298	…	…	1,298	6.7	…	1,211	-6.7
68	1,298	…	8.0	1,402	…	…	1,298	-7.4
69	1,298	…	16.0	1,506	…	8.0	1,402	-6.9
70	1,298	…	24.0	1,610	…	16.0	1,506	-6.5

SOURCES: Author's calculations and SSA Annual Statistical Supplement to the Social Security Bulletin, 2009, Table 6.A2.

NOTE: … = not applicable.

amount a surviving spouse can receive from the record of a worker who claimed benefits prior to reaching FRA is called the "widow(er)'s limit."[4] However, the 82.5-percent-of-PIA feature of the widow(er)'s limit ensures that the surviving spouse's benefits would not be reduced by the full amount of the worker's reduction if the worker claimed upon reaching the EEA. The other exception to the general formula is that surviving spouses inherit delayed retirement credits earned by their deceased spouses.

Implementing FRA 68 and FRA 70

Both FRA 68 and FRA 70 would increase the FRA from 66 years at the rate of 2 months per year beginning in 2010 until reaching 67 years for new beneficiaries in 2015. FRA 68 would continue increasing the FRA by 1 month every 2 years until reaching 68 years for new beneficiaries beginning in 2038. FRA 70 would continue increasing the FRA by 1 month every 2 years until reaching 70 years for new beneficiaries beginning in 2086.

Benefit Reductions

Under FRA 68, benefits in the new sixth year of early retirement would be reduced by ⅜ of 1 percent per month (or 4.5 percent for the year) relative to current-law benefits for insured workers and spouses. Under FRA 70, benefits in the new sixth and seventh years of early retirement would be reduced by ⅜ of 1 percent per month (or 4.5 percent per year) relative to current-law benefits for insured workers and spouses, and in the eighth year benefits would be reduced by ⅓ of 1 percent per month (or 4.0 percent for the year). Surviving spouses would continue to receive 71.5 percent of PIA for benefits claimed at age 60 under FRA 68 and FRA 70, but benefit amounts would be lower than under current law if benefits were claimed after age 60 and prior to ages 68 and 70, respectively.

Tables 1 and 2 show how FRA 68 and FRA 70, when fully phased in, would affect a retired-worker beneficiary whose PIA equals the average PIA in the aged population according to age of first entitlement. Depending on when the retired-worker beneficiary began receiving benefits, FRA 68 would reduce his or her benefits by between 6.2 percent and 7.4 percent (Table 1). FRA 70 would reduce benefits for the same PIA-level retired worker by between 18.1 percent and 20.0 percent. Interestingly, these stylized examples suggest the greatest reduction in benefits—in percentage terms—would apply to those first taking retirement benefits at age 65 (FRA 68) and 67 (FRA 70).

Some surviving spouses are likely to be affected by the 82.5 percent limit because of the way Social Security computes their benefits. FRA 68 or FRA 70 would not affect those surviving spouses, and would also not affect disability benefits, although the FRA options might reduce benefits for disability beneficiaries who also receive old-age benefits.

Table 2.
Effects of FRA 70 on benefits for a retired worker with primary insurance amount (PIA) equal to the average PIA in 2008

	Current law				FRA 70		
Age when benefits first claimed	Monthly PIA ($)	Early retirement reduction (%)	Delayed retirement credit (%)	Monthly benefit amount ($)	Early retirement reduction (%)	Monthly benefit amount ($)	Change from current-law benefit (%)
62	1,298	30.0	…	908	43.0	740	-18.6
63	1,298	25.0	…	973	39.0	792	-18.7
64	1,298	20.0	…	1,038	34.5	850	-18.1
65	1,298	13.3	…	1,125	30.0	909	-19.2
66	1,298	6.7	…	1,211	25.0	974	-19.6
67	1,298	…	…	1,298	20.0	1,038	-20.0
68	1,298	…	8.0	1,402	13.3	1,125	-19.8
69	1,298	…	16.0	1,506	6.7	1,211	-19.6
70	1,298	…	24.0	1,610	…	1,298	-19.4

SOURCES: Author's calculations and SSA Annual Statistical Supplement to the Social Security Bulletin, 2009, Table 6.A2.

NOTE: … = not applicable.

Benefit Reductions Would Improve Solvency

As measured by the actuarial balance, FRA 68 and FRA 70 would improve system solvency by reducing lifetime benefit payments, but neither option would eliminate Social Security's long-term imbalance. The actuarial balance is the amount by which the Social Security payroll tax would have to be increased today to eliminate the 75-year funding shortfall. FRA 70 would reduce the program's actuarial imbalance from -2.00 percent of taxable payroll to -1.39 percent (Table 3). FRA 68 would reduce the imbalance to -1.55 percent.

