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LIVING LONGER, RETIRING EARLIER: RETHINKING THE SOCIAL SECURITY RETIREMENT AGE

HEARING

BEFORE THE

SPECIAL COMMITTEE ON AGING UNITED STATES SENATE

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LIVING LONGER, RETIRING EARLIER: RE-THINKING THE SOCIAL SECURITY RETIREMENT AGE

WEDNESDAY, JULY 15, 1998

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, DC.

The committee met, pursuant to notice, at 1:35 p.m., in room SD–628, Dirksen Senate Office Building, Hon. Charles Grassley, (chairman of the committee), presiding.

Present: Senators Grassley, Warner, Santorum, Collins, and Breaux.

OPENING STATEMENT OF SENATOR CHARLES GRASSLEY, CHAIRMAN

The CHAIRMAN. I am Senator Chuck Grassley. Senator Breaux is with me, and we assume after some of our party meetings are done that there will be other people joining us for this hearing, as well. I want to say good afternoon to all of you and thank you all for coming to our hearing.

As we call this meeting to order, we are starting a process of addressing one of the most important issues that will be raised up and constantly discussed when we address the broader issue of long-term solvency of the Social Security program. What is the right age to begin paying benefits to workers?

Also, I think, as far as I am concerned, this hearing is in the spirit of our having an intellectual debate, discussion, and honest dialog. Particularly now without the political sensitivity that it has had in the sense that both parties are joining this dialog. I think that eliminates a lot of demagoguery that we can have on this issue.

We are doing all of what I just said today in the environment that the President established in his State of the Union message when he said we need to start looking at Social Security, its long-term solvency, and to do it during the year of 1998 with the four town meetings that he is having, ending with the one in the White House in December, and then hopefully after that to develop a bipartisan program.

I do not know whether the President said in his State of the Union message that there will be a culmination of a bipartisan program, but to lay everything on the table during 1998 from the standpoint of understanding the issues, discussing issues that had political sensitivity that maybe would not be otherwise discussed, and at the end of the process, come to some sort of a conclusion so that we can respond to the long-term solvency of Social Security sooner rather than later.

The President had his first meeting in Kansas City in April, and at that meeting, he stated that if we do something in the next 2 to 3 years, no one will be hurt. If we wait until there is a crisis, like too often the Federal Government does wait until there is a crisis to act, then everybody would be hurt, and I do not think it can be said any better than the President has said it.

In 1935, the designers of the Social Security program picked the age of 65 as the age of eligibility, apparently based more on precedent than on an analysis of just exactly what that age should be. One clue to this age is that it was used by some States that had instituted old age assistance programs and be some foreign of social insurance programs. I remember reading, and I do not know how accurate it is, that maybe the idea came from Bismarck and the age that was set up in the German social security system in the 1880's. Whatever, its origins we have it at 65.

Now it is 1998, and over the last 50 years, our society has changed dramatically. When baby boomers start retiring, there is going to be the biggest demographic change in the history of our country.

We had the benefit of a young, well-educated workforce, thanks to the baby boomers here in the last 50 years. Payroll taxes on their wages helped fuel a relatively healthy financial picture for the Social Security program, in its infancy and then later adolescence. But with the gains in longevity, decreases in the birthrate, and the baby boom generation on the brink of retirement, the future financial picture does not look so good. In fact, the outlook is gloomy beyond the year 2032.

We often hear the statistics that when Social Security first began, there were 40 workers paying in for each retiree. But in the not-too-distant future, we will have just a little bit over two workers paying in for each retiree. As more and more people enter their golden years, our workforce will begin to show its age, as the baby boomers begin knocking on the doors of their local Social Security offices, we wonder how this small working age population can support the larger number of retirees.

The retirement behavior of workers will be one of the most important dilemmas we face in addressing the financial problems of Social Security. Social Security has been a major influence in changing retirement patterns. When Social Security benefits became available at an earlier age, age 62, and that happened in 1961, there was a strong incentive for people to leave their careers and retire or go into semi-retirement. The chart right over here shows labor force participation rates for Americans, and you see mainly for men that it has dropped sharply since the gains in longevity and in enhanced health. For these people, money actually talked, encouraging retirement.

But we enjoy increased longevity and healthier lives, so many policymakers have suggested that we delay payment of Social Security retirement benefits. Delaying benefits for a short time can have a very positive impact on the solvency of the system. But we also must focus discussion on the negative impacts of an increase in retirement age.

As we will hear from our first two witnesses, there will be some workers who are at greater risk of poverty if the age is increased. There will also be an impact on the number of people eligible for the disability insurance program. We also need to consider what jobs will be available for older workers. At a forum in this committee late last year, we looked at the retirement patterns in some other societies. Instead of having a sharp, abrupt change in life from a life of work at one employer and then the next day being completely in retirement, how do you help people to phase into retirement?

In today's economy, the job market for older workers is not there. There are jobs, but not that many. Will there be jobs for people 65 to 69 if we increase the retirement age? What strategies need to be implemented to encourage our nation's employers to hire or retain older workers? What supports might be necessary to help workers who might be especially at risk?

I hope that this hearing will trigger additional discussions about how we can help encourage a more flexible workplace. Flexibility can help get a job for an older worker who may have to wait a few months or even years until Social Security benefits kick in. That lost income needs to be replaced. It is unlikely that personal savings will fill in the gap if our current trends continue.

There are already Americans working longer because they have not saved. As many of us know who were involved in the savers seminars that we had earlier this year with the President and the Speaker and the floor leader, many people are not on track toward saving for retirement. Addressing the shortage of savings and closing the income gap that could widen with additional increases in the retirement age must be a part of our solution to address this insolvency of Social Security.

I would turn the floor over to Senator Breaux for his opening comments and then Senator Collins. Senator Breaux.

STATEMENT OF SENATOR JOHN BREAUX

Senator BREAUX. Thank you very much, Mr. Chairman, for once again setting the stage for what we are trying to accomplish this afternoon.

I would hope that the year, and I think that the year 1998 will become, hopefully, known as the year that the idea that Social Security is the third rail of politics dies, and that, hopefully, 1998 can become the year that Congress started for the first time doing what is necessary to restore security to the Social Security system, which is not there now.

I think we have actually begun doing more than just talking about it, but actually making concrete, specific proposals about what needs to be done for this national program of extreme importance to not only the people who are on it, but their children, their grandchildren, and America as a society.

We have had hearings in committees that you and I share space on, the Finance Committee and others committees, as well, the Medicare Commission, which I have the privilege of chairing, where we have had people come before the Congress time and time again with all good faith and all good sense of wanting to do what is right and tell Members of Congress, "Senator, fix Social Security but do not increase my taxes. Fix Social Security, but do not do any means testing. Fix Social Security, but do not increase the eligibility age. Fix Social Security, but, but, but, and do not, do not, do not."

As every chart that I have seen indicates, we are running out of options and the decision on what we need to do is not going to be easy. It will not be done by Republicans alone. It will not be done by Democrats alone. Unless we have a united effort to work towards coming up with realistic, doable, political, sensible solutions, we are going to still be talking about this problem in the year 2028 when we are about to go over a cliff.

So I think that 1998, hopefully, can be the year when we can begin to honestly talk about what the problems are, talk about what it means to gradually phase in a later retirement age, and get some dialog and not have people walking around locked into concrete or have our heads stuck in the sand, because that is the only way we are going to solve it.

We introduced a bill today which has specific suggestions about what needs to be done, one of which is to gradually phase into retirement age over the next approximately 30 years an average increase of about 2 months per year. It affects no one on Social Security today because they are already there. It affects people in my generation and people younger than me. Let them know what the retirement age is going to be in the year 2030 so they can prepare for it and have enough lead time in order to take the necessary steps.

We have created private investment accounts, which I know some people are very scared of, but it tries to combine the best features of a government-run program with individual initiatives in order to protect their investments and get people concerned about what is happening in their own lives and that it is not enough to depend just on the government.

Every Senator in this room and every Federal employee in America has our own private investment accounts, where we can put up to 10 percent of our salary into these accounts. They are managed by the Federal Government. We have a choice of putting them into high-risk, moderate-risk, or low-risk funds. The average return of the high risk account over the last 10 years has been about a 15-percent return. Members of my office that invested in the high-risk, mostly the young people in my office, got about a 40 percent return last year. Social Security gets 2.7 percent.

We are approaching two workers for every retiree. Can anyone honestly suggest we can keep it going just like it is and not go off of a cliff? I would suggest the answer is very clear.

I am looking forward to the witnesses. I read in the Los Angeles Times this morning a headline about what we are doing here today. We have not done it yet, but they have already got it. "GAO Warns Against Raising Age for Retirees." I read the summary, and golly, I cannot match the two up. This does not seem to have anything to do with the GAO summary, so I am looking forward to your testimony because I did not get that from it at all, but somebody did. They must have not read the testimony. So thank you all for coming.

The CHAIRMAN. Senator Collins.

STATEMENT OF SENATOR SUSAN COLLINS

Senator COLLINS. Thank you very much, Mr. Chairman. I want to first start by thanking you for calling this afternoon's hearing to discuss proposals to increase the Social Security retirement age. As Senator Breaux has mentioned and the chairman, as well, President Clinton has said that this year should be the year of discussion and education as we seek to solve the grave financial problems that are facing the Social Security system. I support this approach. I am a member of the Republican Task Force on Social Security and I am very interested in hearing the testimony that our witnesses will give to us today.

The Social Security program has been a huge success. It is our nation's largest and most popular government program, which 44 million Americans depend upon. For two-thirds of them, it is their major source of income and the difference between poverty and an adequate standard of living for many older Americans.

Now, for the bad news. Social Security is simply unsustainable in its current form. While the system is sound today, it will be unable to meet its obligations to retirees in the future unless it is reformed, and that is one reason we are all here today and interested in this issue.

At the root of Social Security's problems is the simple fact that America is growing older. As the aging baby boom population, declining birth rates, and increasing life expectancies combine, they are creating a nation that looks far more like "Murder, She Wrote" than "Melrose Place".

When Social Security was enacted in 1935 and the eligibility age was set at 65, the average life expectancy for newborns was only 61. Individuals who reached the age of 65 could be expected to live another 13 years. Today, however, the average life expectancy is 76 and people who reach age 65 can be expected to live an additional 18 years.

If we look at those demographics, it is easy to see why some have argued for an increase in the Social Security retirement age. However, the statistics do not tell the whole story, and that is why we must proceed with a great deal of caution in this area. We cannot ignore the human dimension of the issue.

During the recession of the early 1990's, older Americans were far more likely than younger workers to be laid off or offered an early out. Moreover, older workers, and I remember meeting several of them in Maine when I was campaigning for Governor in 1994, who are in their 50's and had been laid off found it very difficult to find new employment. They are much less likely to find new jobs than are younger workers and they often have to settle for lesser pay.

Another important issue which I want to explore with our witnesses today is whether a worker who has engaged in a lifetime of physically demanding labor will have the physical ability and the stamina to remain in the workforce into their late 60's and 70's. I think it is very well for those of us who work behind desks to work longer, but for someone who has been doing manual labor all their life, it may be far more of a challenge to work in the older years.

So I think this is a very difficult issue, but it is a very critical issue. Again, Mr. Chairman, I commend you for holding these hearings and I look forward to exploring these issues with our witnesses.

The CHAIRMAN. Thank you for your attention to the work of this committee, Senator Collins.

Before I introduce our witnesses, some administrative things. No. 1, we have asked everybody to summarize in 5 minutes. As a matter of procedure, unless you do not want it done, your statement will be printed in the record as you have submitted it, your total statement as opposed to your summary.

Also, for both panels, if other members do not come, or even those of us who are here, do not ask all of our questions orally, we would like to have answers in writing and we would hope that you could return those about 10 days after you have received them. That is just kind of standard procedure.

Our first witness is Barbara Bovbjerg of the U.S. General Accounting Office. Ms. Bovbjerg is Associate Director of Income Security Issues at the General Accounting Office.

Next is David Smith. He is director of Public Policy for the AFL–CIO. Mr. Smith has worked as a fellow at the 20th Century Fund, as well as on the staff of Senator Kennedy.

Finally, we are very pleased on this first panel that Dr. Gary Burtless, a senior fellow at the Brookings Institution, is here with us today. Dr. Burtless is an economist who has conducted substantial research on Social Security issues. He also served on the 1994 to 1996 Technical Advisory Panel for the Social Security Advisory Council.

Ms. Bovbjerg.

STATEMENT OF BARBARA D. BOVBJERG, ASSOCIATE DIRECTOR, INCOME SECURITY ISSUES, HEALTH, EDUCATION, AND HUMAN SERVICES DIVISION, UNITED STATES GENERAL ACCOUNTING OFFICE, WASHINGTON, DC

Ms. BOVBJERG. Thank you, Senator. Mr. Chairman, members of the committee, thank you for inviting me to speak about raising the retirement age for Social Security benefits. Many of the proposals to restore Social Security's financial solvency would increase the retirement age because today, people live longer and are in better health than when Social Security was created, suggesting that they are better able to work longer.

Today, I would like to focus on three aspects of these proposals: First, how they could affect the long-term solvency of the trust funds; second, the extent to which workers will be able to work longer; and third, the potential impact on Federal disability programs. My statement is based upon ongoing work GAO is performing for this committee.

First, trust fund solvency. Indeed, raising retirement ages would improve trust fund financial prospects. Raising the age of retirement eligibility effectively reduces benefits and projected trust fund expenditures. In addition, the incentive for people to work longer increases their payroll tax payments and improves trust fund revenue.

The extent of the solvency improvement depends upon how much and how quickly retirement ages are increased, but most proposals advanced so far would improve solvency significantly. For example, gradually increasing the normal retirement age from 65 to 69 by 2015 and raising the early retirement age, as well, would eliminate over half the long-term trust fund shortfall and extend solvency by 13 years.

My second point deals with the ability of older workers to keep working. According to the Census Bureau, although a majority of older males report no work-limiting disability, between a third and a fourth of such workers do experience these limits. If retirement ages are raised, many of these people may not be able to work longer. Their household income could fall, and in some cases could fall below the poverty line. Even those who remain able to work may face negative perceptions by employers reluctant to hire or even retain older workers. Raising retirement ages could, therefore, pose economic problems for a not insignificant number of people.

Although most older workers will be healthy enough to continue working, those experiencing difficulties will be disproportionately blue collar. Older blue collar workers, about 40 percent of the older workforce, are at greater risk than older white collar workers for a variety of health problems. Our analysis of a national sample suggests that, as a group, blue collar workers were 80 percent more likely than white collar workers to experience pain that affects their ability to perform their jobs.

Our analysis also shows that older blue collar workers with health problems earn less, which affects their financial ability to retire. In fact, even though health problems affect these individuals' ability to work, they retire at nearly the same rate as healthy blue collar workers, suggesting that they simply cannot afford to retire. Raising Social Security's retirement ages may worsen this conflict between the ability and the need to work.

My third and final point addresses the effects of such a policy change on Federal disability programs. Raising retirement ages may induce more older workers to seek disability benefits from disability insurance and supplemental security income programs and raise the cost of those programs. Under today's disability and retirement benefit structure, the rate of new disability awards climbs steadily from ages 53 to 61, but drops for ages 62 to 64, as individuals reach eligibility for early retirement.

If retirement ages were raised, the incentives to seek disability could increase, depending on the extent and timing of the changes. Disability awards for those aged 62 to 64 seem likely to rise to more closely resemble rates currently seen for slightly younger workers. This could add thousands of new DI recipients to the rolls. To the extent that some DI recipients are also eligible for SSI, these incentives would affect that program, as well.

In conclusion, raising retirement ages makes sense for the Social Security trust funds and for the economy. Most people can work longer, and the longer people work, the longer they contribute to Social Security and the less time they draw benefits. They would also have a longer work life in which to accumulate retirement savings and less need for them in a shorter retirement. Additional workers can also raise national economic output and enhance the potential for higher economic growth.

Yet, despite these overall positive features, this proposal can have negative effects on some individuals and programs. Older workers who will be unable to keep working will clearly have difficulty. Some will be eligible for disability or workers' comp, but some will not. Blue collar workers may face these problems more than others. Even older workers who are able to work longer may face negative employer perceptions that make it hard for them to return to current jobs or find new ones.

In addition, other Federal income support programs must be prepared for greater claims on their resources. Our work examines the potential effects on disability programs, but older workers may also need to increase their reliance on Federal health, welfare, and food programs. Acknowledgement of such potentially negative effects can help policymakers weigh the costs and benefits of the array of reform proposals and help consider potential mitigating actions.

That concludes my statement, Mr. Chairman. I would be happy to answer any questions you and the panel have.

The CHAIRMAN. Thank you, Ms. Bovbjerg. We will wait for the questions until this panel is completed.

