

MIND THE GAP: THE DISTRIBUTIONAL EFFECTS OF RAISING THE EARLY ELIGIBILITY AGE AND FULL RETIREMENT AGE

by Anya Olsen*

Policymakers have proposed increases to the early eligibility age (EEA) and/or full retirement age (FRA) to address increasing life expectancy and Social Security solvency issues. This analysis uses the Social Security Administration's Modeling Income in the Near Term, version 6 (MINT6) model to compare three retirement-age increases suggested by the Social Security Advisory Board: increase the gap between the EEA and FRA by raising only the FRA, increase both the EEA and FRA to maintain a 4-year gap between them, and increase both the EEA and FRA to maintain a 5-year gap between them. Although all three options would improve system solvency by similar proportions, their effect on individual beneficiaries in the future would vary. Benefit reductions are greater under the proposals with more months between the EEA and FRA, while the option that maintains a 4-year gap results in benefit increases for some beneficiaries compared with current law.

Introduction

This article analyzes the distributional and solvency effects of increasing Social Security's retirement ages. The full retirement age (FRA) is the age at which a beneficiary's full primary insurance amount (PIA), upon which monthly benefits are based, is payable.¹ The current-law FRA varies from age 65 to 67 depending on year of birth. The earliest age at which retirement benefits can start is 62 (the early eligibility age or EEA). Retired-worker benefits claimed between the EEA and FRA are permanently reduced, based on the number of months between the beneficiary's age when benefits are claimed and his or her FRA. Policymakers have proposed increases to the EEA and/or FRA to address increasing life expectancy and Social Security solvency issues.

This analysis compares the following three retirement-age increases suggested by the Social Security Advisory Board in its report, *Social Security: Why Action Should Be Taken Soon*:²

1. After the current-law FRA reaches age 67, index the FRA to longevity by increasing it 1 month every 2 years starting for those turning age 62 in

2024 (hereafter referred to as the "growing-gap option").

2. Apply the same FRA increase as that proposed under the growing-gap option. In addition, raise the EEA by the same increments as the FRA starting with individuals turning age 62 in 2017 to maintain a 4-year gap between the two ages (hereafter referred to as the "gap-4 option").
3. Apply the same FRA increase as that proposed under the growing-gap option. In addition, raise the EEA by the same increments as the FRA starting with individuals turning age 62 in 2024 to maintain a 5-year gap between the two ages (hereafter referred to as the "gap-5 option").

Selected Abbreviations

DRC	delayed retirement credit
EEA	early eligibility age
FRA	full retirement age
MINT	Modeling Income in the Near Term
OACT	Office of the Chief Actuary

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The distributional analysis presented here is based on projections from the Social Security Administration's (SSA's) Modeling Income in the Near Term, version 6 (MINT6) model, and the results pertain to Social Security beneficiaries aged 60 or older in the years 2030, 2050, and 2070.³ The analysis does not simulate behavior changes in response to increasing the EEA or the FRA, but increasing the EEA would prevent some individuals from claiming benefits as early as they could under current law (that is, they would not be eligible to claim benefits before the new law would allow).⁴ The analysis assumes that anyone who under current law would have started receiving benefits before the new EEA would start at the new EEA under the gap-4 and gap-5 options. The benefits under each option are compared with the benefits *scheduled to be paid* under current law (scheduled benefits) and the *actual benefits that could be paid* without any changes to current law (payable benefits).⁵ Solvency estimates are from SSA's Office of the Chief Actuary (OCACT), based on the *2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (2011 Trustees Report)*.⁶

Major Findings

Although each of the three retirement-age policy options would improve system solvency by similar proportions, their effect on individual beneficiaries would vary across the population, as the following highlights show:

- Benefit reductions are greater under the proposals with more months of early retirement reductions; the growing-gap option results in an 8 percent reduction in median benefits in 2070, compared with a 4 percent reduction under the gap-5 option and a 2 percent reduction under the gap-4 option. The growing-gap option also results in more beneficiaries overall receiving a benefit reduction by 2070: 82 percent, compared with 65 percent under the gap-5 option and 53 percent under the gap-4 option.
- Although the majority of beneficiaries would receive benefit reductions, the gap-4 option would increase benefits for 28 percent of beneficiaries in 2070 compared with scheduled benefits. This occurs because the number of years in which benefits are reduced for early retirement decreases from 5 to 4.
- Up to 6 percent of beneficiaries in the youngest age group (60–69) in 2070 would not receive any benefit under the gap-4 and gap-5 options because some

individuals in that group would be younger than the new EEA and no longer eligible for benefits at those ages.