Microsimulation Results

Chart 1 illustrates how FRA 68 and FRA 70 would affect benefits relative to those scheduled under current law, along with payable benefits assuming no change in current law. Reductions from current-law benefits would level off under FRA 68 by 2060, but would continue under FRA 70 through 2080.

The Median Benefit Reduction Would Be 6.5 Percent under FRA 68 and between 11.1 Percent and 11.6 Percent under FRA 70

Table 4 shows effects of FRA 68 and FRA 70 on scheduled benefits in 2070 by sex, age, household income quintile, and lifetime wage quintile.[5] Because it would be fully phased in by 2070, the distributional estimates for FRA 68 are more apt to remain relatively consistent across groups in future years (everything else being equal) than those for FRA 70, which would still be phasing in after 2070.

FRA 68 would affect 80.5 percent of all aged beneficiaries and the median benefit reduction relative to current-law benefits would be 6.5 percent in 2070. FRA 68 would affect 82.3 percent of retirement beneficiaries aged 62–69 and 72.2 percent of those aged 90 or older. FRA 68 would affect 87.7 percent

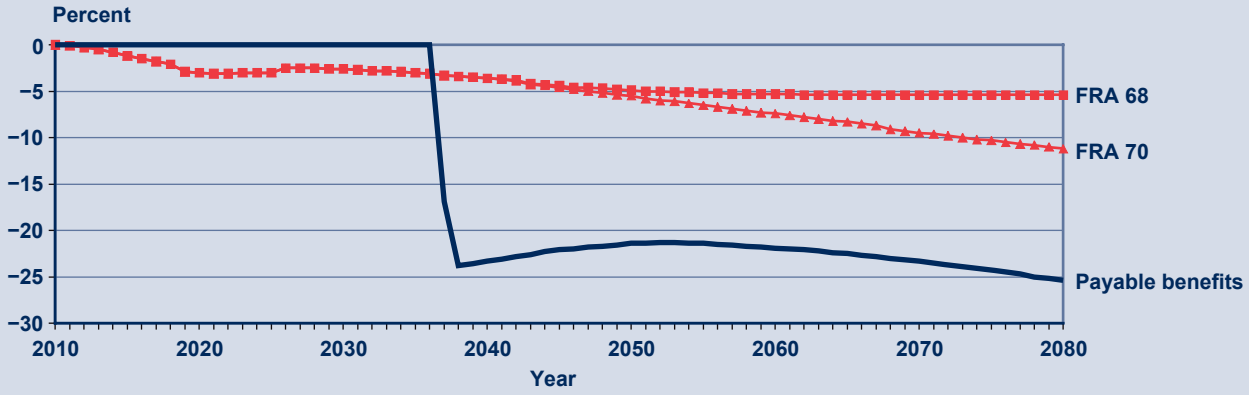
Table 3.
Effects of FRA 68 and FRA 70 on Social Security Trust Fund solvency (as a percentage of taxable payroll)

Scenario	Long range actuarial balance	Annual balance in 75th year
Current law	-2.00	-4.34
Under FRA 68		
Change from current law	0.46	0.73
Result of option	-1.55	-3.62
Under FRA 70		
Change from current law	0.62	1.43
Result of option	-1.39	-2.91

SOURCE: SSA, Office of the Chief Actuary. See http://www.socialsecurity.gov/OACT/solvency/provisions/charts/chart_run305.html and http://www.socialsecurity.gov/OACT/solvency/provisions/charts/chart_run306.html.

NOTE: "Result of option" values do not necessarily equal the sum of rounded "current law" and "change from current law" values.

Chart 1.
Average benefit change from current law, 2010–2080 (in percent)



SOURCE: Author's calculations using Modeling Income in the Near Term (MINT) data, based on SSA Office of the Chief Actuary projections under intermediate assumptions.

NOTE: The Trust Fund is projected to be exhausted in 2037.