[The prepared statement of Ms. Bovbjerg follows:]

United States General Accounting Office

GAO

Testimony

Before the Special Committee on Aging, United States Senate

For Release on Delivery
Expected at 1:30 p.m.
Wednesday, July 15, 1998

SOCIAL SECURITY REFORM

Raising Retirement Ages Improves Program Solvency but May Cause Hardship for Some

Statement of Barbara D. Bovbjerg, Associate Director
Income Security Issues
Health, Education, and Human Services Division

GAO/T-HEHS-98-207

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to speak about raising the retirement age for Social Security benefits. Many of the proposals before the Congress to mitigate Social Security's long-term financial shortfall of nearly $3 trillion dollars contain a provision to raise either the normal retirement age (NRA), currently 65, the early retirement age (ERA), currently 62, or both. Increasing retirement ages is envisioned to help alleviate the financing problem by increasing the amount individuals pay into the Social Security trust fund and reducing the amount of benefits they draw out.

Today, I would like to discuss (1) how raising the retirement ages could affect Social Security's long-term solvency and the U.S. economy, (2) how the labor market for older workers might respond to these changes, and (3) the possible impacts from raising the retirement ages on the Disability Insurance (DI) and Supplemental Security Income (SSI) programs.[1] My testimony is based on our ongoing work for your Committee in which we are analyzing data from the Social Security Administration (SSA), two nationally representative surveys, and the literature on Social Security.

In summary, raising the retirement ages does appear to improve the Social Security program's long-term solvency and could increase the nation's economic output. Raising the ages at which individuals can draw benefits creates incentives for workers to remain in the labor force, thereby increasing revenues to the trust fund and decreasing the amount of benefits paid. The majority of older workers, aged 62 to 67, do not appear to have health limitations that would prevent them from extending their careers, and thus their labor force participation should increase as the retirement ages are raised. This greater labor force participation should raise the level of economic output as more people work longer. However, the extent to which labor force participation increases depends on whether sufficient jobs are available for older workers. Employees may be willing and able to extend their careers, but it is unclear whether employers will be willing to retain or hire them because of negative perceptions about costs and productivity. Blue-collar workers may be disproportionately affected by these labor demand and supply factors because they are at greater risk for incurring certain health problems that could limit their ability to remain in the labor force. For example, workers in poor health who otherwise might have kept working until they qualified for Social Security retirement benefits may opt to apply for DI, which could increase costs to this program. In addition, SSI could also experience increased participation and higher costs because some individuals will be dually eligible for DI and SSI.

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[1]DI provides cash benefits to workers who, having worked long enough and recently enough to be insured under DI, become unable to work. SSI is a means tested income assistance program for disabled, blind, or elderly individuals regardless of their prior participation in the labor force

BACKGROUND

The Social Security Act was enacted in 1935 during the Great Depression as a social insurance program to provide an income foundation upon which individuals could build for their retirement years. In 1956, the DI program was added to Social Security to provide income to disabled workers. Over the years, the three main components of retirement income–Social Security, pensions, and savings–have dramatically improved the income of the elderly, thereby substantially reducing their poverty rates. According to SSA data, Social Security benefits constitute approximately 80 percent of total income for elderly households (households in which the head of household is aged 65 or older) in the lowest two-fifths of the income distribution, compared with only 21 percent of total income for households in the highest fifth.

The Social Security Act established 65 as the minimum age at which retirement benefits can be obtained. Sixty-five was selected as a compromise between age 60, which appeared too low from a cost standpoint, and age 70, which appeared too high given that life expectancy at the time was 59 years for men and 63 years for women. Since 1956, women have had the option to take reduced benefits at age 62, and since 1961, this option has also been available to men. As a result, 62 has been defined as the ERA and 65 is considered the NRA.

The long-term financing problem that Social Security faces is largely a result of lower birth rates and increasing longevity. One way to at least partially compensate for these changes is to raise the retirement ages. The Congress has already approved one change in the retirement age, in 1983, when it enacted legislation that phased in an increase in the NRA to 67 over a 22-year period beginning in the year 2000. Currently, there are proposals before the Congress to raise the retirement ages further by increasing the ERA from 62 to 65, along with several proposals to further increase the NRA from 67 to 70. Longer life expectancy and the improved health of the nation's elderly are the primary justifications for these recommended increases.

RAISING THE RETIREMENT AGES IMPROVES SOCIAL SECURITY SOLVENCY AND COULD INCREASE ECONOMIC OUTPUT

Raising the retirement ages effectively reduces benefits and thereby would improve Social Security's solvency. The extent of the improvement depends on how much and how soon the retirement ages are raised. Because individuals retiring before the NRA receive lower benefits and those retiring after the NRA receive a premium, raising the NRA reduces the initial benefits for all retirees. For example, if the NRA was increased to 70, people who retire between ages 65 and 69 would have their benefits reduced for early retirement. And those who retire at age 70 would then receive the basic benefit amount now received at 65 instead of receiving the premium for delayed retirement.

SSA's actuaries estimate that increasing the NRA from 65 to 69 over the years 2000 through 2015, and raising the ERA at the same rate, would close over one-half of the long-term trust fund shortfall and thereby extend the period of projected solvency by 13 years. If the NRA and ERA were further increased at the rate of 1 month every 2 years starting in 2016, then depletion of the fund would not occur for an additional 5 years (because 19 percent more of the shortfall would be made up). The combined effect of these retirement age increases would eliminate 72 percent of the difference between the Social Security trust fund's revenues and outlays over the next 75 years.

Raising the retirement ages also could lead to an increase in economic activity if people worked longer. By remaining in the work force, older workers would be increasing the number of their productive years. In effect, there would be an increase in the economy's resource base–in this case, society's stock of human resources–and these increased resources would allow the economy to produce more goods and services. However, the increase in economic activity assumes that, by remaining in the labor force for more years, older workers would not be displacing younger workers .

RAISING RETIREMENT AGES PROVIDES INCENTIVES FOR WORKERS TO EXTEND THEIR CAREERS, BUT THEIR PARTICIPATION AND THE DEMAND FOR THEIR LABOR ARE UNCERTAIN

Raising the Social Security retirement ages would provide many individuals an incentive to work longer, but whether they do depends on how the labor market responds. Having people work longer would help solve the problem of the declining ratio of workers to retirees. Working longer could also give workers more time to save and to accrue pension benefits. Still, it is unclear whether workers will want to work longer and whether employers will want to retain or hire them. For many years, Americans have been choosing to receive Social Security benefits earlier, although the decline in the average age at which people elect to receive benefits has leveled off since the 1980s. In 1940, the average age for drawing Social Security benefits was 68.8, but by 1985 it had fallen to 63.7, where it remains today. Less than one-sixth of men aged 65 and over are in the labor force today, compared with nearly half in 1950. In addition, life expectancies have increased by nearly 12 years for men and 14 years for women since 1940. The combination of decreasing retirement ages and increasing life expectancies means that people are spending an increasing proportion of their lives in retirement.

Data from the Survey of Income and Program Participation (SIPP)[2] shows that approximately 22 to 31 percent of men aged 62 to 67 report that they have a disability that limits their ability to work. These data suggest that although a substantial portion of

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[2]The SIPP is a nationwide data set compiled by the U.S. Bureau of the Census to evaluate the effectiveness of existing federal, state, and local programs.

the population may have difficulty continuing to work to later ages, the majority of people have the capability to work beyond the current ERA and NRA.

Social Security policy is a factor that affects individuals' choice of when to retire. Social Security currently gives incentives for individuals to reduce their working hours once they reach ages 62 or 65. Individuals make their decisions to work based primarily on the trade-off of earnings versus leisure time. The availability of Social Security benefits allows workers to substitute their earnings with nonlabor income and to take more leisure time. The majority of workers (53 percent) take Social Security benefits at age 62, the first year they are eligible. Also, individuals tend to retire more often at ages 62 and 65 than at any other ages, suggesting that the ERA and NRA influence the decision on when to retire.[3]

Social Security, however, is only one of the factors influencing the retirement decision. Other factors are employer-provided benefits, household wealth, and the employee's health status. Research suggests that the decision to retire is based primarily on financial considerations. One recent study, by Burkhauser and others, examined the effects of raising the ERA and concluded that such an increase would have only a limited impact on individuals in poor health because the majority of people who retire at the ERA do so because they are financially able to do it.[4] This study suggests that raising the ERA would, on average, deny Social Security benefits to people who could work longer and not take benefits away from unhealthy individuals who retire early because they can no longer work.[5]

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[3]C.J. Ruhm, "Secular Changes in the Work and Retirement Patterns of Older Men," Journal of Human Resources, Vol. 20, No. 2 (1992), pp. 362-85.

[4]R.V. Burkhauser, K.A. Couch, and J.W. Philips, "Who Takes Early Social Security Benefits? The Economic and Health Characteristic of Early Beneficiaries," The Gerontologist, Vol. 36, No. 6 (1996), pp. 789-99.

[5]The Burkhauser study is the culmination of a shift in the focus of research on why people retire away from health considerations and toward financial determinants. In 1990, Quinn and others documented this shift in thinking that began in the middle 1960s in Passing the Torch: The Influence of Economic Incentives on Work and Retirement (Kalamazoo, Mich.: Upjohn Institute for Employment Research). Before this time, health was thought to be the primary consideration for an individual's decision to retire. However, research in the 1970s and 1980s began to highlight the role of employer provided benefits, household wealth, and Social Security benefits in an individual's retirement decision. A 1990 study by Richard A. Ippolito ("Toward Explaining Early Retirement After 1970," Industrial and Labor Relations Review, Vol. 43, No. 5 (July 1990), pp. 556-69) attributes a 20-percent decline in labor force participation among men aged 55 to 64 from 1970 through 1986 mostly to a 50-percent increase in Social Security benefits in the 1970s and changes in employer-sponsored pension plans that favored early

This research concludes that raising the ERA and the NRA should lead to individuals working longer, but those who cannot work longer may see their household income decline. In households with two or more income earners, the healthy member(s) of the household may be able to work longer to offset some or all of the lost Social Security benefits. However, households without this option could experience large declines in their income if the retirement ages are raised. For some households, this decline in income could be sufficient to push the household below the poverty level.

Labor force participation is not solely the workers' decision–there must also be an effective demand for their labor. Employers' perceptions may form potential barriers to older workers' retaining their current jobs, finding new jobs if they are laid off, or whether they need to reenter the work force after retiring because their retirement income is inadequate. While older workers have positive attributes such as experience and good judgment, there are a number of reasons that employers might not want to employ them. For example, employers incur higher benefit, recruitment, and training costs for older workers. Recent evidence indicates a negative relationship between the employer provision of health care benefits and the hiring of older workers.[6] The researchers who found this negative correlation speculated that it is the result of the Age Discrimination in Employment Act (ADEA), which mandates that firms must offer workers with similar experience the same level of benefits. Since younger employees are less costly to insure, firms will prefer them.

The potential tenure with an employer is another obstacle to hiring older workers because of recruitment and training costs. Recruitment involves job advertising costs and interview time. Newly hired employees may also require significant training to perform their new job. If these costs are substantial, they can serve as barriers to hiring older workers. Firms would be more likely to invest in younger workers because they have the potential to remain with the firm for a longer period, which reduces the average costs of recruitment and training.[7]

A final obstacle that older workers face is a negative perception among employers about their productivity. Surveys find that most managers believe the negative aspects of older workers outweigh the positive aspects. The productivity traits of older workers that managers tend to find favorable are experience, judgment, commitment to quality, low turnover, and good attendance and punctuality. The negative perceptions that managers

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retirement.

[6]F.A. Scott, M.C. Berger, and J.E. Garen, "Do Health Insurance and Pension Costs Reduce the Job Opportunities of Older Workers?" Industrial and Labor Relations Review, Vol. 48, No. 4 (1995), pp. 775-91.

[7]R.M. Hutchens, "Do Job Opportunities Decline With Age?" Industrial and Labor Relations Review, Vol. 42, No. 1 (1988), pp. 89-99.

have about older workers' productivity are a tendency toward inflexibility, an inability to effectively use new technology, difficulty in learning new skills, and concerns about physical ability.[8]

The effect of the factors highlighted above–(1) health care costs, (2) recruitment and training costs, and (3) perceptions about productivity–is that older workers may have fewer job opportunities compared with younger workers. If unemployment rates rose, older workers could be disproportionately affected.[9] An older worker who is displaced from a job will have greater difficulty finding another one compared with a younger worker because of these obstacles. This situation, rather than a desire to retire, could discourage an older worker from remaining in the labor force.

Blue Collar Workers May Be More Adversely Affected by an Increase in the Retirement Ages

Blue-collar workers will likely experience more difficulties in extending their careers than will white-collar workers.[10] Because of the nature of their jobs, many older blue-collar workers–who compose 40 percent of the labor force between the ages of 53 and 63–experience health problems that may inhibit their ability to work and reduce the demand for their labor. We analyzed the Health and Retirement Study (HRS), a nationally representative sample composed of individuals born between 1931 and 1941, to compare the health status of blue- and white-collars workers.[11]

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[8]M.C. Barth, "Older Workers: Perception and Reality," (paper delivered by Executive Vice President, ICF Kaiser International Consulting Group, at the U.S. Senate Special Committee on Aging Forum, July 25, 1997).

[9]K. Leppel, S.H. Clain, "The Effect of Increases in the Level of Unemployment on Older Workers," Applied Economics, Vol. 27 (1995), pp. 901-906.

[10]The following categories of workers, as well as the percentage of the labor force they constitute, were defined as "blue-collar" for the purpose of our analysis: cleaning services (1.0%); protection services (1.8%); food preparation services (2.7%); health services (1.9%); personal services (5.0%); farming, fishing, and forestry (2.6%); mechanics and repair (3.8%); construction and mining (3.8%); precision production (3.8%); machine operator (6.2%); transportation operator (4.9%); and material handler (2.4%). White-collar workers were defined as those employed in managerial (17.4%), professional specialty (16.4%), sales (9.9%), and clerical (16.2%) occupations. These data are from the Health and Retirement Study.

[11]The HRS is compiled by the Institute for Social Research at the University of Michigan. We used Wave 2 of the HRS, conducted in 1994, for our analysis. Wave 2 respondents are aged 53 to 63.

Our analysis found that older blue-collar workers are at greater risk for having several health problems compared with older white-collar workers (see table 1). We assessed the effects of occupation on specific health problems, controlling for employment status, age, race, sex, alcohol consumption, and smoking.[12] Blue-collar workers are more likely to have musculoskeletal problems, respiratory diseases, diabetes, and emotional disorders than are white-collar workers. For example, blue-collar workers are 58 percent more likely to have arthritis, 42 percent more likely to have chronic lung disease, and 25 percent more likely to have emotional disorders. White-collar workers were not at greater risk for having any of the health problems we examined. White-collar workers did have higher rates of cancer; however, the difference was not statistically significant.

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[12]The logistic regression models we used were specified in J.S. Petersen and C. Zwerling, "A Comparison of Health Outcomes Among Older Construction and Blue-Collar Employees in the United States," American Journal of Industrial Medicine (1998, forthcoming).

Table 1: Health Outcomes of Blue-Collar Workers Compared With White-Collar Workers (Aged 53-63), 1994 HRS

		Frequencies (percentages)	
Dependent variable–health condition[a]	Odds ratio of health condition for blue-collar occupation	Blue-collar	White-collar
Arthritis	1.583[b]	45.1%	37.8%
Foot/leg problem	1.302[b]	28.3	24.2
Back problem	1.108	27.3	25.4
Chronic lung disease	1.423[c]	9.0	6.6
Asthma	1.328[d]	4.8	4.3
Diabetes	1.207[d]	12.2	8.8
Cancer (other than skin)	1.096	5.1	6.4
Hypertension	1.048	42.9	39.2
Kidney/bladder problem	1.140	7.2	6.2
Stomach/intestine ulcer	1.254	6.5	4.9
Heart problem	0.932	13.4	13.2
Stroke	0.926	2.2	1.9
Emotional problem	1.245[e]	10.3	8.8

Note: Number of observations = 6,589.

[a]Independent variables are blue-collar occupation, completely retired, partially retired, age, gender, race, smoking behavior, alcohol consumption, and alcoholic tendencies.

[b]Statistically significant at the .0001 level.

[c]Statistically significant at the .001 level.

[d]Statistically significant at the .05 level.

[e]Statistically significant at the .01 level.

When all blue-collar occupations are grouped together, blue-collar workers are 80 percent more likely than white-collar workers to experience pain that affects their ability to perform their jobs (see table 2). The blue-collar occupations with risk factors for pain affecting performance are personal services; farming, fishing, and forestry; mechanics and repair; construction; mining; precision production; machine operator;, transportation operator; and material handler. These occupations comprise one-third of workers aged 53 to 63.

