



Considerations for Potential Proposals to Change the Earliest Eligibility Age for Retirement

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The earliest eligibility age (EEA) interacts with many other Social Security program rules, including the benefit formula and insured status requirements. Proposals to increase the EEA could affect some or all of these other rules depending on how policymakers design the proposal. By using a hypothetical proposal that increases the EEA, this policy brief illustrates how these interactions work and discusses the options that policymakers would need to consider.

Introduction

Individuals can first begin receiving Social Security retirement benefits at age 62. This earliest eligibility age (EEA) has remained fixed even as the age for receipt of full benefits—benefits without reduction for “early retirement”—has increased from 65 to 66 and is scheduled to further increase to age 67.¹ This policy brief is not intended to either advocate or oppose an increase in the EEA; rather, it is intended to point out the many design issues that policymakers would need to consider if they chose to develop proposals for increasing the EEA in the future.

For the purpose of this discussion, we consider a hypothetical scenario in which

1. the EEA is increased from 62 to 65 at the rate of 2 months per year from 2017 through 2034, and
2. the normal retirement age, hereafter referred to as the full retirement age or FRA, is not changed from that scheduled in current law.²

In this scenario, the policy change would have two effects. First, it would reduce the number of individuals receiving benefits at any point in time, because those individuals affected by an increased EEA would not be eligible for retirement benefits as early as before. Second, average monthly benefits would tend to increase, primarily because benefit reductions for early retirement would be smaller. The net effect on lifetime benefits and Social

Security financing, however, depends in part on how changes to the EEA interact with other parts of the Social Security benefit program, such as the benefit formula and insured status requirements.

Legislative history and intent suggest that certain aspects of the program are tied to age 62, the earliest age allowed for retired-worker benefits, so changing the EEA could create the need to consider other program changes. The bottom line is that the Congress, in making changes to the EEA, could choose to make all, none, or any combination of these Social Security provision interactions in the law. This brief discusses these interactions to illustrate the options available to policymakers.

Interaction of Social Security Provisions on Increased EEA

Below are several Social Security provisions that could interact with an increase in the EEA. Policymakers can change any of these provisions to fine-tune the system financing or distributional effects of EEA changes.

Primary Considerations

Average indexed monthly earnings (AIME) wage indexing. The earnings used in the AIME are wage indexed up to the second year before the EEA (or the age of disability or death, if disability or death occurs before the EEA). Under current law, indexing of earnings occurs up to age 60 for retired workers. The AIME is used to compute the PIA (primary insurance

amount), which is adjusted for inflation from the EEA (or the age of disability or death, if earlier) forward. Increasing the EEA to 65 could result in 3 additional years of wage indexing for earnings used in the AIME if policymakers decide to link the two.

Benefit effect: Because wages typically grow faster than prices, this would generally result in higher benefit levels.

The indexing year was set at 2 years prior to age 62 because data on average wages generally have a lag of up to 2 years. Having the indexing year remain as 2 years prior to EEA appears to be consistent with the intent of Congress.

PIA bend point wage indexing. The bend points, which designate the dollar amounts of the AIME subject to different factors (90%, 32%, 15%), are set in the year a person first becomes eligible for benefits, usually the EEA. Increasing the EEA to 65 would result in 3 additional years of PIA bend point wage indexing if policymakers decide to link the two.

Benefit effect: This would generally result in higher benefit levels.

Early retirement reduction factors. A retired-worker benefit is computed when an individual becomes entitled to retirement benefits at or after the EEA. If entitlement is before FRA, the benefit is determined by multiplying the PIA by reduction factors.³ Under the proposal to increase the EEA, these reduction factors could stay the same as in current law or policymakers could change them.

Increasing the EEA would delay the point at which the individual becomes first eligible for retirement benefits. When the FRA reaches 67, there will be up to 5 years of potential early retirement under current law with reduction factors applying to the PIA. The total amount of early retirement reduction, of course, increases as the potential months of entitlement before FRA go up (for example, the total reduction increases from 13.3 percent for 24 months of early entitlement to 30 percent for 60 months of early entitlement).

Raising the EEA to 65 would reduce the number of potential early retirement years from 5 to 2. A change in the EEA would not necessarily require any change in the reduction factors (the total reduction percentage could stay the same for the same number of months of early entitlement). However, the maximum amount of reduction would be reduced because the earliest eligibility would be only 24 months before FRA. (For example, under current-law reduction factors, the earliest a retired worker can become eligible for benefits

would change from 60 months before FRA, with a reduction of 30 percent, to 24 months before FRA, with a reduction of 13.3 percent.)