- Poverty rates would increase slightly under all three retirement-age options, with the largest increases occurring for individuals in the youngest age group.

Current Law

The earliest age at which a retired-worker or spousal beneficiary can start receiving benefits is 62 (see Table 1). Beneficiaries turning age 62 in 2012 (born in 1950) have a FRA of 66. For each month that a beneficiary receives benefits before his or her FRA, the benefit is reduced by one reduction factor.⁷ The total benefit reduction for claiming benefits at age 62 increases from 25 percent to 30 percent under current law. An individual who claims retirement benefits at the EEA today would be subject to 48 months of early retirement, or a 25 percent benefit reduction. Starting for individuals born in 1955, the FRA will increase by 2 months each year until it reaches age 67 in 2022 for those born in 1960 or later. Once current law is fully phased in by 2022, the difference between the EEA and FRA will be 5 years. At that time, an individual who claims benefits at the earliest age possible would be subject to 60 months of early retirement, or a 30 percent benefit reduction.

Three Retirement-Age Options: A Comparison

All three options include the same incremental increase in the FRA by indexing it to longevity over the very long term, although the EEA increases only under the gap-4 and gap-5 options (see Table 2). OCACT estimates that to index the FRA to longevity, it would need to increase by 1 month every 2 years beginning with individuals turning age 62 in 2024. The growing-gap option does not include an increase in the EEA from age 62, thereby continuously increasing the gap and the number of early retirement months between the EEA and FRA. The gap-4 option begins increasing the EEA by 1 month every 2 years for those turning age 62 in 2017 (beginning with the current-law increase in the FRA from age 66 to 67 in 2017); as Table 2 shows, that option maintains a 4-year gap between the EEA and FRA. The gap-5 option does not begin increasing the EEA until 2024, maintaining a 5-year gap between the EEA and FRA. Under all three options, the widow(er) EEA and FRA also increase by the same number of years as the

retired-worker EEA and FRA, but for those turning age 60, not age 62, in each year.⁸ The following tabulation shows the corresponding additional early retirement months and benefit reductions associated with increasing the gap between the EEA and FRA beyond the 5 years (or 60 months) in current law, for the growing-gap option:

Early retirement months	Benefit reduction (percent)
62	30.8
64	31.5
66	32.3
68	33.0
70	33.8
72	34.5
74	35.3
76	36.0
77	36.4
78	36.8
79	37.1
80	37.5
82	38.3
84	39.0
86	39.7
88	40.3
90	41.0
91	41.3
92	41.7
94	42.3
96	43.0

SOURCE: Author's calculations using MINT6 data.

NOTE: As early retirement months continue to increase beyond 96, so would the benefit reductions.

As previously noted, the increases in the retirement ages occur over a very long period. A midcareer worker born in 1972 and turning age 62 in 2034 would have a FRA of 67 and 6 months under all three options, with an EEA ranging from age 62 under the growing-gap option to 63 and 6 months under the gap-4 option (see Table 2). The growing-gap option would produce the maximum number of early retirement months (that is, 66 months) for this worker, resulting in a benefit reduction of about 32 percent (see the previous tabulation). The effects on benefits for a midcareer worker would not be significantly different from scheduled benefits; however, the effects on benefits would be larger further in the future. An individual born today and turning age 62 in 2074 would have a FRA of 69 and 2 months under each of the options, with an EEA ranging from age 62 under the growing-gap option to 65 and 2 months under the gap-4 option. The growing-gap option would produce the maximum number of early retirement months (that is, 86 months) for this worker, resulting in a benefit reduction of about 40 percent.