Table 4.
Effects of FRA 68 and FRA 70 in 2070 relative to current-law benefits, by beneficiary sex, age, household income, and lifetime wages

Characteristic	FRA 68		FRA 70	
	Beneficiaries affected (%)	Median change in benefit amount (%)	Beneficiaries affected (%)	Median change in benefit amount (%)
Total	80.5	-6.5	82.1	-11.3
Sex				
Male	81.2	-6.5	82.9	-11.6
Female	80.0	-6.5	81.5	-11.1
Age				
62-69	82.3	-6.5	83.2	-13.9
70-79	81.5	-6.5	83.7	-11.4
80-89	78.9	-6.5	80.8	-9.0
90+	72.2	-6.3	72.5	-6.4
Household income quintile				
Highest	87.7	-6.5	89.7	-11.2
Second highest	84.4	-6.5	85.8	-11.4
Middle	80.5	-6.5	82.6	-11.6
Second lowest	77.9	-6.5	78.9	-11.5
Lowest	72.4	-6.5	73.9	-11.1
Lifetime wages quintile				
Highest	88.3	-6.5	90.5	-11.1
Second highest	85.1	-6.5	86.5	-11.3
Middle	79.6	-6.5	80.5	-11.4
Second lowest	70.9	-6.5	72.8	-11.6
Lowest	72.5	-6.5	74.3	-11.6

SOURCE: Author's calculations using Modeling Income in the Near Term (MINT) data.

NOTE: For newly eligible retired workers in 2070, FRA 68 would be fully phased in, but the FRA would only have reached 69 years and 3 months under FRA 70 (the FRA would reach 70 years in 2088).

of those in the highest income and wage quintiles and about 72.4 percent of those in the lowest income and wage quintiles, but the median reduction would be 6.5 percent for each quintile.

FRA 70 would reduce benefits by about the same proportion for different income and lifetime wage groups. FRA 70 would also reduce benefits by about the same proportion for men as for women. Because of its long phase-in period, however, FRA 70 would have substantially different impacts by age from FRA 68 in 2070. Those between ages 62 and 69 would face median reductions of 13.9 percent, while those aged 90 or older would see median reductions of 6.4 percent.

More Than 40 Percent of Surviving Spouse Beneficiaries Would Be Shielded from Any Benefit Reductions

As suggested above, increases to the FRA—without other changes to the benefit structure—would generally have less effect on surviving spouses because of current-law treatment of survivor benefits. Because benefits for surviving spouses depend on when the insured worker claimed benefits, however, FRA 68 or FRA 70 could reduce the insured worker's benefit and thus reduce benefits for surviving spouses. Nevertheless, also recall that the widow(er)'s limit is never below 82.5 percent of the insured worker's PIA. This would help to limit any benefit losses to the surviving spouse stemming from FRA 68 or FRA 70's reductions to the insured worker's benefits.

The modeling results shown in Table 5 support this prediction. Although FRA 68 would affect 98.0 percent of retired workers in 2070 relative to current-law benefits, it would affect only 53.6 percent of dually entitled surviving spouses and 24.0 percent of surviving spouse-only beneficiaries.

About 90 Percent of Retired Disabled Beneficiaries Would Be Shielded from Any Benefit Reduction

Current benefit rules would also shield nearly all disabled beneficiaries from any benefit reductions under FRA 68 and FRA 70. By design, the FRA increases would not affect disability benefits. However, FRA 68 and FRA 70 could affect disabled beneficiaries if they receive old-age benefits as well. Such beneficiaries would receive disability benefits until converting to old-age benefits at retirement age, but their disability benefits would not change. However, disabled beneficiaries claiming spousal or survivor's benefits based on the record of a worker who retired before reaching FRA would face reductions under the FRA options. As Table 5 shows, FRA 68 would affect less than 10 percent of disabled beneficiaries in 2070, while

Table 5.
Effects of FRA 68 and FRA 70 in 2070 relative to current-law benefits, by beneficiary marital status and benefit type

	FRA 68		FRA 70	
Characteristic	Beneficiaries affected (%)	Median change in benefit amount (%)	Beneficiaries affected (%)	Median change in benefit amount (%)
Total	80.5	-6.5	82.1	-11.3
Marital status				
Never married	86.9	-6.5	86.9	-11.8
Married	87.1	-6.5	88.9	-12.0
Divorced	80.1	-6.5	81.0	-11.0
Widowed	58.3	-5.9	61.2	-6.2
Benefit type				
Retired worker	98.0	-6.5	99.3	-11.8
Spouse and worker	99.6	-6.6	100.0	-11.9
Spouse only	84.7	-7.0	86.5	-14.1
Surviving spouse and worker	53.6	-2.8	57.3	-3.6
Surviving spouse only	24.0	-4.8	28.0	-4.2
Retired disabled	9.2	-2.6	10.5	-2.9
Current disabled	5.2	-1.3	5.8	-2.4

SOURCE: Author's calculations using Modeling Income in the Near Term (MINT) data.

only slightly more would be affected under FRA 70. The median benefit reduction for retired and current disabled beneficiaries would range from 1.3 percent to 2.9 percent.