Table 2: Pain Affecting Ability to Do Normal Work: Blue-Collar vs. White-Collar Workers (Aged 53-63), 1994 HRS

	Odds ratio for pain	Frequency of pain
All blue-collar occupations	1.813[a]	12.9%
All white-collar occupations	Not applicable	8.4
Specific blue-collar occupation		
Cleaning services	1.145	11.1
Protection services	1.649	10.8
Food preparation services	1.494	13.5
Health services	1.565	14.8
Personal services	1.632[b]	13.4
Farming, fishing, forestry	1.710[c]	10.7
Mechanics and repair	2.061[d]	11.9
Construction and mining	2.428[a]	13.7
Precision production	1.588[c]	10.4
Machine operator	2.074[a]	15.1
Transportation operator	2.057[a]	12.5
Material handler	2.050[b]	13.2

Notes: Number of observations = 6,582. Independent variables = blue-collar occupation, completely retired, partially retired, age, gender, and race.

[a]Statistically significant at the .0001 level.

[b]Statistically significant at the .01 level.

[c]Statistically significant at the .05 level.

[d]Statistically significant at the .001 level.

Older blue-collar workers with health problems have lower earnings and are in less demand for their labor. Blue-collar work is often physically demanding, and current or potential employers may foresee a risk of a worker's compensation claim or increased health care costs from older employees. This reduced labor demand means these workers may accumulate less wealth, which makes it difficult for them to afford to retire even if they are not physically capable of working more years. For example, 18 percent of blue-collar workers with two or more health problems are retired, while only 14 percent of those with no problems are retired (see table 3).

Table 3: Older Blue-Collar Workers' Earnings, Retirement Rates, and Unemployment Rates, by Health Status, 1994

Number of health problems[a]	Percentage with this health status	Percentage of all older workers	Median earnings	Percentage retired	Unemployment rate
0	36.8	14.7	$14,114	14.2	6.2
1	32.4	13.0	11,616	15.8	7.7
2	20.3	8.1	8,524	18.4	8.2
3 or more	10.5	4.2	3,278	19.8	9.4

[a]Health problems for which blue-collar workers are at greater risk (see table 1).

Table 3 shows that older blue-collar workers with health problems had higher unemployment rates than healthy blue-collar workers. Our analysis also showed that blue-collar workers had higher unemployment rates than white-collar workers with similar health status. Corresponding to these higher unemployment rates, the blue-collar workers with health problems had lower earnings. The older blue-collar workers who had arthritis, a foot or leg problem, chronic lung disease, asthma, diabetes, or an emotional problem--all conditions that blue-collar workers are at greater risk for having compared with white-collar workers--have 38 percent, 33 percent, 27 percent, 36 percent, 25 percent, and 78 percent lower median earnings, respectively, than blue-collar workers without these conditions. As noted earlier, these reduced earnings make it difficult for unhealthy, older blue-collar workers to afford to retire.

THE EFFECT OF RAISING RETIREMENT AGES ON OTHER GOVERNMENT PROGRAMS

Given the health problems we have identified among older workers, an increase in retirement ages and the corresponding reduction in benefits may prompt more people to seek disability benefits.[13] Raising the ERA and NRA, without a corresponding change in DI benefits, could encourage individuals in poor health to apply for disability benefits, because the gap between retired worker benefits and disability benefits would be increased. For example, under current law, retired worker benefits taken at age 62 after the NRA has increased to age 67, will be 30 percent lower than the full benefits available at age 67. However, unless disability benefits are adjusted after the NRA increase, workers who receive DI benefits at 62 will not have their benefits reduced. This means that DI benefits awarded at age 62 will be 43 percent higher than retired worker benefits awarded at that age.[14] Some of the individuals with low income and assets who are awarded DI may also qualify for SSI disability benefits.

Another incentive for individuals to apply to the DI program is that participants are eligible for medical coverage under Medicare 2 years after DI benefits begin. Thus, individuals awarded DI benefits before age 63 get extra Medicare coverage that they would otherwise not be eligible for until age 65. Therefore, if Medicare eligibility was raised along with the ERA and NRA, individuals would have an incentive to try to attain DI benefits. An additional medical coverage issue is that individuals who are dually eligible for DI and SSI benefits are also generally eligible to receive Medicaid, which will increase costs to this program.

Raising retirement ages would change some of the disincentives that currently keep people from applying for DI benefits at age 62. Data from SSA show that the current structure of Social Security reduces claims for new DI participators aged 62 to 64. Figure 1[15] shows a steady increase in the rate of new disability awards from ages 53 to

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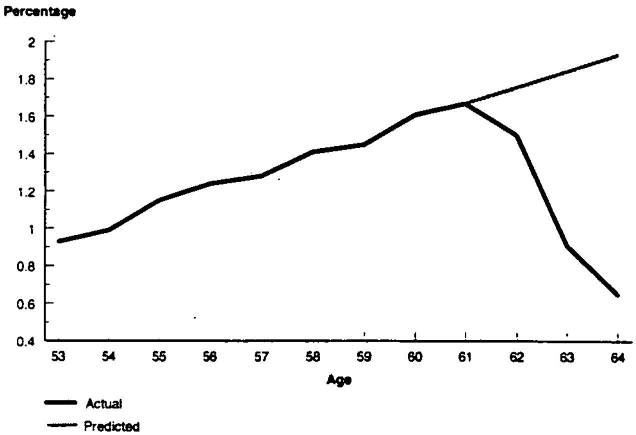
[13]Once a person is on the DI or SSI rolls, benefits continue until death; until SSA determines that the beneficiary no longer meets the eligibility requirements; or, in the case of DI beneficiaries, until their benefits are converted to Social Security retirement benefits at age 65.

[14]DI benefits will be 43 percent higher because the difference is measured in percentage change. An individual taking retired worker benefits at 62 receives 70 percent of what he or she could get at the NRA. An individual taking DI benefits at 62 receives 100 percent of the NRA benefits. The percentage change from 70 to 100 is 43 percent.

[15]Social Security Bulletin, Annual Statistical Supplement, Table 6.A4 (multiple years, 1993-96). Predicted values are based on the trend from ages 55 to 61.

61.[16] The rate of new awards then drops substantially at age 62 and falls further through age 64. DI participation is likely discouraged at ages 62 to 64 because of the application process and restrictions on earnings.[17] There is a 5-month waiting period after the onset of the disability until someone can apply for benefits, and the application process is lengthy and complex. In comparison, the application process for Social Security retirement benefits is more straightforward, given that the applicant meets the coverage and age requirements. In addition, DI benefits are generally subject to a greater reduction than Social Security retirement benefits if beneficiaries have any earnings. Also, DI benefits are offset by worker's compensation benefits, while Social Security retirement benefits are not.

Figure 1: New DI Awards as a Percentage of the DI-Covered Population, Ages 53-64



[16]Disability incidence rates are based on men only.

[17]J.L. Mashaw and V. Reno, Balancing Security and Opportunity: The Challenge of Disability Income Policy (Washington, D.C.: National Academy of Social Insurance, 1996).

If the ERA was raised to 65 and the NRA to 70, then the incentives that apply to Social Security retirement benefits would be applicable at age 65 rather than age 62. Under this scenario, individuals aged 62 to 64 would have a greater incentive to apply for disability benefits, and they would be expected to do so at rates comparable to individuals at younger ages (55 to 61) under the present system. Figure 1 contains a trend line to indicate the expected rate of change if the increase in new DI participation continues beyond age 62. The trend in new DI participation among individuals aged 55 to 61 under the present system suggests that DI participation among individuals aged 62 to 64 would increase approximately 2.5 percent if the ERA was raised to age 65. As noted earlier, some of these new DI participants would be dually eligible for SSI and Medicaid benefits,[18] which would impose additional costs.

CONCLUDING OBSERVATIONS

Addressing Social Security's solvency problem is one of the most important issues currently facing the administration and the Congress. Numerous proposals are before the Congress to restore the balance between promised benefits and available funds. Increases in the ERA and NRA could make up a substantial amount of Social Security's long-term financing shortfall, depending on the size of the increases. Increases in retirement ages may also have positive economic effects by inducing individuals to extend their careers, which could increase economic output. Since life expectancies and the health of the elderly are improving, many people have the capability to work longer, and increasing retirement ages would encourage this.

While raising the retirement ages will extend the life of the Social Security trust fund and could lead to higher levels of economic output, the potential negative consequences should be recognized. For example, older workers who are laid off or need to reenter the workforce after retiring may have difficulty finding a job. Blue-collar workers may experience these problems to a greater degree, because the nature of their work leads to several health problems that inhibit their ability to continue working to later ages, compared with those in white-collar jobs. These health problems reduce their employability and hence their ability to accumulate enough wealth to afford to retire if they are not physically capable of working longer. Finally, in considering retirement age increases, the effect of this action on other government programs needs to be understood. Participation in disability insurance programs will likely increase, primarily by blue-collar workers, if retirement ages are raised. The magnitude of the increase depends on the extent to which individuals react to the newly created incentives to apply to these programs.

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[18]Individuals who receive SSI benefits are generally eligible for Medicaid benefits. Thus, increases retirement ages may also affect the Medicaid program.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions you or Members of the Committee may have.

(207003)

The CHAIRMAN. Mr. Smith, thank you for coming.

STATEMENT OF DAVID A. SMITH, DIRECTOR OF PUBLIC POLICY, AMERICAN FEDERATION OF LABOR-CONGRESS OF INDUSTRIAL ORGANIZATIONS (AFL–CIO), WASHINGTON, DC

Mr. SMITH. Thank you, Mr. Chairman, Senator Breaux, Senator Collins. I just want to join my colleagues in congratulating the committee for holding these hearings. It is clearly a complicated issue. Taking the President at his word and accepting the invitation to have a serious conversation is not the easiest thing to do and this committee is doing its part and we appreciate that.

Let me pick up on a couple of things that my colleague said. The question that you are focused on today, of raising the retirement age, is ultimately a question of fairness. Precisely the group of people that Barbara identifies who would have the most difficulty working longer are the same group of people for whom Social Security is most important.

Senator Collins pointed out the reliance in general on Social Security, the important workhorse role that this program plays in our retirement system, but it is particularly important for low-income workers, for people of color, for median age workers. For middle-income Americans, those of us in the third income quintile, Social Security produces two-thirds of all of their retirement income, and those people are most likely to be the people that Barbara described, people in demanding physical jobs, not just blue collar jobs, but jobs in our health care system, jobs in our public safety establishment. Those folks are those who are most likely to need the security of being able to retire as injury and stress begins to accumulate and precisely those most dependent on Social Security.

For African Americans and Hispanics, Social Security is even more important. Forty percent of African Americans, a slightly higher percentage of Hispanic Americans, rely on Social Security for almost 90 percent of their retirement income.

All of us, not simply low-income folks, rely on Social Security disproportionately. This image in this debate, the image of a three-legged stool, we think of it as if it provides stability because those legs are equally balanced, but, in fact, they are not. Social Security does the lion's share of the work. Only 43 percent of Social Security beneficiaries receive any pension income at all.

Senator Breaux talked about savings——

The CHAIRMAN. Let me explain. We just had a vote and we want to keep going here. I am going to go quickly vote and then come back, and then he will go vote, is that OK, so we do not waste any time?

Mr. SMITH. Senator, we certainly want you to perform your responsibilities.

Senator BREAUX. It depends on how you vote. [Laughter.]

The CHAIRMAN. Please proceed.

Mr. SMITH. Senator Breaux, we are sure that you will counter any mistakes that the chairman might make. [Laughter.]

Mr. SMITH. Senator, you, in particular, mentioned savings. It is terribly important. It is important that we all save. But the fact of the matter is that most of us do not save very much and many of us cannot. For those who are over 65 today, median annual income from savings is just slightly over $100 a month, and for the bottom fifth of older Americans in total income, savings returns only amount to about $13 a month. It does not make sense at the moment to think about replacing a system that provides guaranteed benefits for a system that relies on our ability very quickly to accumulate large additional savings.

Let me amplify a bit on a couple of things that Barbara said. When I was in Providence with the vice president a couple of weeks ago, I met Beth Hamilton. Beth is a union member, a health care provider. She is 61 years old. She works for a number of individual patients. She does a lot of heavy lifting, not simply of food and laundry and household goods, but moving people around. She is a divorced mother of four. She has arthritis, she has a bad back, and she is 61 years old. She had hoped to retire at 62.

She took a look at what early retirement benefits would mean and decided that she would try to tough it out and wait until she got to be 65. When I talked to Beth at the vice president's forum, the idea of having to delay that physically demanding decision any longer than 65 simply seemed impossible to her. She is rather more typical, Senator Collins, than you and I, who have the luxury of a job which does not require us to do that work.

I think it is also important, though, to remember that the blue collar category does not define everybody who is at risk of needing to retire earlier. Anybody who faces above-average risks of dying, of being forced out of the workforce by some kind of health disability, is also at great risk if we push the retirement age up.

So we have looked a little bit at the numbers that Barbara talked about. We are living longer and we are healthier. But today, of those of us who are 60, one in six of us will die before we reach the age of 70. That number soars for African Americans. One in four African Americans who are age 60 will die before they reach 70, and for African American men, it is even more dramatic. Three out of ten will not live to be 70.

So we are talking here about a decision which affects us in vastly disproportionate ways, puts enormous burdens on a few of us, and makes a system which is very important, the lifeline of retirement for most Americans, less accessible for those who need it most.

We hope as you wrestle with what you all described and correctly described as a difficult decision, Gary will make the simple but crucial point that if something is out of balance, you either have to get more money or reduce spending in order to bring it into balance, that is true, and that is the task that faces you and your colleagues across the Capitol grounds. But raising the retirement age is an enormously dangerous step, one that would affect millions of working people, would affect those who have the least resources the most, and, frankly, would affect those who are most dependent on this national retirement system disproportionately.

So we hope as you wrestle with the questions that you all know are enormously difficult, you will think about this one with its human face, not simply with the numbers and statistics that the demographers provide. Thank you very much.

Senator BREAUX. [Presiding.] Thank you, Mr. Smith.

[The prepared statement of Mr. Smith follows:]

#98-16

Testimony of David A. Smith
Director, AFL-CIO Public Policy Department
before the
Special Committee on Aging
U.S. Senate
"Living Longer, Retiring Earlier: Rethinking the Social Security Retirement Age"

July 15, 1998

Good Afternoon. Mr. Chairman and Members of the Committee, my name is David Smith. I am Director of the AFL-CIO Public Policy Department. On behalf of the Federation's 13 million members and almost 40 million family members, I am here today to express our great concern over proposals to increase Social Security's retirement ages and the very serious questions that these proposals raise about fairness toward and protection of some of the most vulnerable members of American society.

An Increase in the Retirement Age is an Unfair Benefit Cut.

We believe that this discussion begins and ends with one definitive question: Is it fair to cut Social Security's guaranteed retirement benefits in a manner that has the harshest impact on workers least able to absorb the loss or continue working? Raising the retirement age will have precisely that effect.

There is no mistaking an increase in the retirement age for anything other than a benefit cut, and a substantial one at that. The most frequently discussed increase--pushing the age for collecting full retirement benefits back to 70 and older--means reduced lifetime benefits for all beneficiaries and lower monthly amounts for those who begin to receive benefits before attaining the new, higher retirement age. An increase in the earliest age at which workers and dependents can collect any benefits puts the hard squeeze on those whose personal circumstances compel them to retire.

Social Security is a Critical Source of Income.

What's wrong with this? Keep in mind that for many Americans retirement is not the beginning of a golden age cruise, but rather an economically traumatic event, particularly for low-wage workers and people of color. More than one in four African-American (27.8%) and Hispanic (26.7%) households 65 years of age and older live in poverty, compared to just over one-tenth (11.1%) of White households. For disconcertingly large portions of the elderly population, Social Security is the only significant source of income:

- For middle-income older Americans (those in the third income quintile), Social Security provides two-thirds of their retirement income.
- On average, older Americans in the two lowest income quintiles rely on Social Security for 87% percent of their income.

- More than two-in-five African-American (45%) and Hispanic older households (44%) rely on Social Security for virtually all (90% or more) of their income in retirement. And a third count on it for their entire income.
- A smaller but still significant 29 percent of White retirees rely on Social Security for 90 percent of their income, and 16 percent count on it for 100 percent.

Most older Americans lack substantial economic resources beyond Social Security. Unfortunately, pensions and individual savings just don't reach enough people or provide adequate income.

- Only 43 percent of all older American households who receive Social Security also get any pension benefits from past employers.
- Only one-third of such African-American households and one-fourth of Hispanic households get any pension benefits.
- While income from savings is more widely received than pension benefits, it amounts to very little for most retirees regardless of race. For all of those 65 and older, median savings income is $1,872 per year. Among the bottom fifth, median asset income is a tiny $13 a month.