Interaction of Retirement-Age Options With Existing Program Rules

Changes to the EEA and FRA would result in additional changes to benefits when they interact with existing program rules. Changes to program rules increase or decrease benefits compared with current law, which may negate, mitigate, or amplify changes caused by the retirement-age options. For example,

Table 1.
Benefit reduction for claiming benefits at age 62 under current law, by year of attaining age 62 and year of birth

Year of attaining age 62	Year of birth	EEA	FRA	Early retirement months	Benefit reduction (percent)
1999 or earlier	1937 or earlier	62	65	36	20.0
2000	1938	62	65 and 2 months	38	20.8
2001	1939	62	65 and 4 months	40	21.7
2002	1940	62	65 and 6 months	42	22.5
2003	1941	62	65 and 8 months	44	23.3
2004	1942	62	65 and 10 months	46	24.2
2005–2016	1943–1954	62	66	48	25.0
2017	1955	62	66 and 2 months	50	25.8
2018	1956	62	66 and 4 months	52	26.7
2019	1957	62	66 and 6 months	54	27.5
2020	1958	62	66 and 8 months	56	28.3
2021	1959	62	66 and 10 months	58	29.2
2022 or later	1960 or later	62	67	60	30.0

SOURCE: Social Security full retirement-age chart, available at <http://www.socialsecurity.gov/retire2/agereduction.htm>.

under current law a beneficiary can earn delayed retirement credits (DRCs) of up to 8 percent a year by waiting to claim benefits until after his or her FRA, up to age 70.⁹ Because the FRA increases under all three options, the number of DRCs earned would decrease because these estimates do not account for changes in claiming behavior. Although the same number of people is estimated to claim benefits in each year under the proposals as under current law, fewer of those individuals would be claiming benefits after the new, higher FRA. This results in lower benefits for some beneficiaries who would have earned DRCs under current law.

Under the gap-4 and gap-5 options, the number of computation years used in the benefit calculation and

the age at which earnings are wage-indexed would increase as the EEA increases, based on OCACT assumptions.¹⁰ For example, Social Security benefits are currently based on a worker's 35 highest years of earnings, but if the EEA increases to 63, the options increase the number of earnings years to 36. Because an additional lower or zero-earnings year could be added to the benefit calculation, that change would generally result in lower benefits. In addition, the options would increase the age at which earnings are wage-indexed from age 60 (2 years prior to the current-law EEA) to 61 (2 years prior to the EEA in this example). Because wages typically grow faster than prices, this change would generally result in higher benefits.¹¹

Table 2.
EEA status and increases under all three retirement-age options, by year of attaining age 62 and year of birth

Year of attaining age 62	Year of birth	EEA under—			FRA increase ^a
		Growing-gap	Gap-4	Gap-5	
2016	1954	62	62	62	66
2017	1955	62	62 and 2 months	62	66 and 2 months
2018	1956	62	62 and 4 months	62	66 and 4 months
2019	1957	62	62 and 6 months	62	66 and 6 months
2020	1958	62	62 and 8 months	62	66 and 8 months
2021	1959	62	62 and 10 months	62	66 and 10 months
2022	1960	62	63	62	67
2023	1961	62	63	62	67
2024–2025	1962–1963	62	63 and 1 month	62 and 1 month	67 and 1 month
2026–2027	1964–1965	62	63 and 2 months	62 and 2 months	67 and 2 months
2028–2029	1966–1967	62	63 and 3 months	62 and 3 months	67 and 3 months
2030–2031	1968–1969	62	63 and 4 months	62 and 4 months	67 and 4 months
2032–2033	1970–1971	62	63 and 5 months	62 and 5 months	67 and 5 months
2034–2035	1972–1973	62	63 and 6 months	62 and 6 months	67 and 6 months
2036–2037	1974–1975	62	63 and 7 months	62 and 7 months	67 and 7 months
2038–2039	1976–1977	62	63 and 8 months	62 and 8 months	67 and 8 months
2040–2041	1978–1979	62	63 and 9 months	62 and 9 months	67 and 9 months
2042–2043	1980–1981	62	63 and 10 months	62 and 10 months	67 and 10 months
2044–2045	1982–1983	62	63 and 11 months	62 and 11 months	67 and 11 months
2046–2047	1984–1985	62	64	63	68
2048–2069	1986–2007	62	b	b	c
2070–2071	2008–2009	62	65	64	69
2072–2093	2010–2031	62	b	b	c
2094–2095	2032–2033	62	66	65	70
2096 or later	2034 or later	62	b	b	c

SOURCE: Author's calculations based on three retirement-age options.

NOTE: The options would continue to index the EEAs and FRA to longevity in perpetuity.