Spousal Benefits Reduced More Than Other Benefits

Because spousal benefit levels are determined by the insured worker's earnings record rather than the worker's benefit-claiming behavior, any reduction to the insured worker's benefit stemming from FRA 68 or FRA 70 would not affect the spouse. However, a spousal benefit claimed in the first 3 years prior to the spouse's reaching the FRA faces a higher annual reduction (8.3 percent) than that for retired-worker benefits (6.7 percent).

Relative to current-law benefits, the median benefit reduction for spouse-only beneficiaries would be only 0.5 percentage points greater than that for retired workers under FRA 68 in 2070. The difference in median benefit reduction between the two benefit types would widen under FRA 70 to 2.3 percentage points.

One potential cause of the greater benefit reduction for spouse-only beneficiaries is age. As Table 4 shows, the median benefit reduction under FRA 70 for those aged 62–69 would be 13.9 percent, compared with a median reduction of 11.4 percent for those aged 70–79. This age gap stems from the fact that in 2070 FRA 70 would still be phasing in. Moreover, affected spouse-only beneficiaries in 2070 would be younger (with a median age of 69) than retired-worker beneficiaries (with a median age of 73).

Slight Increases in the Poverty Rate

Compared with current law, FRA 68 and FRA 70 would increase the number of aged beneficiaries in poverty (Table 6). FRA 68 would increase the poverty rate from 0.9 percent under current-law benefits to 1.1 percent in 2070; FRA 70 would increase the poverty rate to 1.3 percent. Compared with the current-law benefits and Trust Fund exhaustion scenario, poverty rates under FRA 68 and FRA 70 would be lower in 2070. Because it would continue phasing in after 2070, FRA 70 would likely raise poverty rates slightly in later years. Overall, because the federal government automatically adjusts poverty thresholds according to price changes rather than economywide wage growth (as used for initial Social Security benefits), poverty rates would tend to decline over time.[6]

Table 6.
Measures of poverty among beneficiaries in 2070 under current law, FRA 68, and FRA 70

Economic characteristic	Current law		FRA 68	FRA 70
	Scheduled	Payable [a]		
	Percentage of beneficiaries in poverty in 2070			
Total	0.9	2.1	1.1	1.3
Household income quintile				
Second lowest	0.0	0.0	0.0	0.0
Lowest	5.5	12.7	6.6	7.7
Lifetime wages quintile				
Second lowest	0.1	1.3	0.2	0.2
Lowest	8.2	17.3	9.8	11.4
	Number of beneficiaries in poverty in 2070 (in thousands)			
Total	713	1,636	858	1,009
Household income quintile				
Second lowest	0	0	0	0
Lowest	713	1,636	858	1,009
Lifetime wages quintile				
Second lowest	17	173	25	31
Lowest	697	1,464	834	978

SOURCE: Author's calculations using Modeling Income in the Near Term (MINT) data.

a. Represents benefits that could be paid under the conditions of Trust Fund exhaustion. Under intermediate assumptions, the SSA Office of the Chief Actuary projects that the Trust Fund will be exhausted in 2037.

Notes

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[1] For more information, see Social Security: Why Action Should be Taken Soon, Social Security Advisory Board (2005), http://www.ssab.gov/documents/WhyActionShouldbeTakenSoon.pdf. The Board also discusses, and I have modeled, an option in which the only change is to speed up the FRA increase to 67. Microsimulation results for that option are not presented here because of space limitations and the option's minimal effects. Tabulations are available on request from the author.

[2] MINT is based on Social Security administrative data matched to the Census Bureau's Survey of Income and Program Participation. Work, marriage, death, and retirement are projected for real and imputed individuals based on real earnings, marital histories, and education levels.

[3] For more information, see "Social Security: Summary of Major Changes in the Cash Benefits Program" by Geoffrey Kollman, Congressional Research Service (May 18, 2000), http://www.socialsecurity.gov/history/reports/crsleghist2.html.

[4] For more information, see "The Widow(er)'s Limit Provision of Social Security" by David A. Weaver, Social Security Bulletin 64(1): 1–15 (2001/2002).

[5] The Lifetime Wages measure is the present value of a person's yearly shared earnings.

[6] For more information, see "Projections of Economic Well-Being for Social Security Beneficiaries in 2022 and 2062" by Barbara A. Butrica, David B. Cashin, and Cori E. Uccello, Social Security Bulletin 66(4): 1–19 (2005/2006) and "Income Growth and Future Poverty Rates of the Aged" by Seyda G. Wentworth and David Pattison, Social Security Bulletin 64(3): 23–37 (2001/2002).

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The findings and conclusions presented in this brief are those of the author and do not necessarily represent the views of SSA.