These basic facts bear directly on the retirement age issue. For workers who lack substantial alternative sources of income, any cut in Social Security benefits will be more painful than it is for those able to rely on other legs of the retirement stool. For example, a worker who relies entirely on Social Security in retirement and who retires at age 62 in 2022 or later will experience an additional 10 percent cut in *benefits* as a 10 percent cut in *income*. By contrast, an upper income worker who relies on Social Security for only one quarter of retirement income, as the top 20 percent of the elderly do, would see less than a 4 percent cut in total income from the same cut in early retirement benefits. The result will be even less adequate retirement incomes for working families already at the margin.

Increasing the Retirement Age Hurts Blue Collar Workers.

Beth Hamilton of Exeter, Rhode Island, is a prime example of the millions of workers who struggle in physically demanding and dangerous jobs and who would bear the brunt of a retirement age increase. A 61-year-old, divorced mother of four, she works full time as an aide in a group home for physically and mentally challenged adults. Over the years, she has sustained injuries from lifting and moving clients and developed arthritis, which causes chronic, severe pain in her back and elsewhere. Although she had hoped to retire at 62, she has concluded that she can not live with the reduced benefits, particularly the loss of health insurance coverage. Ms. Hamilton hopes to continue working until 65 when she will be eligible for Medicare, but fears that her health may prevent her from doing so. She says it is impossible to contemplate working past 65.

Common sense tells us that people who spend their work lives scrubbing floors in a nursing home, moving 5 liter engine blocks around a factory floor, pouring steel into a Bessemer mill, or hauling bricks around a construction site can count on a shorter work life simply because their bodies wear out sooner than those of us in this room who spend our work days behind desks. Blue collar workers are simply more likely to experience work-place injuries and to suffer impaired physical capacity that precludes working very far into their 60's. The data bear this out:

- Nursing aides (and orderlies) such as Ms. Hamilton face an incidence of occupational injuries and illnesses that ranks behind only truck drivers and laborers (nonconstruction).
- Men who work as laborers and in similar jobs suffer an occupational injury risk that is 12 times that for managers and professional employees.
- Construction employees retire at age 58, on average, largely because their bodies are worn out.

Raising retirement ages will confront workers like these with a difficult choice: more years of employment that only further undermine their already fragile health; or sharply reduced benefits, making it all the more likely that poverty is their payback for a lifetime of hard work.

Increasing the Retirement Age Hurts African Americans, Low-Income Workers, and the Disabled.

Clearly, the blue collar worker category does not define the boundary of Americans who would be hit hard by a retirement age increase. Anyone who faces above-average risks of dying relatively early or being forced out of the labor force by a work disability is likely to feel the pain of a retirement age increase. Unfortunately, the same Americans who typically lack substantial alternative retirement resources beyond Social Security--the poor and African Americans--also face the greatest probability that they will die or be forced out of the work force before they reach a new, higher retirement age.

The troubling truth is that African Americans live substantially shorter lives than the rest of the American population. At birth, African-American men can expect to live to 65; at age 20, they can expect to live another 47.2 years to age 67.2. By contrast, White men can expect to live 73.2 years at birth, and another 54.3 years to age 74.3 at age 20.

Increasing the retirement ages pushes the finish line back even farther for African Americans. Consider that the death rate from age 62 to age 65 for African-American men is over one and one-half times that of White men (8.9 percent *versus* 5.5 percent), meaning fewer African Americans would survive to collect benefits at an increased retirement age. While life expectancy is projected to trend upward for African Americans as well as Whites, the differences between life expectancies for African-American and White men are expected to grow even farther apart in the future, and African-American men will not even have an age 70 life expectancy at birth until about 2050.

While separate life expectancy tables are less well developed for economic status, the available evidence also suggests a substantial gap between the rich and the poor. According to some estimates, the mortality rates among the young elderly may be two times higher for the poor and near poor (the bottom 20 percent of income earners) than they are for the rest of the population. One study suggests that the poorest White men have (an age 25) life expectancy that is 10 years shorter than the life expectancy for the richest.

Proposals to increase the retirement age rely on generalized trends in life expectancy, but these estimations alone do not tell us much about the quality of life, or whether many workers will be able to extend the time they spend in the work force. The existing evidence shows that the incidence of work disabilities and the impact of a work disability on labor force participation are correlated with age. Around one-fourth (23%) of people ages 55 to 65 are work disabled, compared to about one-eighth (13.2%) of people 45 to 54 years old. And a smaller percentage of people who suffer from some form of work disability remain in the labor force as they age. The labor force participation rate for persons ages 55 to 64 with work disabilities is 18.3% (70.4% for those without work disabilities) compared to a 32.2% rate for persons in the 45 to 54 age group (89.2% for those without work disabilities). While Social Security Disability Insurance benefits will take care of the severely disabled, many Americans who face substantial work limitations are nevertheless not eligible for disability benefits and thus would be left without much help if Social Security retirement benefits were not there as they are now.

Regrettably, the incidence of disability and illness also shows stark racial differences. One-third (33%) of African-American men and 36% of African-American women between the ages of 50 and 62 report that their health is poor or fair, figures twice as great as the 17% rate for White men and women. Over two-fifths (44.3%) of African Americans ages 65 to 79 suffer from a severe disability, compared to one-third (33.1%) of Whites. Overall, African Americans ages 16 to 69 suffer from a high incidence of work disabilities (15.4%), compared to Whites (9.4%) and Hispanics (9.6%).

Certainly, future health trends could be affected by health insurance coverage, but the news on the employer-based health insurance front is not good. Eight million fewer Americans had employer-based coverage in 1996 than in 1989, and another 8.1 million can be expected to lose coverage between now and 2002. Low-wage workers have been hardest hit: Fewer than half of Americans in families with $15,000-$19,999 in income had coverage in 1996, whereas more than 85 percent of Americans in families with incomes of $50,000 and more had coverage.

Increasing the Retirement Age Hurts Caregivers.

Increasing retirement ages would have a serious negative effect on the young elderly who leave the work force to care for incapacitated family members. Many Americans bear the burden of caring for their elderly parents and spouses even as they themselves enter old age. Today, one-fourth of Americans caring for frail elderly persons are between the ages of 65 and 74, and two-fifths are between the ages of 45 and 64. These ratios are likely to increase in the future as the population ages..

Flora Bacquol of Baltimore City, Maryland, is a case in point. Ms. Bacquol is a 64-year-old widow who began receiving Social Security retired widow benefits just after she turned age 60, not because of a lost job, poor health, or bad working conditions. Instead, she left the work force sooner than she wanted or planned to care for her mother who had been disabled by a severe stroke. Today Ms. Bacquol receives a reduced Social Security benefit of about $700 per month. That benefit as well as a $19 survivor benefit from her husband's pension and a $44 a month benefit that she earned at her last job are her sole means of support. Increasing retirement ages will force cruel choices on caregivers like Ms. Bacquol: remain in the workforce and send their loved ones packing to nursing homes; or retire with greatly reduced benefits, making poverty the likely payback for a lifetime of hard work; or try the impossible--juggling full-time work with full-time caregiving.

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Americans Oppose Increasing the Retirement Age.

Raising the retirement age is not only unfair; it also runs counter to strong public sentiment. Americans firmly believe that the age at which future retirees will be able to receive Social Security benefits should not be increased—not even gradually. An April 1998 *NBC News/Wall Street Journal* poll found that 58 percent of the American public opposed including a more rapid increase in the retirement age from 65 to 67 in any Social Security reform package. Young Americans (under age 35) opposed the idea most (65 percent). Furthermore, when given the choice between raising the Social Security payroll tax, means testing benefits, and raising the retirement age—raising the retirement age is supported by only 19% of the public.

The disconnect between the current political dialogue and public values becomes most apparent when looking at young workers' expectations for their own retirement futures. According to the most recent Retirement Confidence Survey conducted by Matthew Greenwald and Associates, people are looking forward to retiring earlier, not later. Nearly half (46 percent) of respondents under age 33 (Generation X) expect to retire at age 60 or less, and almost as many young Baby Boomers (age 34 to 44) expect to retire early.

Conclusion

In conclusion, the most critical point in any discussion about Social Security's future is necessarily its historical and continuing role as the retirement system for average wage workers. Social Security, not pensions or savings, provides two-thirds of the elderly with 50 percent or more of their income in retirement. Despite retirement policy rhetoric about a three-legged stool of retirement income, for too many Americans Social Security is the only leg on which they can depend. Social Security reforms that have limited impact on policy makers, who will have three legs of retirement income, are nevertheless potentially traumatic to the vast majority of working families. Raising the Normal Retirement Age is such a change. Congress should reject calls for reforms such as these, which will have harsh consequences for those workers whom Social Security counts among its most important beneficiaries.

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Senator BREAUX. Dr. Burtless.

STATEMENT OF GARY BURTLESS, PH.D., SENIOR FELLOW, BROOKINGS INSTITUTION, WASHINGTON, DC

Mr. BURTLESS. Thank you very much for the invitation. I think we know that Social Security faces a big financing problem. Many people who are younger than 35 think the problem is so big, they will never get a Social Security check. I do not think that they are right, but I do think that we should fix up the financing problem in Social Security quickly.

Part of the problem is caused by increased life spans. Better incomes, better diet, advances in public health and medical care, healthier work environments have all combined to increase substantially how long people can expect to live when they reach retirement age. We live longer than our grandparents did, and our grandchildren are expected to live longer than we do.

But the good news about longevity has clear implications for any kind of a retirement system, and that is true for Social Security and it would also be true for any replacement of the Social Security system we might design. Any increase in lifespans when the eligibility age for pensions remains unchanged amounts to a sizable increase in the benefits that we are promising people. This is true for Social Security and it is true for anything that we might devise to replace Social Security.

If people live longer and the eligibility age for benefits remains unchanged, we have to pay for the extra benefits they are going to receive. It is true that an increase in the eligibility age will cause hardship for some people, but it is also true that the increase in the contribution rate needed to keep the retirement age unchanged would also cause hardship for some people.

So we can lower the average monthly pension, we can increase the contribution rate for pensions, we can figure out a new way to invest the reserves of the system so that they earn more money, or we can raise the retirement age. This is not rocket science. This is eighth grade arithmetic.

My own preference is to do a little of all four. Cut the monthly pension for some workers, especially those with high lifetime earnings, increase the contribution rate modestly, and expand the investment options of the Social Security trust fund so that it can earn more money.

In addition, however, I do think it makes good sense to increase the normal retirement age above 67, where it is currently slated to go. I also think that to prevent workers from getting extremely low early retirement pensions, Congress should increase the early eligibility age from 62 to 64 or 65. I do not think we should allow workers to apply for a pension that is going to fall below 70 percent or 75 percent of a full pension. If we raise the normal retirement age and we leave the early eligibility age unchanged, that early pension that you receive is going to fall.

I recognize, of course, that increasing the retirement age is unpopular. Unfortunately, so are all of the other reforms one might make to fix up this financing problem. The good news is that we live longer. The other side of that coin is, we have got to save more or contribute more when we are young or we have to delay the age at which we start to collect a pension. But we have got to do something and soon if we want to restore confidence in the program.

Now, many people worry that even though Americans' lifespans have increased, their capacity to work past the age of 60 has not improved and may actually have declined. I have not heard that from my fellow witnesses and I am pleased to hear that. It could be true for a minority of Americans, but reading all of the evidence, it looks to me as though people's health when they are in their 60's has improved in line with their expected longevity.

The decline in employment rates among Americans who are between 60 and 70 over the last century is not due to the fact that their health has gotten worse. It is due to the fact that their income opportunities to live without working have improved vastly. Disability pay is more prevalent. Company pensions are more common. Saving for retirement is higher. Most important of all, the Social Security system has made an income source available to people once they leave work.

If the normal retirement age were increased, I think we would expect to see a small reversal of the long-term trend toward earlier retirement. Actually, that trend has pretty much ended among men over the last 10 or 15 years anyway, and work rates among women are increasing in late middle age and early old age.

The best evidence we have about what the effect on participation rates, labor force participation rates, of increasing the normal retirement age is that it would have an effect, although a small one. I think the effect would be greater, if the early eligibility age were increased at the same time but it is hard to know this, because we do not have much historical evidence to go by.

In the long run, I do not think American employers are going to have serious problems accommodating the desires of older workers if workers want to remain in their jobs longer. Since labor force growth will slow sharply in the next century, employers may, in fact, face pressure to make employment more attractive to older workers.

Finally, I think if we do raise the early eligibility age for Social Security, we should make humane provision for people who have worked a lifetime in physically demanding occupations and jobs. I think the best way to do that is to make more generous the eligibility conditions for disability insurance at age 62. Thank you.

Senator BREAUX. Thank you, Dr. Burtless.

[The prepared statement of Mr. Burtless follows:]

INCREASING THE ELIGIBILITY AGE FOR SOCIAL SECURITY PENSIONS

Testimony for the
Special Committee on Aging
United States Senate

July 15, 1998

by
GARY BURTLESS*

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INCREASING THE ELIGIBILITY AGE FOR SOCIAL SECURITY PENSIONS

by
GARY BURTLESS
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Summary

Social Security faces a long-term financing problem. Many young workers believe the problem is so severe they may never receive a Social Security check. The most logical solution to Social Security's financing problem is to trim promised benefits and increase payroll taxes moderately. A sensible way to reduce future benefits is to increase the early eligibility age and normal retirement age for retirement pensions. This reform is justified by the substantial increase in life spans that has occurred since Social Security was established in the 1930s. An increase in life spans, when the normal retirement age remains unchanged, is equivalent to a sizable increase in lifetime Social Security benefits.

Increasing the retirement age is unpopular with voters. Unfortunately, so are all other reforms that would restore Social Security to solvency, including tax hikes and cuts in the formula for calculating full pensions.

Many policymakers worry that even though Americans' life spans have increased, their capacity to work past age 60 has not improved and may actually have declined. While this may be true for a minority of workers, the best evidence suggests it is untrue for most of the population between 60 and 70 years old. On average, the health status and work capacity of Americans in their 60s have improved in line with improvements in their longevity. The decline in employment rates among Americans between 60 and 70 has not been caused by diminished work capacity but by growing Social Security and private pensions, increasing wealth, wider availability of disability income, and the changing taste for retirement living. Nonetheless, any increase in the early eligibility age or deep reduction in benefits available to 62-year-old workers should make special provision for workers with impaired health. Disability Insurance benefits might be made available under liberalized eligibility rules for workers with steady careers in physically demanding occupations.

If the normal retirement age were increased, we would probably see a reversal of the long-term trend toward earlier retirement, a trend that has slowed dramatically since the late 1980s. However, most recent research suggests the effect of increasing the normal retirement age on labor force participation will probably be small. The increase in labor force participation rates of older workers would almost certainly be larger if the increase in the normal retirement age were combined with an increase in the early eligibility age for pensions (currently age 62). In the long run, U.S. employers will not have serious difficulty accommodating the wishes of older Americans to remain in jobs longer. Since labor force growth will slow sharply in the next century, employers may in fact face pressure to make employment more attractive to older workers.

Congress will have to increase contributions or cut benefits to keep Social Security solvent. Increasing the normal and early retirement ages is an essential element of any plan that is fair and that addresses the long-term financing problem.

Background

The solvency of every pension program depends on four crucial elements: (1) The contribution rate imposed on workers and their employers; (2) The pension fund's rate of return on its investments; (3) The age of eligibility for pensions; and (4) The average monthly pension paid to retirees. The first two elements determine the annual amount of funds flowing into the system; the last two determine the annual amount flowing *out* of the system. Each of the four elements must be carefully calibrated to ensure that benefit promises are matched by expected future revenues. If a pension program is exactly solvent and one of the four elements changes, some adjustment in the other three elements may be necessary to restore the solvency of the program. For example, if the rate of return on pension fund investments falls, it will be necessary to increase the contribution rate, delay the age of eligibility for pensions, or lower monthly pensions in order to restore the pension program to solvency.

Improvements in the life expectancy increase the funding requirements of a pension plan. If contributors live one additional year in retirement, the plan must find extra resources to pay for extra benefit payments. To keep the pension system solvent, this requires higher contributions to the program, a higher rate of return on investments, a delay in the retirement age, or a reduction in monthly benefits. It is worth emphasizing that this is true for every type of pension plan *whether public or private*. If Social Security had never been established, increases in American life spans over the past half century would have required *private* pension plans to increase their contribution rates, find investments that yield higher rates of return, delay the age of eligibility for pensions, or reduce monthly pension payments.

The current debate over reforming Social Security often ignores this simple reality. A large part of Social Security's long-term funding problem arises because of good news about longevity. Americans now live longer than their parents and grandparents did. Their children and grandchildren can be expected to live longer than we do. The improvements in longevity mean that living Americans will survive much longer past age 65 than was true when Social Security was established in the Great Depression. The longevity increases provide the equivalent of a benefit increase to Social Security recipients. The benefit increase must be paid for if the system is to remain solvent.