- a. Remains the same under the three retirement-age options.
- b. EEA increases continue at the same rate, by 1 month every 2 years during the designated time period.
- c. The FRA increase continues at the same rate, by 1 month every 2 years during the designated time period.

Benefit Reductions Over Time Under All Three Retirement-Age Options

The growing-gap option, which only increases the FRA, would produce the largest benefit reductions among the three retirement-age options.¹² By 2070, the median percentage reduction in individual benefits compared with scheduled benefits would be 8 percent under the growing-gap option, compared with 4 percent under the gap-5 option and 2 percent under the gap-4 option. To put these reductions in context, median payable benefits in 2070 would be 23 percent lower compared with scheduled benefits.

As the EEA and FRA increase over time, benefit reductions and the percentage of beneficiaries who have benefit reductions would increase. As Chart 1 shows, there would be no change in median benefits in 2030 compared with current law because less than a quarter of beneficiaries would be negatively affected under each of the options. As more beneficiaries are affected by the changes in the EEA and FRA each year (see Table 3), the median benefit reduction compared with scheduled benefits increases over time. For example, under the growing-gap option, the percentage of beneficiaries who would have benefit reductions increases from 13 percent in 2030 to

82 percent in 2070. This option also has the largest percentage of beneficiaries who would have benefit reductions by 2070 (82 percent, compared with 53 percent and 65 percent for the gap-4 and gap-5 options, respectively).

Effects of Increasing the EEA

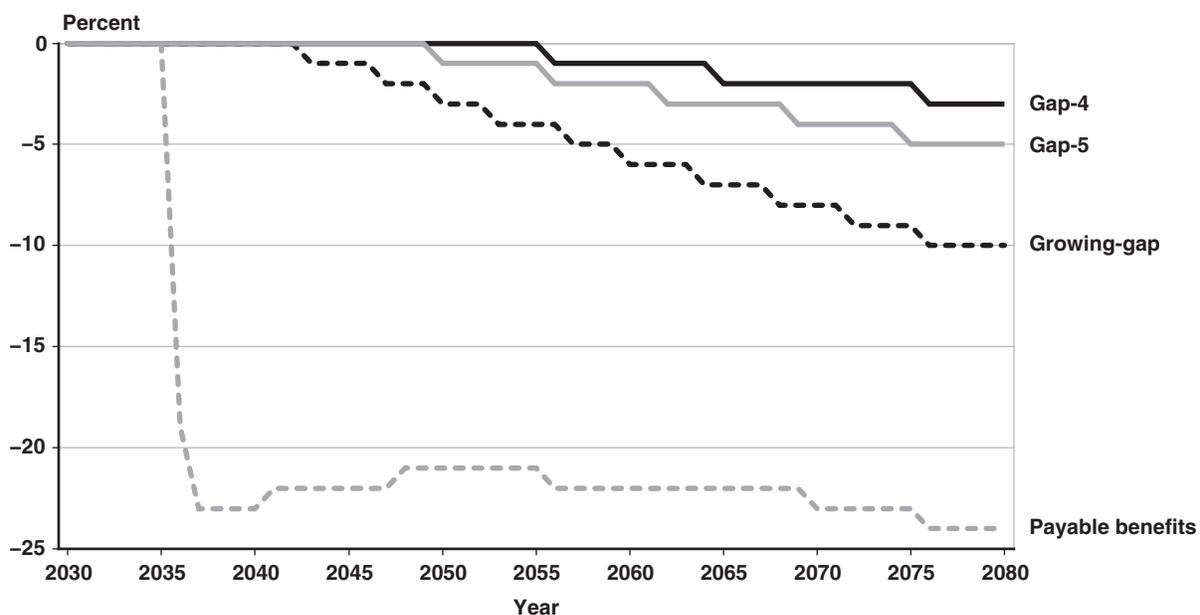
Increasing the EEA would raise benefit claiming ages because beneficiaries could no longer claim benefits at their current law EEA. As noted previously, beneficiaries under current law who claimed benefits before the new, higher EEA would claim them at the new EEA under the gap-4 and gap-5 options. That provides a

Table 3.
Percentage of beneficiaries aged 60 or older with higher or lower benefits relative to scheduled benefits, selected years 2030–2070

Year	Growing-gap		Gap-4		Gap-5	
	Higher benefit	Lower benefit	Higher benefit	Lower benefit	Higher benefit	Lower benefit
2030	0	13	17	9	0	7
2050	0	69	26	45	0	51
2070	0	82	28	53	1	65

SOURCE: Author's calculations using MINT6 data.

