

Social Security Administration: Effect of Institutions and Policies on Retirement Choices

This project offers an explanation for the continuing effect of institutions and policies on retirement choices. The largest effects of the policies examined are from increasing the early entitlement age from 62 to 64 and reducing benefits to 75 percent of their promised levels.

Lead Agency:

Social Security Administration

Agency Mission:

To advance the economic security of the Nation's people through compassionate and vigilant leadership in shaping and managing America's Social Security programs.

Principal Investigator:

Alan Gustman, Professor of Economics
Dartmouth College,
Hanover, NH 03755

General Description:

This paper is based on a structural model of retirement and saving, estimated with data for a sample of married men in the Health and Retirement Study. It explains the relation of specific features of Social Security -- the benefit amount, the early entitlement age, the normal retirement age, earnings test parameters, and the delayed retirement credit -- to work and retirement decisions. A full range of work and retirement outcomes are considered, including continued work on the main job, full-time work outside the main job, and partial or full retirement. The authors consider not only the effect of Social Security on movement from States of greater to lesser work, but also the reverse flows from States of lesser work to States of greater work.

The largest effects of the policies examined are from increasing the early entitlement age from 62 to 64 and reducing benefits to 75 percent of their promised levels, the approximate amount benefits would have to be reduced when the trust fund runs out if there are no changes in funding. With the increase in the early entitlement age, about 5 percent more of the population continues to work full time at their main job at age 62 and 63 than would otherwise. In addition, another 4.5 percent of the male population works full time after having retired, as does another 4 percent at age 63. Partial retirement is reduced at ages 62 and 63 by about 3 percentage points when the early entitlement age is 64. Overall, complete retirements are about 6 percentage points lower at age 62 and 63 when the early retirement age is higher. From age 64 on, the percent completely retired is about two percentage points lower in each year when the early entitlement age is 64 rather than 62.

The effects of reducing promised Social Security benefits by about a quarter are also large. The probability of remaining on the main job is higher for those in their sixties, with the difference ranging from 3 to 5 percentage points for those ages 62 and older. At each year of age, an additional 1 percentage point will be in full-time work after having retired. There is little difference in the fraction partially retired, so the probability of being fully retired is reduced by 4 to 6 percentage points when benefits are reduced by a quarter.

Decisions of when to retire will have an important bearing on overall labor supply in the future and are increasingly important given declining birth rates and increasing longevity. This project studies the effect of the changing landscape of retirement incentives on retirement behavior. The results are based on a careful calibration of a structural model of retirement and saving. The research is significant, because it relates the effects of specific features of the Social Security program on work and retirement decisions. It is innovative in that several levels of work are examined, including moving from less work to more work.

- Excellence:*** What makes this project exceptional?
- Significance:*** How is this research relevant to older persons, populations and/or an aging society?
- Effectiveness:*** What is the impact and/or application of this research to older persons?
- Innovativeness:*** Why is this research exciting or newsworthy?

Decisions of when to retire will have an important bearing on overall labor supply in the future and are increasingly important given declining birth rates and increasing longevity. This project studies the effect of the changing landscape of retirement incentives on retirement behavior. The results are based on a careful calibration of a structural model of retirement and saving. The research is significant, because it relates the effects of specific features of the Social Security program on work and retirement decisions. It is innovative in that several levels of work are examined, including moving from less work to more work.