Table 1 below shows the Social Security Actuary's estimates of average life expectancy at ages 65, 70, and 75 for selected years between 1940 and 2070. These estimates reflect the average mortality experience of both men and women. The estimates for years through 1990 are based on observed mortality rates in past years. The estimates for 2000 and later years are based on the Actuary's projections in the 1995 *OASDI Trustees Report*. The estimates in Table 1 show that average life expectancy at age 65 has risen about 5 years, or roughly 40%, since the Social Security system was created. Under the Trustees' intermediate assumptions, it is expected to rise another 3 years by 2070.

The dramatic improvement in life spans past age 65 means that retired workers can expect to collect far more monthly pensions than was the case in the past. Monthly pension payments have not been reduced to accommodate this increase (monthly benefits have actually increased). Social Security's solvency has been maintained by boosting the contribution rate imposed on workers and their employers.[1]

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[1] Most of the increase in the contribution rate over the past 50 years has been due to the maturation of the program (a growing number of contributors has reached the retirement age with enough earnings credits to receive a pension), rising real benefit levels, and a slowdown in the rate of real wage growth (which has

Table 1. Unisex Life Expectancy at Selected Ages, 1940-2070

Life expectancy in years

	Age		
Year	**65**	**70**	**75**
1940	12.71	9.92	7.56
1960	14.52	11.53	8.88
1980	16.33	13.19	10.38
1990	17.09	13.85	10.90
2000	17.49	14.15	11.11
2010	17.83	14.43	11.34
2020	18.25	14.82	11.69
2030	18.68	15.21	12.04
2040	19.10	15.59	12.38
2050	19.51	15.97	12.72
2060	19.90	16.33	13.05
2070	20.29	16.69	13.38

Source: Office of the Actuary, Social Security Administration (1997).

Congress took no steps to increase the eligibility age for Social Security pensions until 1983, when it raised the normal retirement age from 65 (for persons born in 1937 and earlier years) to 67 (for persons born in 1960 and later years). The normal retirement age (NRA) is the earliest age that a worker can obtain a full Social Security pension. Workers can claim reduced pensions before the NRA. The early eligibility age (EEA) is the youngest age that a worker can obtain a Social Security old-age pension. (An early pension is permanently reduced by about a half percentage point for each month before the NRA that the worker claims the pension.) When it raised the NRA in 1983, Congress did not change the EEA, which was left at 62. Of course, workers who claim an early pension in the next century will pay a larger penalty than workers do today. Instead of receiving 80% of a full pension at age 62, workers born in 1960 and later years will only receive 70% of a full pension.

A major financing gap in Social Security has opened up since Congress last overhauled the program in 1983. Productivity and wage growth have remained slow, and the expected future ratio of beneficiaries to contributors continues to rise. In order to restore the long-term solvency of Social Security the nation must boost contributions to the program, reduce future benefits, or find some other

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deprived the system of anticipated revenues). Increasing longevity explains only part of the increase in contribution rates.

source of financing. The combination of increased contributions, reduced benefits, or outside financing must total about 2.2% of predicted taxable earnings over the next 75 years.

A straightforward way to close the long-term financing gap is to raise payroll taxes and reduce promised benefits. Reform should occur before 2010, when the baby boom generation begins to retire. It is desirable to make decisions about future taxes and benefits as soon as possible. The OASDI Trustees' intermediate assumptions imply that the Trust Funds will be depleted shortly after 2030. The youngest baby boom workers will be in their middle 60s when that year arrives. If workers are to plan sensibly for their retirement, it is desirable to inform them what combination of higher taxes or reduced benefits they will face over their careers.

Increasing the Retirement Age

Since the eligibility age for pensions is one of the main features of a pension plan that affects its solvency, Congress should consider adjustments in the eligibility age to help restore Social Security's solvency.

Normal retirement age. One possibility is to accelerate the increase in the NRA already scheduled under present law. Instead of phasing in the increase over 23 years, for workers reaching age 62 between 2000 and 2022, Congress could phase in the NRA change over just 12 years. This would mean that the higher NRA will be fully implemented for workers reaching age 62 in 2011.

A second possibility is to increase the NRA automatically in line with increases in life expectancy after 65. A majority of members of the 1994-96 Social Security Advisory Council proposed increasing the NRA as necessary after 2011 to maintain a constant ratio of retirement years to potential years of work. "Retirement years" is defined as life expectancy at the NRA, and "potential years of work" as the number of years from age 20 to the NRA. Under the Social Security Trustees' intermediate assumptions, this proposal would push up the NRA to age 70 by about 2080. The Social Security Actuary estimates that the combination of accelerating the NRA increase and then increasing the NRA in line with longevity improvements eliminates nearly one-quarter of Social Security's long-term funding gap.

Lifting the NRA while leaving the EEA unchanged produces almost exactly the same effect on retired workers' Social Security benefits as a proportional reduction in the full pension (usually referred to as the "primary insurance amount" or PIA).[2] Even though most people describe an increase in the

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[2] To see why, compare a 7% reduction in the PIA with a one-year increase in the NRA for workers who attain age 66 after 2011. If the PIA is reduced 7%, all workers claiming benefits receive a monthly benefit check that is 7% smaller than promised under current law. If, instead, the NRA is raised by one year but the PIA formula is left unchanged, persons claiming benefits at age 66 in 2010 would not be able to receive an unreduced pension. Instead, their monthly benefit will be subject to an actuarial reduction and would be approximately 6.67% less than their benefits would have been if the NRA had remained unchanged. The percentage reduction in benefits below what benefits would be under current law is similar to the reduction when PIAs are reduced 7%. Similar calculations for workers who choose to claim benefits at ages 62, 65, and 70 show that advancing the retirement age by one year has an effect on benefits that is similar to a proportional reduction in PIAs. See Technical Panel on Trends and Issues in Retirement Savings, 1994-96 Advisory Council on Social Security, *Final Report* (1996). Some of this testimony is based on analysis by the Technical Panel, of which I was a member.

normal retirement age as a "delay" in the retirement age, it is in fact closer to a reduction in monthly pensions. Workers can still obtain pensions at the same age as before, but their monthly pensions are smaller.

There are some important *noneconomic* differences between raising the NRA and cutting the full Social Security pension, however. First, increasing the NRA signals to workers that the same monthly benefit can be obtained by postponing retirement, which may encourage some workers to delay retirement rather than accept a lower pension. Sponsors of employer pension plans might also be induced to modify their plans to encourage delayed pension acceptance if the Social Security NRA were increased. Second, in light of the well-known improvements in life expectancy, American workers might find increases in the retirement age to be more understandable and fairer than equivalent reductions in full pensions. By increasing the retirement age rather than reducing full pensions, Congress conveys the message that the benefit level is appropriate, but workers ought to postpone their retirements.

Early eligibility age. Nothing prevents Congress from increasing the early eligibility age at the same time and at the same pace as it increases the NRA. An increase in the EEA is fundamentally different from an increase in the NRA, however. If the EEA is increased above age 62, 62-year-old workers will be prevented from obtaining old-age pensions. Under current law they can collect reduced old-age pensions or they can try to obtain Disability Insurance (DI) pensions. When the possibility of obtaining old-age pensions is eliminated, some 62-year-olds who otherwise would have received old-age pensions will apply for benefits under the DI program. This will increase Social Security administrative costs, because eligibility is much more expensive to determine in DI. It may also impose serious hardship on workers whose DI applications are denied.

These consequences of increasing the early eligibility age have made Congress reluctant to tamper with it. Many policymakers are more uneasy about a reform that denies benefits completely to an identifiable class of people than they are about one that reduces benefits modestly to a much wider population.

It is important to recognize why Social Security has an early eligibility age, however. If workers could apply for benefits as soon as they accumulated enough earnings credits, some low-income workers would be tempted to apply for benefits in their late 50s or even their late 40s. But their monthly benefits would be very low, because early pensions are reduced below the full pension in proportion to the number of months between the age a worker claims benefits and the NRA. The low level of the monthly pension might not represent a problem for a worker who is 50 or 60 years old and can supplement monthly pensions with modest wages. But it could cause serious hardship when a worker reaches age 68 or 70 and finds he or she is no longer able to work. The EEA prevents short-sighted workers from applying for pensions that will be too small to support them throughout a lengthy retirement.

When the NRA reaches 67, workers claiming early pensions at age 62 will receive 70% of a full pension. If the NRA were eventually increased to 70 and the early eligibility age remained unchanged, workers claiming pensions at age 62 might receive monthly benefits as low as 52% of a full pension -- probably too little to live on for a worker with few other sources of income. If the NRA is increased above 67, it seems sensible to increase the early eligibility age. I do not think it reasonable to allow workers to claim benefits so early that their monthly benefit falls below 70% of a full pension. This implies that the early eligibility age must eventually be raised above 62. In order to implement this reform in a humane way, Congress should liberalize eligibility requirements for Disability Insurance benefits starting at age 62. People who have worked in physically demanding occupations and are in impaired health should be given access to benefits that permit them to retire with a decent standard of living.

Health Status and the Eligibility Age

Critics of increasing the retirement age sometimes argue that, while life expectancy has increased, the health condition of many older workers -- and their ability to continue working -- has not improved. Is this true? Or has the increase in life spans been matched by an improvement in the health status of older Americans? The key question is whether increases in life expectancy have resulted in longer productive lives or merely longer periods of failing health.

While nearly all studies of work in later life find that health plays an important role in the timing of retirement, I see no persuasive evidence that the average health of Americans in their 60s has declined. Falling mortality rates as well as recent evidence about the trend in physical disabilities suggest instead that health is *improving*, at least in early old age. Moreover, analyses of the growth of different kinds of occupations and in their physical requirements imply that the physical demands of work are now easier to meet than they were in the past. A much smaller proportion of jobs requires strenuous physical effort; a larger percentage requires only moderate or light physical exertion.[3]

In the 1970s and early 1980s, some observers thought the health of older Americans was declining. Rising life expectancy in the 1970s was accompanied by increased prevalence of self-reported health problems among the aged and near aged. Researchers were divided on the meaning of this trend. Some concluded that the improvements in life expectancy were caused by falling death rates from chronic disease, producing an aged population with a higher percentage of people with chronic health problems. Other researchers believed that while the initial effect of falling mortality from chronic disease was to increase the prevalence of health problems, these levels would be reduced as medical science turned its attention to increasing the age of onset of chronic disease.

More recently, researchers have found evidence that the trend toward deteriorating self-reported health among the middle-aged and older population was reversed in the 1980s.[4] A number of researchers now find evidence of a fall in prevalence of chronic health problems among the elderly. Economists suggest that the increase in self-reported health problems in earlier periods was probably the result of a combination of social forces affecting the way individuals perceive their health and describe it to interviewers. More generous disability benefits and easier access to such benefits increased the percentage of Americans who apply for and receive disability benefits. The fraction of people describing themselves as impaired has consequently increased. Medical progress in disease prevention and early diagnosis also increased dramatically after 1970, leading to wider awareness of health problems among

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[3] Kenneth G. Manton and Eric Stollard, "Medical Demography: Interaction of Disability Dynamics and Mortality," in Linda G. Martin and Samuel H. Preston, eds., *Demography of Aging* (National Academy Press); and Martin N. Baily, "Aging and the Ability to Work: Policy Issues and Recent Trends," in Gary Burtless, ed., *Work, Health, and Income among the Elderly* (Brookings).

[4] Eileen M. Crimmins and Dominique Ingegneri, "Trends in Health of the U.S. Population: 1957-89." In Julian Simon, ed., *The State of Humanity* (Blackwell).

the elderly. Increased awareness and earlier diagnosis of health problems rather than an absolute increase in the incidence of such problems probably accounts for part of the 1970s rise in self-reported health limitations. Self-reported health problems among people in their 60s and 70s have declined since the early 1980s.

Improvements in longevity and health status among people in their 60s are not universal, of course. Some researchers find a growing gap between the death rates of Americans with low and high levels of education. People with advanced education or high lifetime incomes may have enjoyed a disproportionate share of the overall improvement in longevity and health conditions, while those with lower education and less income, even if they saw small absolute gains, fell further behind.[5] If this pattern continues, increasing the age of eligibility for Social Security benefits will impose special hardship on Americans with lower education and income, a population which has not shared fully in the general improvement in longevity and health. As noted earlier, I think we should make humane provision for workers in physically demanding jobs who have impaired health if we increase the early eligibility age above 62.

On balance, the best available evidence suggests that the health of the middle-aged and elderly populations has improved during the 1980s and 1990s, though the improvement has probably been greater among people with higher income and education. The health gains seem likely to continue. This will tend to reduce the portion of time we spend in dependence and ill-health, at least when we are in our 60s. Continuing increases in educational attainment should reinforce the trend toward better health in view of the observed relationship between good health and education.

Effects on Trends in Employment

Before assessing the impact of a higher retirement age on workers and employers, it is worth considering the long-term trend in work at older ages.

Historical trends. At the turn of the century, retirement was relatively rare but not unknown. Two out of three men past age 65 were employed, but one-third were not.[6] By mid-century retirement was far more common. Fewer than half of men 65 and older held a job in 1950. In 1990 the proportion at work had fallen still further. Just 16 percent of men over 65 were employed or actively seeking a job. Eighty-four percent were outside the active labor force. The proportion of women past 65 who were employed also fell during the century, but the reduction was far smaller than among men because the percentage of older women in paid work has always been quite low.

The pattern of declining work among older men is clearly evident in Chart 1. Each line in the figure traces the labor force participation rate of older American men, by age, during a different year of the past century. The top line shows age-specific participation rates of older men in 1910. Labor force

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[5] Jacob J. Feldman, "Has Increased Longevity Increased Potential Worklife?" In *Proceedings of the Second Conference of the National Academy of Social Insurance* (National Academy of Social Insurance).

[6] U.S. Department of Commerce, Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970* (Government Printing Office). Retirement patterns were much more difficult to measure among women because most worked primarily within the home (and without pay) during most of their adult lives.

participation falls with advancing age. Even at age 74, however, the male participation rate in 1910 was only slightly below 50 percent. Participation rates in 1940, 1970, and 1995-96 are displayed in the lower three lines. Each of these lines shows a characteristic pattern of labor market withdrawal as men grow older. The crucial difference between the pattern in 1995-96 and earlier years is that the fall-off in labor force participation begins at an earlier age and proceeds at a faster pace. It is worth emphasizing that the fall in employment rates and labor force participation rates among older men slowed sharply in the second half of the 1980s. Employment and participation rates of older men have stabilized, and employment and participation rates of women between 55 and 65 have begun to rise.

By far the biggest declines in participation occurred among men past the age of 65. In 1996, for example, the participation rate among 74-year-olds was nearly 80 percent below the equivalent rate in 1910. The fall-off in participation has been smaller at younger ages. In general, large declines in participation occurred early in the century for the oldest age groups; large declines have occurred more recently among in younger age groups, notably, among men under 65. The biggest declines among men under 65 did not occur until after 1960. This pattern of labor market withdrawal is consistent with the view that the introduction and liberalization of Social Security played an important role in pushing down participation rates. Nonetheless, evidence in Chart 1 suggests that the trend toward earlier retirement was already underway during the first decades of the century, long before Social Security could have affected labor force behavior.

Chart 2 shows the trend in the "average" retirement age if we define that age as the youngest age when fewer than half the men in the age group remain in the labor force. Under this definition, the average male retirement age fell from 74 to 62 between 1910 and 1996, a drop of about 1.4 years per decade.

The decline in the average retirement age occurred in an environment of rising life expectancy among older Americans, especially in the period since 1940 (see Table 1). Falling mortality rates among the elderly added more than 3 years to the expected life span of a 65-year-old man (and 5½ years to the life expectancy of a 65-year-old woman) after 1940. Since expected male life spans increased about 0.6 years per decade during a period in which the retirement age dropped 1.4 years per decade, the amount of the average male life span devoted to retirement has climbed about 2 years per decade. Retirement now represents a substantial fraction of a typical worker's life. For many workers, retirement may now last longer than the number of years from birth until full-time entry into the job market.

Effects of increasing the early eligibility and normal retirement ages. It is natural to ask whether increasing the early and normal retirement ages would have much effect on when workers actually retire. Almost all researchers who have examined this question agree that such reforms would tend to increase the average age at retirement, though the effect may not be large. This conclusion was reached in a great majority of economists' studies conducted in the 1980s and early 1990s. Most studies found that even big changes in Social Security would cause only small changes in the average retirement age. In research with Robert Moffitt, for example, I estimate that increasing the normal retirement age in Social Security from 65 to 68 would add only a little more than 4 months to the full-time working careers of men who have no disabilities.[7]

One way to assess the impact of Social Security reforms is to examine differences in retirement patterns among people who face different incentives because the program has been *changed* in an unanticipated way. In 1969 and again in 1972 Social Security benefits were increased much faster relative to wages than at any time in the recent past. By 1973 benefits were 20 percent higher than would have been the case if pensions had grown with wages as they did during the 1950s and 1960s. In 1977 Congress passed amendments to the Social Security Act sharply reducing benefits to workers born in 1917 and later years (the "notch" generation) in comparison with benefits available to workers born before 1917. I examined the first episode, and Alan Krueger and J.S. Pishke examined the second.[8]

Both studies reached an identical conclusion: Major changes in Social Security generosity produced small effects on the retirement behavior and labor force participation of older men. I found, for example, that the 20-percent benefit hike between 1969 and 1973 caused only a 2-month reduction in average retirement age of men who were fully covered by the more generous formula. This is equivalent to a reduction in the labor force participation rates of 62-year-old and 65-year-old men of less than 2 percentage points. The effects of the 1977 amendments found by Krueger and Pischke were even smaller.