Chart 1.
Median individual benefit differences for beneficiaries aged 60 or older relative to scheduled benefits, 2030–2080



SOURCE: Author's calculations using MINT6 data.

“lower bound” estimate of the increase in the median claiming age that would result from raising the EEA. As shown in Table 4, the median benefit claiming age would not change under the growing-gap option compared with scheduled benefits, but would increase under the gap-4 and gap-5 options.¹³ For example, under the gap-4 option, the median benefit claiming age would increase 2 years and 4 months for spousal and worker beneficiaries. Under the gap-5 option, there would be a smaller increase in the median benefit claiming age for some groups because the EEA increase would start later (for example, there would be a 1 year and 5 month increase for spousal and worker beneficiaries). Although the median claiming age would increase under the gap-4 and gap-5 options for most beneficiaries, the increasing FRA under all three options would result in additional early retirement months and therefore benefit reductions.

Retired-Worker Beneficiaries and Benefit Reductions Under All Three Retirement-Age Options

All three options would reduce benefits for retired-worker beneficiaries by increasing the number of early retirement months. Under each of those reform options, beneficiaries would be subject to a different number of early retirement reductions based on the increasing FRA and the increases (or lack of increases) in the EEA. In 2070, the median claiming age for retired-worker beneficiaries under scheduled benefits would be 64 and 1 month (see Table 4), while the

median FRA would be 67. That results in 35 months of early retirement reductions, or a 20 percent benefit reduction. Under the gap-4 option, the same group of beneficiaries would have an increased median claiming age of 64 and 10 months and an increased median FRA of 68 and 6 months. That results in 44 months of early retirement reductions and an increase in the reduction for early retirement from 20 percent to about 23 percent. Meanwhile, under the growing-gap and gap-5 options, retired-worker beneficiaries would have the same median claiming age (64 and 1 month) as under scheduled benefits, but a higher median FRA (68 and 6 months). That would result in 53 months of early retirement reductions and an increase in the benefit reduction to about 27 percent. As Chart 2 shows, the median number of early retirement months would increase under all three retirement-age options, resulting in benefit reductions for retired-worker beneficiaries compared with scheduled benefits (see Table 5).¹⁴

Beneficiaries Experiencing Little or No Effect on Benefits Under All Three Retirement-Age Options

Some beneficiary groups would have similar early retirement reductions under the options as they do under current law. For example, under the gap-5 option, a spousal and worker beneficiary would have a median increase of 1 additional month of early retirement (from 56 to 57 months (see Table 4)), increasing their median benefit reduction from 28 percent to about 29 percent.

Table 4. Median benefit claiming ages for beneficiaries aged 60 or older in 2070 under all three retirement-age options, by beneficiary type

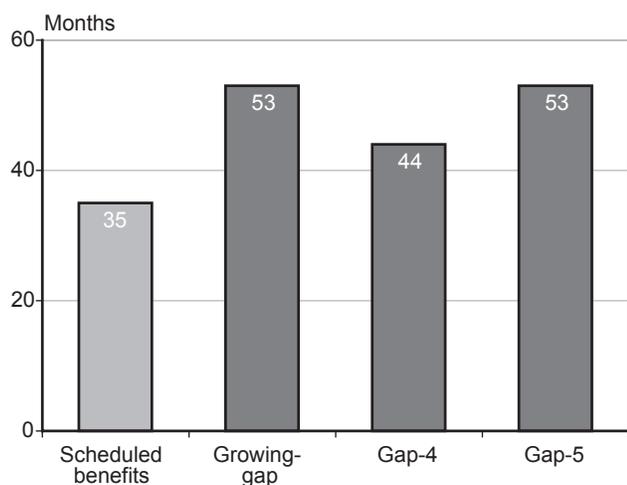
Beneficiary type	Median claiming age under—			Median FRA ^b
	Growing-gap and scheduled benefits ^a	Gap-4	Gap-5	
Retired worker	64 and 1 month	64 and 10 months	64 and 1 month	68 and 6 months
Spousal and worker	62 and 4 months	64 and 8 months	63 and 9 months	68 and 6 months
Spousal only	64 and 9 months	64 and 11 months	64 and 9 months	68 and 6 months
Survivor and worker	62 and 7 months	64 and 5 months	63 and 7 months	68 and 2 months
Survivor only	64 and 9 months	64 and 9 months	64 and 9 months	68 and 2 months
Retired disabled worker	59	59	59	68 and 6 months
Disabled worker	57	57	57	68 and 11 months

SOURCE: Author's calculations using MINT6 data.