The reduction factors are currently close to being “actuarially equivalent.” This means, for example, that the present value of lifetime retirement benefits determined as of age 62 would be about the same for entitlement at age 62 (with the reduction factors applied) as for that at FRA (no reduction factors applied). Of course, policymakers could choose to increase or decrease the current-law reduction factors.

Benefit effect: If reduction factors did not change, monthly benefit levels would be higher for those individuals who would be forced to delay receiving benefits because of the increase in the EEA.⁴ However, increasing the factors to compensate for a different length of early retirement could mitigate or eliminate any increases in the monthly benefits resulting from a higher EEA. The effect also would depend on any behavioral response and eligibility for other types of benefits.

Quarters of coverage (QC). Currently, the quarters-of-coverage (QC) requirements for insured status for retirement benefits are based on the number of years between age 22 and age 62. However, the maximum quarters of coverage required for fully insured status was set at 40 in 1939 when the EEA was age 65, which indicates that the 40-QC requirement was not intended to be dependent on the EEA.

Benefit effect: While an increase in the EEA for retired workers to age 65 would not necessarily raise the QCs needed, such an increase could result in requiring 43 QCs, rather than 40, if policymakers decide to link the two. Some workers who would qualify for benefits under current law would be ineligible under this policy. The effect also would depend on any behavioral response and eligibility for other types of benefits.

Benefit computation period. The number of years used in computing retired-worker benefits is based on how many “elapsed years” occur between age 22 and age 62. For these benefits, 5 years are typically subtracted from the elapsed years to determine the number of benefit computation years.

Benefit effect: For those workers with no prior period of disability, an EEA of 65 would result in an increase from 35 computation years to 38 computation years if policymakers decide to link the two. Without changes in workers’ employment, this would reduce benefits.

Using age 62 as the ending point of the computation period is apparently based on the EEA of 62. It

was first applied to women in 1956 when they were allowed early entitlement. However, when men were first allowed early entitlement to benefits in 1961, the ending point of the computation period for them at that time was not changed from age 65 to age 62. The ending point for men did not become based on the EEA of 62 until the 1972 amendments made it the same as that for women. So, it could be argued that it is now effectively tied to the EEA and thus any change to the EEA could reasonably result in a change to the computation period.

Earliest eligibility age for aged surviving spouses.

Aged surviving spouses are eligible to receive survivor benefits 2 years earlier than retired-worker benefits, (currently at age 60). Policymakers could decide to maintain this link, which would increase the age of earliest eligibility by 3 years to age 63, if the EEA were to rise to 65. Alternatively, policymakers could decide to maintain the age of earliest eligibility for aged surviving spouses at age 60 or to raise it to some other age.

Benefit effect: The effect of maintaining the link between the two EEAs would eliminate some benefits currently available to survivors at ages 60–63.

Reduction factors for aged survivor benefits. Under current law, total reductions are

- 28.5 percent for the earliest age of eligibility (age 60),
- 0 percent (or no reduction) for FRA, and
- values linearly interpolated between these two values for other eligibility ages before FRA.

Based on the EEA chosen, lawmakers would also need to decide on the levels of the reduction factors for aged survivor benefits. For example, lawmakers could maintain the same reduction factors for each early entitlement month. For ages allowed under the proposal, this would mean that total reduction factors applied to aged survivor benefits would be the same as those in current law.

Benefit effect: If reduction factors for survivors are increased, lifetime benefits for those choosing to begin receiving benefits before FRA would be lower. Also, monthly benefits for those beginning receipt of benefits at the same age before FRA would be lower. The effect also would depend on any behavioral response and eligibility for other types of benefits.

Note that for survivors, the current increases in FRA are not being accompanied by increases in total early

entitlement reduction sufficient to maintain actuarial benefit neutrality.

AIME indexing for aged surviving spouses. Under current law, if a worker dies before age 62 and the surviving spouse is under age 60, the surviving spouse is eligible to receive an aged surviving spouse benefit when reaching age 60. The indexing year and PIA bend points used in the benefit computation for the surviving spouse may be based on 2 years before either

1. the year the worker dies,⁵ or
2. the earlier of the year the survivor turns age 60 or the worker would have turned age 62.

The decision of which of these two years to use for computing benefits is based on the year that yields the higher PIA. Generally, the later year yields the higher PIA.

Benefit effect: Increasing the EEA to 65 could result in up to 3 additional years being added to the year used in the PIA formula for indexing earnings and determining bend points. This would generally increase benefits.