These findings suggest that an increase in the *normal retirement age* will probably have only a small effect on the age that male workers withdraw from the work force. It is harder to predict the effects of an increase in the *early retirement age* because we do not have good enough historical evidence to evaluate the impact of this kind of change. It is conceivable that elimination of early retirement pensions would make early retirement impossible for low wage workers who have no other sources of retirement income except Social Security. In that case, increasing the early eligibility age might cause labor force participation and employment rates at age 62 to rise by 5 percentage points or more.

Employer responses. Many people wonder how employers would respond to changes in the early and normal retirement ages in Social Security. If workers wanted to delay their retirements to become eligible for more generous Social Security pensions, would employers create enough extra jobs to employ them? Or would employers discriminate against older job seekers, making it hard for them to find and keep jobs?

Historical evidence about the job creating capacity of the U.S. market is reassuring on this point. Over the long run, the U.S. labor market seems capable of absorbing large numbers of extra workers without a significant rise in joblessness. From 1964 through 1989, when the baby boom generation

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7 Burtless and Moffitt, "The Joint Choice of Retirement Age and Postretirement Hours of Work," *Journal of Labor Economics* (April 1985). Other economists' predictions are discussed by Joseph Quinn and others in *Passing the Torch: The Influence of Economic Incentives on Work and Retirement* (Upjohn).

8 Burtless, "Social Security, Unanticipated Benefit Increases, and the Timing of Retirement," *Review of Economic Studies* (October 1986); and Alan Krueger and Jörn-Steffen Pischke, "The Effect of Social Security on Labor Supply: A Cohort Analysis of the Notch Generation," *Journal of Labor Economics* (October 1992).

reached adulthood and entered the job market, the labor force grew by 50.4 million persons, or slightly more than 2 million a year. Most of this surge was driven by the jump in U.S. fertility between 1946 and 1964, but part was also due to a growing demand for employment by women, who entered the workforce in record numbers. From 1964 to 1989 the number of Americans holding jobs climbed by 47.7 million, or slightly more than 1.9 million workers a year. In other words, about 95 percent of new job seekers in this period were able to find jobs, though the number of people available for work swelled by two-thirds. The unemployment rate rose only slightly, increasing from 5.0 percent to 5.2 percent.

Many people find it surprising that so many extra job seekers can be absorbed by the labor market. They overlook a basic reality of flexible labor markets: In the long run employers are free to change their product lines and production methods to exploit the availability of a newly abundant type of labor. Moreover, they ignore the possibility that wages can rise or fall in response to the entry and exit of large numbers of potential workers.

In the 1970s, for example, the wages received by younger workers fell in comparison with those earned by older workers, in large measure because younger workers became much more abundant. Faced with a huge increase in the availability of workers who had limited job experience, employers adopted production methods that took advantage of less experienced workers. Restaurant meals were prepared and served by eleventh grade students and high school dropouts rather than by experienced cooks or waiters. Gardening and domestic cleaning were performed by unskilled and semi-skilled employees rather than by homeowners themselves. In the end, 95 percent of new job seekers were successful in finding jobs. Of course, many of the new jobs were not particularly well paid. The huge increase in the abundance of less experienced workers is one reason that pay in many jobs fell.

If older workers were forced to wait for two or three extra years for full Social Security retirement benefits to begin, many would choose to remain in their career jobs for a few months or years longer than workers presently do. Older workers who lose their jobs would try harder and more persistently to find new jobs. The jobs that many find would pay lower wages than the jobs they previously held. In fact, the availability of increased numbers of older workers would almost certainly depress the relative wages of aged job seekers. But low U.S. fertility means the future labor force will grow slowly, placing some pressure on employers to retain older workers and make jobs attractive to older job seekers.

Although some observers are pessimistic about the willingness of employers to accommodate the special needs of an aged workforce, I am not. Employers have created millions of part-time jobs to accommodate the needs of students and mothers who are only available to work short weekly hours. People who work on part-time schedules pay a price for short hours in terms of low weekly earnings and lost fringe benefits, but the great majority accepts this price willingly. My guess is that a comparable accommodation will be made for the special needs of older workers. Most older workers who want jobs to tide them over between the time their career jobs end and eligibility for full Social Security pensions will be able to find suitable jobs.

Chart 1.

Male Labor Force Participation by Age, 1910-1996

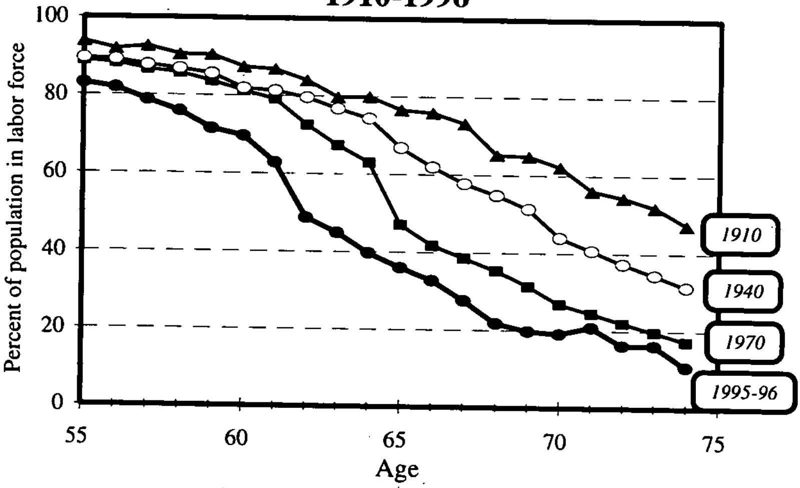
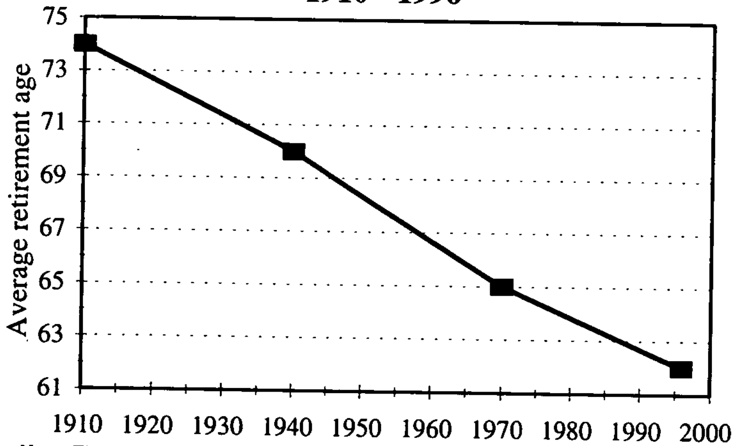


Chart 2.

Average Retirement Age of Males, 1910 - 1996



Note: The "average retirement age" is the earliest age at which the labor force participation rate of older men drops below 50 percent.

Senator BREAUX. Senator Collins is going to go vote and I am going to. I have some really good questions.

The CHAIRMAN. [Presiding.] Well, you had better not wait too long.

Senator BREAUX. I cannot wait.

Senator COLLINS. I will tell them to wait for you.

Senator BREAUX. I will come right back.

The CHAIRMAN. Obviously, I missed half of the testimony, but you submitted it to me in advance, so I was aware of your points.

I would start with a question for you, Ms. Bovbjerg, and take off on something that Senator Breaux said just as he was finishing. You responded, but I think I want to get it more clearly on the record. I know that there will be some discussion about how we ought to interpret the testimony you gave. There are always some reports which characterize GAO as warning against an increase in retirement age and the headline has been referred to, "GAO Warns Against Raising Age for Retirees," et cetera, et cetera. Is that how you would characterize your organization's findings?

Ms. BOVBJERG. Thank you for asking, Senator. I would characterize it somewhat differently. GAO is in the business of looking at this proposal comprehensively and trying to look at the positive aspects and trying to look at the potential negatives.

We are trying to say that there are positive financial and economic effects from this proposal that seem fairly significant, but at the same time, we want to be sure that the policymakers are aware that this proposal could have some negative effects on specific subpopulations in our society; that in considering these proposals, all of the potential effects be discussed and that when you look at a broader package of Social Security reform, I think it is important to know what the positives and negatives are of each piece of that package so that you would be able to make an assessment as to whether pain is being effectively spread or not by such a package.

The CHAIRMAN. Let me follow up, then, on that subset and ask you on the issue of the health conditions of white collar workers versus blue collar workers, I want to make sure that we understand the conclusions of your organization. First, you concluded that workers who do not enjoy good health could have problems finding and retaining jobs, but for people who are healthy, what, if any, hardships would you say that they face?

Ms. BOVBJERG. Well, there are some surveys of employers that suggest that there are higher negative perceptions than positive perceptions of older workers. These may not be fair perceptions, but they are out there. While older workers are more punctual, more reliable, have more experience, employers report that they are concerned that they are less flexible in terms of new training and new technology, that they cost more in terms of training and benefits, that their tenure may not be that great in terms of hiring someone new and investing in training them when they only will maybe stay on the job a few years, and that these things seem to slightly weigh on the negative side.

What we do not know is the extent to which this will make a difference, for example, in an economy like we have today and at a time when the labor force as we define it now, with the current retirement ages, will be growing more slowly. There may be more demand for elderly workers. We just do not know, but it is something that it is important to recognize is out there.

The CHAIRMAN. Mr. Smith, I would state a proposition and then ask you a question. I think I understand that you want us to be cautious about further increasing the eligibility age for Social Security, but from your testimony, or from the testimony of members of the panel, it is the healthy, the financially stable workers who benefit the most from earlier retirement. It seems as if the at-risk people that we ought to be concerned about are either going on disability or just try to keep working.

So is it not counter-intuitive to continue policies which allow the healthy and financially stable people to get out early, and is there not a way to encourage delayed retirement and somehow better target the vulnerable workers? In other words, I accept the proposition that it is legitimate to be concerned about people who cannot continue to work, but maybe it could be done in a more targeted way than what would happen just through keeping Social Security the way it is.

Mr. SMITH. Senator, as usual, you ask an important question. Let me try to answer it in a couple of different ways.

We are able to retire at 65 today with, as Dr. Burtless described, increasing resources both from pension plans as well as the Social Security system, in part because of the enormous growth in the output of the American economy over the last 50 or 60 years. The tradeoff between labor and leisure has changed. It is no longer necessary for as many of us to work as long to produce our GNP that then gets divvied up among the middle-aged among us, the old, and the young, as it used to.

It is not clear to me that the right answer is, everybody ought to work longer because we have a 2.19 percent long-term shortfall in the Social Security trust fund. I think there is a bigger issue here than Social Security solvency. Perhaps we ought to get rid of the 8-hour day or figure out how to get rid of the 40-hour week in order to get more people working more hours so that they pay more into the trust fund which would meet the test of improving its solvency. But we would not consider those options. We have another set of values which guide us in that regard. I think we ought to be very careful about simply saying, we are living longer so we ought to work longer.

I do think, on the other hand, we ought to take steps to make it easier for people to work as long as they would like to work. Discrimination persists. For a lot of the reasons that Barbara described, discrimination persists against older workers. We need to do a better job of fighting that and eliminating it.

You have already taken steps to begin to dramatically increase the earnings test limit. Perhaps you ought to go further.

Certainly, we ought to continue to maintain tight labor markets. You will see on the chart that you have a slight increase in labor force participation among older workers. Now, we do not know exactly why that is happening, but at least part of why it is happening has been relatively tight labor markets in the last few years. Employers are more willing to do the things that they find difficult and workers are attracted back to the market by increased opportunity. Those are all good things.

So to say that we ought not to force people to work longer is not to say that people ought not to work longer if they have that desire. They should. But as we think about how to fix the problems that beset the Social Security system, it is ultimately a question of fairness.

Gary described four steps we could take. We could increase the contribution rate. There are a variety of ways to do that, some of which probably make good sense. We could think about how to reduce the flow out to some of those ideas, like taxing benefits in the way we tax pensions probably makes good sense. Now, because of Congress' action, we finally have a trust fund to think about investing. We ought to think about investing it in the ways that provide for the largest return. That makes good sense.

Cutting benefits by raising the retirement age, which has a disproportionately severe effect on large numbers of us, but disproportionately severe effect on those who have worked the hardest and earned the least, probably is not a good idea.

The CHAIRMAN. Thank you, Mr. Smith.

I wonder, before I ask you a question, Dr. Burtless, if you would have a reaction to what was just stated.

Mr. BURTLESS. Well, I agree that we should not think about forcing everyone to work longer hours, but the Social Security system does not contain many elements of compulsion. If people would like to continue retiring at 62, and the early eligibility age has been raised, for example, to 64, then there is an option that they have. They could set aside money in an IRA or a 401(k) plan to tide them over between age 62 and the new early eligibility age.

But, after all, the fact is that there is no way out of the problem. We have to either lower monthly pensions, delay the age at which people can collect pensions, increase the contribution rate, or increase the rate of return that people's contributions get as reserves.

If we do raise the contribution rate by the full amount necessary, 2.19 percentage points, in order to close the long-term imbalance, well, then some people may work longer than 8-hour days and they may work longer work weeks than 40 hours a week in order to pay for those higher contribution rates. There is no easy, painless way out of the fact that you have got to pay for the increase in longevity in one way or another.

The CHAIRMAN. Dr. Burtless, you and I both emphasized the decrease in male labor force participation in the last 50 years. You projected an increase of about 5 percent in the labor force participation if the early retirement age was raised. This is not the result one would expect probably when we hear that many people may not be saving enough for their retirement, and we know for a fact that the number of workers relying on Social Security for much of their income is great. I would expect the number of people staying in the workforce to be higher. Why a small increase in labor force participation?

Mr. BURTLESS. I said that when we raise the early eligibility age, it is harder to predict what the consequences would be. It is easier for us to figure out the effect of increasing the normal retirement age without a change in the early eligibility age, just because increasing the normal retirement age, when there is no change in the early eligibility age, is very much like a proportional increase or a reduction in the basic benefit level. We have had a lot of historical evidence over the last 30 years about the effects of increasing the monthly pension and decreasing the monthly pension on participation rates. Most economists who have examined this have concluded that the effect of changing the normal retirement age is small.

It is harder to predict what would happen if we increased the early eligibility age, I think. Five percentage points on the labor force participation rate was my guess, but that is 2½ times the size of the expected effect if we raised the normal retirement age from 65 to 68.

The CHAIRMAN. Ms. Bovbjerg, one of the most valuable findings that we learned from your testimony was the consequences for the Social Security disability insurance program if early eligibility age were to be increased. Your agency is projecting the increase to be about 2.5 percentage points. Does this increase take into account that future cohorts may be healthier because there is a different proportion of people in the blue collar workforce, and does there seem to be a loosening of disability standards for older workers?

Ms. BOVBJERG. Let me answer the first question first, that this presumes no change in health levels, in healthiness of the American people. All we did was look at what the rates are for disability awards for people who have attained early retirement age. The rate drops dramatically between ages 61 and 62. The thought is that if you were to raise the early retirement age, those rates would not drop. They would just keep going up until you got to the new early retirement age and it dropped off, and the cumulative amount that would go up for males only is about 2.5 percentage points. That is potentially thousands of people on the DI rolls.

Now, this is a work in progress, as you know, for this committee, and we still have not looked at the women's side of it yet. We are still looking at these things. But these are assumptions that are incorporated in the actuaries' estimates for effects on the trust funds. The actuaries are already presuming that if you raise the early retirement age, this would be a feature that would affect the disability program.

Now, in relaxing disability standards, today, current SSA medical vocational rules treat applicants who are 50 and over differently than younger applicants. They are designed to award benefits at a higher rate for people who can only do sedentary work, generally, and may not be well enough educated to find such a job. There are rules that people apply at the front end of the disability process.

For people 50 and over who are not awarded benefits initially, there is, as well, a higher rate of successful appeals for that cohort as opposed to younger people. So already, the disability standards are somewhat more leniently applied to older workers.

The CHAIRMAN. Thank you very much. I am done with my questioning.

Senator Breaux.

Senator BREAUX. Thank you. I ran over, voted twice, and came back.