- a. The median benefit claiming age does not change under the growing-gap option compared with scheduled benefits.
- b. The median FRA under scheduled benefits is age 67 for all beneficiaries.

As shown in Table 5, disabled beneficiaries would not receive benefit reductions at the median under any of the retirement-age options. That is because disabled beneficiaries convert to retired-worker beneficiaries at their FRA and are therefore not subject to early retirement reductions. However, disabled beneficiaries could be affected by these options if they receive auxiliary benefits as an aged spouse or survivor. For example, under the growing-gap option, 10 percent of retired disabled beneficiaries (older than their FRA) would receive a benefit reduction and 4 percent of disabled-worker beneficiaries (younger than their FRA) would receive a reduction.

Chart 2.
Median number of months of early retirement for retired-worker beneficiaries aged 60 or older in 2070



SOURCE: Author's calculations using MINT6 data.

Table 5.
Median percentage change in benefits for beneficiaries aged 60 or older relative to scheduled benefits in 2070, by beneficiary type

Beneficiary type	Growing-gap	Gap-4	Gap-5	Payable benefits
Retired worker	-9	-6	-7	-23
Spousal and worker	-9	0	-3	-23
Spousal only	-8	-2	-2	-23
Survivor and worker	-2	-1	-2	-23
Survivor only	0	-2	-1	-23
Retired disabled worker	0	0	0	-23
Disabled worker	0	0	0	-23

SOURCE: Author's calculations using MINT6 data.

Reducing the Gap Between the EEA and FRA From 5 Years to 4 Years

If the gap between the EEA and the FRA was reduced by 1 year, about 30 percent of beneficiaries would have benefit increases. Reform options that increase the EEA and/or FRA generally reduce benefits, but the gap-4 option would increase benefits for 28 percent of beneficiaries in 2070 (see Table 3). This would occur because the fully phased-in current-law gap of 5 years (starting in 2022) would decrease to 4 years, reducing the maximum number of early retirement reductions.

Table 6 shows how some beneficiaries would receive benefit increases under the gap-4 option. For example, retired-worker beneficiaries who have a higher benefit under the option would receive a 6 percent median benefit increase in 2070 compared with scheduled benefits. Under current law, that group would have 59 months of early retirement reductions, compared with 48 months under the gap-4 option (that is, the benefit reduction for early retirement would decrease from about 30 percent under current law to 25 percent under the option). In general, the beneficiaries who would have benefit increases under the option are those who would claim benefits as early as possible, and therefore would have the greatest number of early retirement reductions, under current law.

Beneficiaries Who Would Not Receive Benefits Under All Three Retirement-Age Options

Up to 6 percent of beneficiaries in the youngest age group (60–69) would not receive a benefit under the options. As noted earlier, under the gap-4 and gap-5 options, beneficiaries who would have claimed benefits at age 62 under current law would no longer be eligible for a benefit (a 100 percent benefit reduction) when they are younger than the new EEA in 2070. However, once those individuals reach the new EEA and claim benefits, they would have fewer months of early retirement under the gap-4 and gap-5 options than they would under the growing-gap option.

As shown in Table 7, 6.3 percent of beneficiaries in the youngest age group would completely lose their benefit under the gap-4 option, while 3.1 percent would completely lose their benefit under the gap-5 option.¹⁵ No beneficiaries in the older age groups (70–79, 80–89, and 90+) would lose their benefits if the EEA increases because they would already be older than the new, higher EEA. Under payable benefits, no beneficiaries

Table 6.**Beneficiaries aged 60 or older who receive a benefit increase under the gap-4 option compared with scheduled benefits in 2070, by beneficiary type**

Beneficiary type	Median percentage change in benefits	Scheduled benefits			Gap-4 option		
		Median		Number of early retirement months	Median		Number of early retirement months
		Claim age	FRA		Claim age	FRA	
Retired worker	+6	62 and 1 month	67	59	64 and 6 months	68 and 6 months	48
Spousal and worker	+6	62 and 1 month	67	59	64 and 6 months	68 and 6 months	48
Spousal only	+4	62 and 1 month	67	59	64 and 2 months	68 and 6 months	52
Survivor and worker	+4	62 and 1 month	67	59	64 and 5 months	68 and 2 months	45
Survivor only	+2	70 and 3 months	67	0	70 and 3 months	68 and 2 months	0

SOURCE: Author's calculations using MINT6 data.