Survivor benefit status. If policymakers decide to link the QC requirement for benefit payment to the increasing EEA, then there would be some workers dying between ages 62 and 65 who would meet the fully insured status requirement under current law (40 QCs) but would not meet this requirement under the proposal. For a worker's survivors to be eligible for benefits under this scenario, the worker's fully insured status would require a quarter of coverage for every year between ages 22 and 65 (or death, whichever is earliest), which could be up to 43 years.

Like the QC requirement for fully insured status, the 40-QC requirement for survivors is not necessarily linked to the EEA.

Benefit effect: Some survivors would become ineligible for benefits from the deceased worker because the worker would have had less than 43 QCs.

Age requirement for disabled widow(er)s. The 1967 Social Security amendments provided benefits for disabled widow(er)s at age 50. While this is 10 years before the current EEA for aged widow(er)s, legislative history indicates that age 50 was chosen to provide these benefits to persons in their 50s. Therefore, since there appears to be no automatic linkage between the earliest eligibility age for aged widow(er)s and the eligibility age for disabled widow(er)s, policymakers choosing to raise the earliest eligibility age for retirees

and/or for aged widow(er)s may or may not decide to raise the eligibility age for disabled widow(er)s.

Benefit effect: If the age requirement is raised, some disabled widow(er)s may not be eligible for benefits.

Reduction factors for disabled widow(er)s benefits. Presently, the maximum benefit reduction for aged widow(er)s based on early claiming of benefits is 28.5 percent. Disabled widow(er)s, who begin receiving benefits before age 60, receive benefits with this same reduced percentage.

If the EEA for aged surviving spouses was raised to age 63, the reduction for disabled widow(er)s could equal the maximum reduction that applies to the aged surviving spouse benefit at age 63. Alternatively, lower reduction factors could apply for some years before age 63.

Benefit effect: The effect on benefits would depend on the decision reached by policymakers regarding the level of the reduction factors that would apply to disabled widow(er)s as well as any behavioral response and eligibility for other types of benefits.

Additional Considerations

Some additional points for consideration if raising the EEA are given below.

Worker benefits. The worker cannot claim retired-worker benefits until reaching the EEA but could, if eligible, claim survivor or disability benefits at an earlier age.

Benefit effect: Thus, raising the EEA could induce some workers to claim survivor or disability benefits who would have otherwise claimed retired-worker benefits at ages between 62 and the new EEA. These auxiliary benefits could be higher than the retired-worker benefits available under current law.

Survivor benefits. Under current law, if the deceased spouse had received benefits before death, the widow(er)'s benefit is limited to the larger of (1) 82.5 percent of the deceased worker's PIA or (2) the amount that the deceased spouse would have received if he or she were still alive.

Benefit effect: Raising the EEA would result in some workers delaying retirement and thus a higher limit could apply. The higher limit could yield a higher benefit for some survivors.

Delayed worker benefits for widow(er)s. Currently, widow(er)s may claim widow(er) benefits but delay taking their worker benefit until the FRA to avoid the worker reduction factors. They can then receive the

full worker benefit at the FRA, which in some cases will be higher than the widow(er) benefit. This effectively allows them to avoid a permanent reduction for taking any kind of benefit before the FRA.

Benefit effect: Depending on the relative benefit levels and EEA for widow(er)'s benefits and retired-worker's benefits, there may be a greater incentive to file for widow(er)'s benefits at the earliest age if the EEA were increased.

Defined benefit pensions. This policy brief focuses on the interactions between the EEA and other Social Security provisions. We note that Social Security's EEA also interacts with provisions in some defined benefit pension plans. For example, some plans decrease pension payments when a participant attains the EEA.

Benefit effect: No effect on Social Security benefits, but could change the payout scenario from the defined benefit pension.

Notes

¹ For a complete description of the Social Security benefit calculation, see SSA's benefit calculators at <http://www.socialsecurity.gov/OACT/anypia/index.html>.

² This hypothetical scenario was one provision of the 2005 comprehensive proposal developed by Jeffrey Liebman, Maya MacGuineas, and Andrew Samwick (available at <http://www.socialsecurity.gov/OACT/solvency/index.html>).

The full retirement age refers to the age at which a person may first become entitled to unreduced benefits. For persons reaching age 62 before 2000, the FRA is 65. It will increase gradually to 67 for persons reaching that age in 2027 and later.

³ Under current law, the reduction factors are 5/9 percent per month for the first 36 months of early benefit receipt and 5/12 percent per month for the next 24 months of early benefit receipt.

⁴ Assuming no additional work, lifetime benefits, on average, would be about the same.

⁵ Assumes the worker was not entitled to disability benefits during the 12-month period before death.

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