Thank you very much for your testimony. I think it has all been good very helpful. Let me try and get some kind of a perspective of what this argument on the gradual increase in retirement eligibility really means.

In 1935, I guess, when Franklin Roosevelt and Congress decided that 65 was an appropriate age, that at that time, the average male life expectancy was probably about 61. What are the numbers?

Ms. BOVBJERG. Fifty-nine.

Senator BREAUX. Fifty-nine?

Ms. BOVBJERG. Yes.

Senator BREAUX. Wow. OK. So we picked 65 in 1935 and the average male life expectancy was 59, so there was a ratio established that people would have so many years to live in retirement and that the government would help them during that period of time.

Now we are in 1998. Fast forward to where we are today. The life expectancy, I understand, in the year 1998 for males, I have here as 73 and for females it is 79.4. If we were to maintain the same ratio that Congress and society thought was appropriate back in 1935, what would be the retirement age today if it had been kept even at what we did when we started the program?

Ms. BOVBJERG. Our calculations are that in 1940, about 22 percent of expected life was spent in retirement, and so if you were to apply that ratio today, it would be age 70.

Senator BREAUX. It would be 70 today?

Ms. BOVBJERG. Yes.

Senator BREAUX. You see, our suggestion is to gradually phase into 70, not today, under the bill we are introducing today, but to do that until the year 2029, over the next period of time, 30 years, in effect, to get to what it would be today if we had picked the same ratio.

If you look at that as the only part of the fix on Social Security, I can understand people would say, oh, my goodness, that is not fair. But one of the things that our legislation does, and this is not the purpose of this hearing, but it also establishes a personal retirement account for each person on Social Security. Interestingly, it would be theirs. If they died before they got into the Social Security program they would get something. They would have that account and their heirs would have that account. It would be something that they would inherit. It would be theirs. Today, if you die before you get Social Security, all those years of contribution to the program, you get nothing out of it. Society gets something, but you do not personally get anything and your heirs do not. It is a total loss to you. But under our proposal, you would actually be able to get that retirement account for yourself and your heirs.

Some of the other things we do is to guarantee that no one who had worked 40 years would have a retirement that would still keep them in poverty, to try and help at the lower end and make it more progressive than it is currently.

So I guess the point I have gotten from you, again, as a statistician, is that the retirement age would be 70 today if we had kept up with the same ratio of retirement that we had when we started the program. So I think that that is important as a fact.

Now, the disability thing is something that I am concerned about. We have in our legislation something we added to require them to look at disability benefits and how they are figured, and

I think it is obviously clear that people who are working tough physical jobs, it is more difficult for them to work longer. But that has been true in 1935 and 1940 as it is today. In fact, some could argue that the jobs today, with machines being what they are and technology, that there may be fewer hard, difficult, physical jobs than there were back in the 1930's and the 1940's. So I recognize concern with regard to the question of the disabled workers and trying to make them work longer.

Let me ask Mr. Smith, and I really want a dialog. I know people come from different perspectives, but unless we work together, it is not going to get done. The point I asked earlier about keeping the same ratio, what is your concern about that? Why, if that was a fair decision by FDR and Congress in 1935 to pay retirement for that percentage of retirement years, why is that same principle not fair today?

Mr. SMITH. Senator, while you were out, we talked a little bit about a related question. Let me—there is nothing magic about 22 percent. We are a vastly richer country than we were in 1935. We have an opportunity to make a different set of choices about labor and leisure and the amount of time we spend at work, whether or not it is a long work week or long work life. So I do not think we ought to—there is nothing sacred—there is something sacred about Social Security, but there is nothing sacred about the mathematical relationship that was established in 1935.

Gary said something interesting which I think bears on what you said. I do not remember whether you got back before he said it or not, but he said there is no compulsion in raising the retirement age, that if people want to retire earlier, they are free to do it.

If I could, I would like to just read a paragraph from a statement of a 64-year-old who has taken early retirement. She lives in Baltimore City, MD. She worked all of her life until 64. We talked to her yesterday and this is what she said. "I am a 64-year-old widow, having lost my husband to cancer in 1983. I am the proud mother of a 33-year-old son who I supported on my own after my husband died. I am a retired lifelong worker. I started my first my job when I was 15, spent the next 45 years working full time on manufacturing assembly lines, most recently in a sales position."

"Today, I am the sole caregiver for my 83-year-old mother, who is completely disabled as the result of a stroke and serious complications she suffered over the last 6 years. My mother's doctor said she would not be alive now today if it were not for me. She could not live at home if I were not able to care for her, and I could not have been home to care for her if I had been obliged to be in the workforce anymore."

This is Flora Bacquol. Her story, I think, is not atypical. A lot of things have changed since 1935. We have to accommodate those changes. We have to accommodate the changing ratio of workers to retirees. We also have to change our behavior with respect to what people describe as the sandwich generation, people like Ms. Bacquol who end up taking care of a disabled 83-year-old mother which she simply would not have been able to do, Senator, if her retirement had been delayed and she would not have been able to take early retirement if, as Dr. Burtless has suggested and you have suggested, we push that age upward.

So these are complicated questions, and I think harking back to a 1935 ratio and saying, why not maintain it, probably does not do full justice to all of the complexities.

Senator BREAUX. It was nothing sacred about the ratio, but at that time, we had approximately, what, 40 workers for every one retiree. Today, we are approaching two workers for every one retiree. That is an unsustainable fact of life.

Now, we talk about the inconveniences, and Dr. Burtless, I think you are absolutely correct. Increasing the payroll tax is going to cause some hardship for people. Increasing the age eligibility is going to cause some hardship for some people. But losing Social Security is going to cause problems for everybody, and the question is how we come together to fix this immense problem that is facing our society. I would suggest that we no longer can say no, no, no, no, no. We have to find some yeses out there or we are going to have a situation that is intolerable.

I think it is going to have to be a combination of all of these things. I think that the private investment account, carefully monitored by the government, giving people a stake in their retirement, is very important. They would have something they could inherit if that lady's husband died before he became eligible for Social Security, something that would be theirs.

Mr. SMITH. Senator, you mentioned that if someone died, there would be nothing left. Of course, a third of Social Security benefits today are paid to survivors and in disability payments, so there is something there. A very important part of this program is what goes to the widows and children of deceased workers. So you are right that there is no inheritable account, but there is an enormous amount of protection for the workers, whether they are 30 or 65, who pass on and leave dependents behind.

Senator BREAUX. If they leave their spouse. I do not think their children get it, though.

Mr. SMITH. Well, when they are young, yes, it is.

Senator BREAUX. But after they are adults, they would not inherit it.

This has been a good discussion. I mean, I think that, obviously, the days of easy decisions are gone. If I tell a 25-year-old truck driver in Louisiana who is making $25,000 a year that we are going to increase his taxes in order to pay for someone's Social Security retirement that may have millions in their savings account, he does not get really excited about that. I mean, 70 percent of American families pay more in payroll taxes than they pay in income tax, and that obviously causes a lot of hardship, as well, for the workers. Thank you all very much.

The CHAIRMAN. I call on Senator Santorum for both opening statement and questions.

STATEMENT OF SENATOR RICK SANTORUM

Senator SANTORUM. Thank you, Mr. Chairman. I have a unique perspective on the issue of raising the retirement age. During my campaign back in 1994, the last couple weeks of that campaign, that was the central issue because I had made statements that I would support raising the retirement age. We had a very lively debate, but somehow or another, I ended up succeeding anyway, which, I think, shows that as much as John just said, that people are saying, no, no, no, not do this, there is a substantial block of people out there in America who recognize that no, no, no can never get you to a yes, and that somehow or another, we have to say yes to something. I think everyone has accepted that.

If you look at the President's Advisory Council, they will argue as to how to do it, but having just met with the three people who authored the plans, they all agree that we need to do something and sooner rather than later. So the answer cannot consistently be no. It must be yes at some point—to something. I am not suggesting that this is necessarily it, but to something.

This particular issue of raising the retirement age, to me, has just an enormous number of facets to it. You get into some of the problems that you were just discussing, which is you are dealing with the sandwich generation, you are dealing with workers who perform manual labor and the hardship that raising the retirement age, particularly the early retirement age, would have on them. Obviously, we also have to consider how else are we going to fund this mechanism.

One of the interesting questions, the more and more I look at it, is that I would like some response, and I do not know whether this question has been asked, so if it has, I apologize, and that is, looking at these demographics, we always talk about the demographics. You know, there were 30 to 40 people working to every one person who was eligible for Social Security. Now it is 3.3-to-one and it is going to go down to about-two-to-one, some say less than two-to-one.

Part of the reason for that is, obviously, people are living longer, but the other part is the baby boom generation. I am thinking that you have this large block of people who are baby boomers, born from roughly 1946 to 1960. Those people are going to be leaving the workforce and not being replaced. The birth rates are not anywhere near that or anticipated to be near that. When the baby boomers start leaving, the people who are going to start replacing the workforce have already been born and the birthrates were relatively low during that time. So we are not going to be replacing these people.

What am I getting at? I have heard talk about labor shortages. One of the responses I hear is, well, you have people doing manual labor and they cannot continue to do it past age 60. What are they going to do? Well, I guess my response is, if, in fact, this is the case, that with all of these baby boomers moving into retirement, there will, in fact, be a real labor demand in this country. Can you respond to that, as to whether you foresee that demographically happening and what will the impact be on that worker that we are most concerned about?

Mr. BURTLESS. Well, my reading of the evidence is that if there is a desire on the part of older workers to remain in the labor force longer so that they can get a bigger pension out of Social Security or so that they do not need to accumulate such a big nest egg to finance their retirement, the jobs will come.

I know that that sounds very naive to many people, but the experience in the United States has been that when there is enormous increase in the size of particular categories of workers, as when the baby boom generation entered the workforce between 1964 and about 1985 or so, for the most part, employment for all of those additional workers was created by employers. When there was a huge increase in the proportion of mothers and women between the ages of 25 and 60 who wanted jobs, for the most part, our labor market was able to create employment for those people.

Certainly, the entry of the Baby Boom caused wages for young workers to fall initially. The increase in women's participation caused some women to have difficulty finding jobs. But in the long run, employers, given the flexibility of our labor market created work opportunities for 95 percent of the people joining the workforce. I think that the same would be true when the baby boom generation nears retirement, swelling the number of workers past the age of 55 or 60. Perhaps these workers will want to remain in the workforce longer than their fathers did. I think that the jobs will be created by employers, and that conclusion is based on what we have seen over the 20th century in the United States.

Senator SANTORUM. I guess maybe I am asking the question a little differently. It is not, will the jobs be created, but will there be enough people to do the jobs. That is really the issue. If we are losing, the numbers I have seen, the first year the baby boom generation retires, or turns 65, let us just use turns 65 as a retirement age, and I know most people do not wait until 65 to retire, but let us make that an assumption, we are going to lose 1.6 million people out of the workforce. This year, about 300,000 or so people are going to turn 65. Compare that to 1.6 million people, and that number is going to stay relatively constant for about 15 years.

My point is, if that massive number of people are leaving the workforce, let me just make it more stark. Can we afford to have them leave the workforce?

Mr. BURTLESS. Well, I would just point out that in Japan, the workforce, the population between the ages of 20 and 64 is already declining. Obviously, the Japanese cannot pin their hopes for a low unemployment rate on the fact that they actually have a decline in the number of people of working age and an increase in the proportion of the population past the age of 60 or 65. These trends are not lowering the unemployment rate in Japan.

I would emphasize, in the long run, if a very large share of Americans want to hold jobs, the best evidence is employers will create those jobs. I cannot promise you that employers are going to have such an intense demand for older workers that it is going to boost the wages of older workers. I do not know whether that is true, but I do think employers will create employment opportunities if a lot of older Americans wish to stay in the workforce.

Ms. BOVBJERG. Could I respond to that, as well, Senator?

The CHAIRMAN. Yes.

Ms. BOVBJERG. Social Security actuaries in their intermediate estimates believe that the labor force will continue to grow. It will not shrink in the future. It will just grow more slowly. Productivity will continue to rise, so we will still be able to fill many of the needs that are out there. But as Gary suggested, we think that wages will rise and that there would be more of an opportunity for older workers, more of an inducement for older workers to work, and certainly to the extent that they are not displacing younger workers, this would have a positive effect on the economy.

Mr. SMITH. Senator, let me just add to that. I think we have seen over the last 3 years an increase in labor force participation among citizens over 55. There are, obviously, as there always are in markets, a lot of complicated reasons for that, but at least one of the reasons in the case of this economy in recent years is demand has been there and employers have had to figure out through some combination of increasing flexibility, making the terms of employment more attractive, how to encourage older workers to come back in. They will continue to do that.

You and I probably do not agree on a great deal of this, but one thing we do agree about, I suspect, is that markets work, and the labor market, like other markets, will work. If employers need to find additional employees, and a source of that additional employment are older workers who will retire in the absence of an attractive opportunity, employers will figure out how to encourage those women and men to come back into the labor market.

That part of this problem, unlike some of the rest of it, I suspect, is not terribly complicated. We ought to let the labor market work in this case. We ought to make sure that the barriers that older Americans face are eliminated and then let the labor market work. As Gary said, we do not quite understand why it works the way it does, but it does. Whether it is the wisdom of some ancient French economist or simply a demand-side phenomena, I think we can count on jobs being there.

Senator SANTORUM. I guess——

The CHAIRMAN. Oh, I am sorry. Proceed.

Senator SANTORUM. Just a follow-up, and I know my time is up—

The CHAIRMAN. That is OK.

Senator SANTORUM. Given your response, then what is the concern with the manual work? That is the thing I keep hearing back. You have people with blue collar jobs who are doing manual labor. They cannot continue to work if we raise the retirement age. But the comment that all of you have made is, there will be jobs available, maybe not blue collar jobs, but there will be other jobs available to be able to continue that person's employment beyond the age of 60 or 55 or whatever other age that they would retire.

Mr. SMITH. Senator, the question is whether or not we ought to insist that all Americans, regardless of their physical circumstance and regardless of their health circumstance, must work beyond the age now of 62 when they are eligible for early benefits or 65 for full benefits. Large numbers of us—it is not a question of whether or not we were working in a physically demanding job and could move behind a counter. People are injured, people are disabled, people suffer from both chronic and occupationally related disease. Requiring them to work is a very different matter than trying to make sure that there are opportunities in the labor market for them if they choose to work.

Senator SANTORUM. If I can, nothing that I am looking at is contemplating changing the disability portion of Social Security, so, I mean, I am not too sure that is a real factor here.

Mr. SMITH. No, but it is not just disability, Senator. That woman I talked about in my testimony, Beth Hamilton from Cranston, RI, would not qualify for disability. She suffers from arthritis. She suffers from chronic back ailments due to her job, which involves moving patients around. She is a home care provider. But she is not eligible for disability. The thought, to Beth, as she described a couple of weeks ago when I had a chance to talk to her, of being required to work beyond 65—because she could not make it without Social Security. Gary said there is no compulsion. That is right. You could retire, presumably, except most of us cannot retire if we cannot collect Social Security benefits. For a lot of people, that would be an enormous hardship.

The CHAIRMAN. Senator Warner, for both opening comments and questions.

STATEMENT OF SENATOR JOHN WARNER

Senator WARNER. Thank you very much, Mr. Chairman. I will be brief. I thank you and the distinguished ranking member. This is an important hearing.

Mr. Smith, I have listened very carefully to the others. You have already answered the question that I had, how to remove the barriers to enable older persons to work to the best of their capability given their health. We cannot force those who are less fortunate in terms of their health to work. But, I think it is important that we try and remove these barriers. That is the baseline.

I would like to see the laws of the United States as it relates to many areas regarding aging take into consideration the facts of health. Fortunately, the medical profession and those associated in the infrastructure of R&D are enabling people to live much longer and to be productive in those advanced years. At the same time, we have got to make sure that the laws of the country give them the opportunity to reap the fruits that the medical profession and others have provided.

[The prepared statement of Senator Warner follows along with prepared statement of Senator Craig:]

PREPARED STATEMENT OF SENATOR JOHN WARNER

Mr. Chairman, thank you for holding this hearing regarding the continued solvency of our nation's Social Security system, and the reform proposal of raising the Social Security retirement age.

As we all know, Social Security is the largest Federal program, and accounts for more over 22 percent of all Federal expenditures. The nation's Social Security system is currently in excellent fiscal condition, taking in more revenue from payroll taxes than it pays out in benefits. However, payments are predicted to exceed revenues beginning sometime around 2014, with funds projected to be in serious jeopardy by 2030 as there are fewer workers to support increasing numbers of aging baby boomers.

Fifty years ago, over 40 workers paid in to Social Security for every beneficiary. In 24 years, when baby boomers retire, there will be fewer than three workers per beneficiary. The original intention of the Social Security program was only to supplement savings and pensions, but more recipients are looking to Social Security benefits as the sole source of retirement income.