Table 7.**Percentage of beneficiaries who would lose their entire benefit in 2070 relative to scheduled benefits, by age group**

Age group	Growing-gap	Gap-4	Gap-5	Payable benefits
60–69	0.8	6.3	3.1	0.0
70–79	0.0	0.0	0.0	0.0
80–89	0.0	0.0	0.0	0.0
90+	0.0	0.0	0.0	0.0

SOURCE: Author's calculations using MINT6 data.

would lose their benefits completely because this option would reduce the monthly benefit calculated under current law for all beneficiaries proportionally based on what incoming payroll tax revenues could fund.

Increases in the Poverty Rate Under All Three Retirement-Age Options in 2070

Each retirement-age option would increase the overall poverty rate of 1.2 percent under scheduled benefits by 0.2 to 0.3 percentage points (see Table 8). Poverty would increase more under payable benefits because the median benefit reductions needed to achieve system solvency would be much higher than under the options (see the next section for more information on system solvency). Poverty increases under the three options would be larger for beneficiaries in the younger age groups because they include those beneficiaries who temporarily lose their entire benefit, as discussed previously. For example, under the gap-4 option, the poverty rate would increase by 0.7 percent for beneficiaries aged 60–69 in 2070, compared with a 0.1 percent increase for those in the other age groups.

Table 8.**Poverty rates for beneficiaries in 2070 compared with scheduled benefits, by age group (in percent)**

Age group	Scheduled benefits	Growing-gap	Gap-4	Gap-5	Payable benefits
All	1.2	+0.2	+0.3	+0.2	+1.1
60–69	1.5	+0.3	+0.7	+0.4	+1.3
70–79	1.1	+0.3	+0.1	+0.1	+1.1
80–89	0.9	+0.2	+0.1	+0.1	+1.0
90+	0.7	0.0	+0.1	0.0	+0.7

SOURCE: Author's calculations using MINT6 data.

Improving System Solvency

Each of the three retirement-age policy options discussed in this article would improve system solvency about 17–20 percent by reducing scheduled benefits (see Table 9). The *2011 Trustees Report* estimates that Social Security has a long-run deficit equal to 2.22 percent of taxable payroll. This means that restoring the system to solvency would require benefit reductions, tax increases, or a combination of the two that would be equal to 2.22 percent of taxable wages over the next 75 years. The growing-gap option would improve the long-range actuarial balance of -2.22 percent to -1.78 percent of taxable payroll, while the gap-4 option would improve the actuarial balance to -1.77 percent and the gap-5 option would improve it to -1.85 percent. The early retirement reductions in benefits under current law are actuarially fair.¹⁶ This means that regardless of the age at which benefits are claimed, the present value of lifetime benefits would be the same for a person living to his or her normal life expectancy. All three options would have similar

Table 9.
Financial effects of each retirement-age option

Effect	Growing-gap	Gap-4	Gap-5
Change in actuarial balance as a percentage of taxable payroll	+0.44	+0.45	+0.37
Percentage of long-range actuarial imbalance, fixed	19.8	20.2	16.7
Percentage of annual shortfall in the 75th year, fixed	35.6	33.7	28.8

SOURCE: SSA, Office of the Chief Actuary: estimates of the financial effect on the Old-Age, Survivors, and Disability Insurance (OASDI) program over the long-range period (the next 75 years) and for the 75th year. Information given for the three retirement-age policy options—growing-gap (C1.3), gap-4 (C2.2), and gap-5 (C2.3)—is available at <http://www.socialsecurity.gov/oact/solvency/provisions/retireage.html>.

effects on Social Security solvency because the reductions for early retirement under those options would continue to be actuarially fair. However, as modeled by OACT, the gap-5 option includes a hardship exemption that would account for the slightly smaller effect on solvency. (The hardship exemption was not modeled for this analysis to make comparisons with the other options more straightforward.) Although all three options would improve system solvency by similar proportions, their effect on individual beneficiaries would vary across the population. This fact highlights the importance of distributional analysis to understanding the impact these varying reforms would have on Social Security beneficiaries.

Notes

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¹ For more information on the PIA, see <http://www.socialsecurity.gov/OACT/COLA/piaformula.html>.

² The report, *Social Security: Why Action Should Be Taken Soon*, by the Social Security Advisory Board, is available at http://www.ssab.gov/Documents/Sooner_Later_2010.pdf. Actual start years were updated from those listed in the report to match the options as scored by the Social Security Administration's Office of the Chief Actuary.

³ The simulations of the policy options use data from the MINT6 model and are compared with benefits scheduled to be paid under current law (scheduled benefits) and benefits payable without any other changes to current law (payable benefits). The MINT model is based on Social Security administrative data matched to the Survey of Income and Program Participation (SIPP). Work, marriage, retirement, and death are projected for real and imputed individuals based on real earnings, marital histories, and education levels. The comparison is a static one with no behavioral response to the policy options' effect on benefits or income. For more information, see <http://www.socialsecurity.gov/retirementpolicy/projection-methodology.html>.

⁴ In addition to benefit claiming age, beneficiary status could change because of the new EEA and FRA (for example, from a beneficiary to a nonbeneficiary), and beneficiary type could change (for example, from a retired-worker to a widow beneficiary). However, there are no changes relative to disability benefits; that is, we do not change the type of benefits for which people apply.

⁵ For more information on payable benefits, see <http://www.socialsecurity.gov/retirementpolicy/projections/scheduled-payable.html>.

⁶ Both the MINT6 assumptions and the retirement-age provisions available on Social Security's OACT website are based on the *2011 Trustees Report*, available at <http://www.socialsecurity.gov/OACT/TR/2011/index.html>.

⁷ The reduction factor is 0.555 percent for each of the first 36 months and 0.416 percent for each of the next 24 months. If the difference between the EEA and the FRA increases beyond the 5 years in current law, the reduction for each month between 61 and 84 would be 0.376 percent; beyond 7 years, the reduction would be 0.333 percent per month. For more information on claiming benefits early, see <http://www.socialsecurity.gov/retire2/agereduction.htm>.

⁸ For more information on the current-law EEA and FRA for survivor beneficiaries, see <http://www.socialsecurity.gov/survivorplan/survivorchartred.htm>.

⁹ For more information on DRCs, see <http://www.socialsecurity.gov/retire2/delayret.htm>.

¹⁰ These changes would occur if Congress amends the calculation of the average indexed monthly earnings (AIME) to correspond with the increasing EEA. For more information on the AIME, see <http://www.socialsecurity.gov/OACT/COLA/Benefits.html#aime>.

¹¹ For more information on how changes to the EEA affect other aspects of the Social Security program, see <http://www.socialsecurity.gov/policy/docs/policybriefs/pb2007-01.html>.

¹² For further discussion of the distributional analysis of increasing only the FRA, see <http://www.socialsecurity.gov/policy/docs/policybriefs/pb2011-01.html>.

¹³ The median claiming age under scheduled benefits in 2070 may seem high, given that MINT projects that 40 percent of retired-worker beneficiaries would claim benefits at age 62. However, those numbers are similar to today's program data. For example, the average age of male retired-worker beneficiaries who claimed benefits in 2010 was age 63.8, with 43.6 percent claiming at age 62 (see Table 6.B5.1, <http://www.socialsecurity.gov/policy/docs/statcomps/supplement/2011/6b.html>).

¹⁴ If beneficiaries in the future choose to claim benefits later to avoid the increasing early retirement reductions under the options, they would still be subject to benefit reductions because they are forgoing benefit payments in those months when they would have received a benefit under current law.

¹⁵ A very small percentage of beneficiaries lose their benefits completely under the growing-gap option, which is the result of the interaction with the retirement earnings test (RET). For more information on how the RET can affect distributional analysis, see Appendix C, <http://aging.senate.gov/crs/ss7.pdf>.

¹⁶ For more information on the actuarial fairness of the EEA and early retirement reductions, see <http://crr.bc.edu/briefs/can-the-actuarial-reduction-for-social-security-early-retirement-still-be-right/>.