I laud the work and efforts put forth by the National Commission on retirement Policy to develop a viable solution to ensure the solvency of the Social Security program. The Commission proposal includes a provision to gradually increase the retirement age for full benefits to 70 for workers born after 1969.

The task of reforming Social Security and ensuring its continued solvency will remain a priority for Congress. Numerous Social Security reform proposals have been introduced in the House and Senate including adjustments in benefits, alternative investment of current surplus funds, and establishing a privatized pension system.

I look forward to hearing from our witnesses on the viability of raising the Social Security retirement age.

PREPARED STATEMENT OF SENATOR LARRY CRAIG

Mr. Chairman, thank you for holding this hearing on increasing the eligibility age for Social Security benefits. I commend the Chairman and the Ranking Member for gathering such an experienced panel of witnesses. As the Social Security reform debate intensifies, it is critical that we thoroughly discuss effective options for strengthening the system. I look forward to listening to the panel of witnesses here today.

There is a rising level of concern among Americans that the Social Security program will not be able to provide them with promised benefits when they retire. This public concern is well-grounded. Studies and official reports confirm that our Social Security system cannot be sustained in its current form. Additionally, even if revenue and expenditures were in long-term balance, Social Security is providing poorer and poorer retirement income security for the money Americans contribute.

Social Security worked just fine for many years, given the demographics and the demographic projections of the 1940's and 1950's, but the world has changed since then. People are living longer, and the numbers of workers relative to the number of retirees is steadily declining. Changes in society and demographics have added an additional burden on our Social Security system.

These changes in our society will be a harsh reality soon. In less than two decades, the first wave of "baby boomers" will retire. Many people are concerned that these baby boomers will not do well financially in retirement. We need to take appropriate measures now to see that this does not happen.

Many different options have been discussed on how we can strengthen our Social Security system. Today, we are discussing the possibility of raising the Social Security eligibility age—long suggested as a solution for the long-range deficits in the program. In this debate, we must weigh out all the possibilities and carefully examine the consequences as we continue to discuss this issue. The hearing here today will be beneficial for further exploration of the issue of raising the eligibility age.

Studies have shown that the decision on when to retire is based more on financial considerations than health considerations. As the life expectancy increases, it is logical that the age of retirement should also increase. The majority of older workers are relatively free from health considerations that would deter them from working longer.

In order to maintain solvency of the Social Security Trust fund, it is essential that we find solutions to narrow the payroll gap that currently exists. No one wants to cut benefits. In fact, we are looking for ways to provide financial security through a more efficient system so that all Americans can rest assured that the Social Security system will be able to sustain their needs as they look towards retirement.

I look forward to the discussions here today and hope we can address some of the concerns about raising the Social Security eligibility age. It is very important that we find solutions to the problems plaguing the Social Security program.

Mr. SMITH. Senator, I could not agree more.

Senator WARNER. Thank you. I will conclude, then.

Senator BREAUX. Mr. Chairman.

The CHAIRMAN. Senator Breaux.

Senator BREAUX. Let me just make a quick point to try and put into perspective the increase in the retirement age and what it means in real terms. I think a lot of people are confused when you talk about increasing it to 70, for instance, that it is going to happen tomorrow. The legislation that we introduce today, it happens in the year 2030. It is phased in over the next 30 years at an average of 2 months per year.

Now, what does that mean? Take my own personal situation. I am 54 years old. I was born in 1944. Under the current law, the law that is in place today, I will be able to retire at the age of 66 years of age in the year 2010. If our bill became law that we introduced today, I would still be able to retire in the year 2010 and I would have to be 66 years old and 6 months.

Now, is 6 months later a real hardship for me? Is it inconvenient for me or someone similarly situated, working every day in a different type of job? Yes, it may be. But is it worth that effort in order to save the system? If it is not, what else is the answer, or is it a combination of all these things? I think those are some of the things that we have to weigh and balance in order to come up with something to save this very important system.

The CHAIRMAN. Mr. Smith, do you want to speak?

Mr. SMITH. Senator, it is also true that for somebody 39 years old today, under the terms of the legislation that you introduced, it would not be 6 months but 60 months, five full years that——

Senator BREAUX. Yes, but he has 30 years to plan for it.

Senator SANTORUM. That would be me. [Laughter.]

Mr. SMITH. Yes, he does have 30 years to plan for it, or she does, Senator, but we all do not choose our fate. Forty percent of us at some point in our working lives will be disabled.

Senator BREAUX. We do not change that.

Mr. SMITH. No, I understand, but just to point out that in 30 years, a number of things happen, including, perhaps, the building of a secure private account, but perhaps not, perhaps working at a low-paying job for all of those 30 years and not being able to accumulate resources in a private account, ending up at 66 with a bad back and tired and perhaps an aging mother, as the other person I described, and unable to retire. We do not know very much about what happens to any of us over that 30-year period of time.

The CHAIRMAN. Senator Santorum, and then we will call the second panel.

Senator SANTORUM. It is my understanding that most of the plans that I have seen being put forward eliminate the, what is it, 12 or 14-year hiatus between the retirement age going to 66 and then going up to 67. Do you folks, Mr. Smith in particular, do you have any comments about whether that is something as sort of a minimalist approach with respect to age? I mean, it is going up to 67 anyway. This moves it up at a little bit faster rate. John would retire at 66 and 6 months, but it would still just stop at 67, but just reach that age earlier.

Mr. SMITH. Senator, I think, as all of your colleagues have said and as you noted, all of the options in front of us are difficult. They need to be weighed carefully and in combination with each other. Raising the retirement age is a very difficult position. I think as we talk to our members, most of them are surprised to find out that it is going to 67 already and not very happy about it when they find that out. It is a complex part of what has to be a very complex answer and I do not think we ought to rush to judgment.

Senator SANTORUM. I am not asking you to rush to judgment. I asked you to give me your opinion, and that is, your members know it is going to 67, but my guess is they have no idea when 67 hits or when 66 hits.

Mr. SMITH. No, and actually, they do not know it is going to 67. They are surprised to learn that.

Senator SANTORUM. I am not surprised to hear that, but the point is, that has been done. We are going to 67. The question is, does it make any sense to have the hiatus where we go to 66, then we wait 11 or 12 years and then we go up to 67. The question is, would you oppose eliminating that hiatus in the phase-in?

Mr. SMITH. Senator, I think on the menu of difficult choices that you have, raising the retirement age ought to be at the bottom of the list.

Senator SANTORUM. Yes, but I am not talking about raising the retirement age. I am talking about—

Mr. SMITH. I am sorry. I did not mean to be obscure. No.

Senator BREAUX. Where would you put the increase in the payroll tax?

Senator SANTORUM. Above that?

Mr. SMITH. Senator, I do not think we have a need to increase the payroll tax, but I do think we ought to seriously consider raising the portion of wage income which is subject to the payroll tax, so——

Senator BREAUX. That is a payroll tax increase.

Mr. SMITH [continuing]. which would be a payroll tax increase—

Senator SANTORUM. On higher-income people.

Mr. SMITH [continuing]. and I do not mean to be obscure about that, either.

Senator SANTORUM. So I assume what you are proposing is extending the base on which Social Security is taxed from the $68,400 right now. Would you take the cap off completely? I mean, what are you suggesting?

Mr. SMITH. I think we certainly ought to go back to the historic levels of closer to 90 percent and we ought to think about taking it off. I would a lot rather raise your taxes and my taxes than raise Beth Hamilton's retirement age.

The CHAIRMAN. We got our money's worth out of you—[Laughter.]

Out of the panel, I should say, because I did not think this discussion would go on this long, and so all I can do is thank you for your participation. I guess that was a denigrating statement because we did not pay you to be here, so I did not mean it that way. I just meant that this panel was going on a lot longer than I anticipated, so I apologize. Let me thank you for coming and I will call the second panel now.

Ms. BOVBJERG. Thank you.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. BURTLESS. Thank you very much.

The CHAIRMAN. If I could introduce our second panel, our first witness is Dr. Donna Wagner from Towson University. Dr. Wagner is currently the director at the Center for Productive Aging at that University.

Then we are going to hear from Paul Huard, vice president of Policy and Communications at the NAM. He oversees NAM's legislative and communications activities across the entire spectrum of policy issues that concern the Association.

Finally, we are going to hear from Carolyn Lukensmeyer, who is originally from Iowa and still has relatives close to where I live in Iowa. She is executive director of the Americans Discuss Social Security Project. She also served as Deputy Project Director of Vice President Gore's National Performance Review and as Chief of Staff to Governor Celeste of Ohio.

I thank you all for being here and I thank, once again, Ms. Lukensmeyer, because she headed or emceed a meeting of ADSS in Des Moines, IA, on May 9 and we had a good turnout and had discussion similar to this at that.

Shall we proceed with Dr. Wagner?

STATEMENT OF DONNA L. WAGNER, PH.D., DIRECTOR, THE CENTER FOR PRODUCTIVE AGING, TOWSON UNIVERSITY, TOWSON, MD

Ms. WAGNER. Mr. Chairman and members of the committee, thank you very much for allowing me to speak with you today. I am going to be talking primarily about employers and the extent to which employers may or may not be interested in older workers. I think we have had a nice segue to this topic from the previous panel.

Particularly, I am going to be focusing on a study that we recently conducted of employers in the United States at Towson University. This study was commissioned by The National Council on the Aging and McDonald's Corporation in order to educate them and inform them when they designed their 100,000 jobs campaign for older workers, which was launched in April 1998.

In our study, we talked to 240 employers from around the country by telephone. They represented all sectors of—

Senator BREAUX. How big was the sample? I am sorry.

Ms. WAGNER. Two-hundred-and-forty employers, and the size of the company ranged from ten employees to over 90,000 employees, so we had a nice range of companies, by size too. About three out of four companies that we spoke to reported that they currently had employees in their workforce that were over the age of 65, and I am just going to highlight a few of the important findings for you today.

No. 1, we found that—did you have a question?

Senator BREAUX. You said three out of four reported workers over 65?

Ms. WAGNER. Over 65 in their workforce, right, 75 percent. It was not a high percentage, though, in each workforce, but they all had some—most of them had some.

Some of the key findings include that, first, employers today have a relatively positive attitude toward older workers and maintain few of the stereotypes about older workers that we saw in the past. For example, most employers reported that they did not believe older workers were likely to miss work because of illness and that most older workers were interested in learning new tasks and skills, and at least from what they told us, and, of course, we always have the problem with response bias when you ask questions like this of people, they reported that age in their company was not seen as a factor in retaining workers. In fact, some of the respondents actually pointed to the fact that their CEO could be categorized as an older worker his or herself.

The second key finding relates to our questions about what these employers thought about barriers to using older workers, either retaining them or using them in the future, hiring them in the future, and we also saw that there were some changes in the way employers were viewing these barriers. In the past, employers have expressed concern about high health care benefit costs for older workers, and this was, for the majority of our respondents, not seen as a barrier to the use of older workers. Nor was company image a barrier. Ninety-one percent of the employers said that company image was not a factor when looking at whether or not they would use older workers.

The two barriers that were the key important barriers to employers were finding the older workers to hire, and the second was whether or not the skill levels of older workers might be out of date.

The third key finding was that although one-half of the employers interviewed reported that they anticipated an increase in the number of older workers in their workforce in the future, very few had taken concrete steps to accommodate these older workers. Only one in five had a program that was specifically designed to recruit and/or train older workers, and one in ten had actually developed strategic plans for increasing numbers of older workers in the future.

Key findings of our study provide us with some good news and bad news. The good news—which seems to be the theme of this hearing today, good news and bad news—the good news is that fewer employers view age as a benchmark for employability than ever before. The bad news is that many employers do not realize the importance of older workers to their own continued economic viability in the future or the continued growth of the national economy.

Now, I know there has been a discussion previous to this in this hearing about whether or not we had a scarcity of workers in the country, and I have kind of taken the position of some of the researchers who say, yes, we do, and actually, one of the limiting factors in the continued economic growth of our economy will be the scarcity of workers. I think we have seen this already in the service sector, which has been very aggressive in recruiting and using older workers in their workforce to make up for the fact that they cannot recruit younger workers.

So what we have is employers not planning or not understanding the demographic shifts and the possible implications on their own operations. Despite the fact that America is aging and we have a record low unemployment rate, too many employers still view older workers as marginal or, worse, not relevant to their companies' continued success.

To date, the government has played a key role in changing employer attitudes and behaviors toward older workers by enacting age discrimination laws and ADA and policies affecting pensions. In our study, we found that the government continues to play a key role because one of the things that we looked at was the employers who participated in the Title V program, which is funded through the Older Americans Act and administered through the Department of Labor. We found that employers who had participated in this program were more likely than those who did not to report positive experiences with older workers and to have a strategic plan in place to accommodate these workers.

These employers may initially have become involved in the Title V program because of the availability of workers through the program as a short-term solution to a manpower problem. What has emerged from the experience, however, is a long-term change in their outlook about older workers and how their own workforce can benefit from the involvement of these workers.

In order to ensure that employers as well as older workers' concerns are addressed, we need to develop age-neutral policies. Regardless of what we raise the retirement age to, we still have many policies that provide disincentives to both employers and employees for older workers, and I have three recommendations I would just like to finish up with here.

The first is we need to help employers understand more what the demographic implications are for the country, and I think that particularly the Department of Labor and the Administration on Aging can play a leadership role in this effort to increase awareness.

The second, we also need to address specifically the concerns of employers about their ability to locate older workers. We need a wider net of employment programs not only for low-income but also for those who have been displaced from a job or out of work for many years and wanting to return to the labor force.

Finally, we need a new system of training for workers. The idea that older workers may not have up-to-date skills is more than a theoretical barrier to their employability. For many, it is a reality, based upon the fact that they have not benefited from in-house training on the job, have been out of the labor market for some time, or, as is the case in many high-tech positions, been passed by by technological change. We need incentives for both employers and older workers to address the training needs in our rapidly changing workforce.

Employers can and will make the necessary accommodations for an increase in older workers. The issue before us today is how quickly they can do it and what kinds of help they will need to incorporate more older workers into the American workforce. Older people are interested in working and they are interested in learning new technologies. They also bring to the workforce years of experience in working with others and getting tasks done.

As one respondent, a health care employer on the West Coast, said to me, "Older workers do not bring the baggage to the workplace that many younger workers do. They are on task and they arrive ready to work. Training these workers is a small price to pay for their attention to the task at hand."

It is now up to business and government to make sure that disincentives to the employment of older workers are eliminated and that we as a society can fully benefit from these vast elder resources. Thank you very much.

The CHAIRMAN. Thank you, Dr. Wagner.

[The prepared statement of Ms. Wagner follows:]

STATEMENT OF

DONNA L. WAGNER, PH.D.

DIRECTOR
THE CENTER FOR PRODUCTIVE AGING AT TOWSON UNIVERSITY
TOWSON, MARYLAND

Mr. Chairman and Members of the Senate Special Committee on Aging, thank you for providing me with the opportunity to testify before you today at this hearing on the implications of increasing the retirement age for Social Security benefits. I will be limiting my comments to the implications related to increasing numbers of older workers on the nation's employers.

My remarks today will include some key findings of a survey of employers recently conducted to explore their experience with and attitudes towards older workers, a discussion of the context of these findings and some recommendations related to the findings.

In the Fall, The Center for Productive Aging at Towson University in Towson, Maryland, conducted a survey of US employers to explore their experience with older workers and some of the factors influencing the use of older workers. The study was commissioned by The National Council on the Aging here in Washington, DC and partially funded by the McDonald's Corporation. NCOA, a national sponsor of the SCSEP Program which is funded by the Older Americans Act and administered by the Department of Labor, and McDonalds wanted to better understand how employers today viewed older workers in order to design their "100,000 Jobs Program" launched in April, 1998.

Two hundred and forty employers nationwide representing all sectors of the labor market were interviewed by phone. These employers ranged in size from companies with fewer than ten employees to more than 90,000 employees. The average age of the workforce of companies within the sample was estimated at 39 years. About 3/4 of those interviewed indicated that they had workers actively involved in their companies who were older than 65 years of age.

In order to explore the attitudes about older workers of the sample, we asked them questions about stereotypes of older workers that have been identified in previous research. These stereotypes included beliefs that older workers have more illness than younger workers, are more likely to have transportation problems, miss more work, are not interested in learning new tasks, harder to train and are rigid and inflexible. In our study, however, we found that the employers interviewed generally held positive attitudes about older workers and few stereotypes about their performance on the job were reported by respondents. More than 80% reported that older workers were reliable, did not miss time due to illness, had low turnover rates and were interested in learning new tasks, were not demanding and were not rigid and unwilling to change. In fact, the majority of respondents reported that, in their company, age was no longer seen as a factor in job retention or promotions. Pointing to the fact that many of the CEO's could be, in fact, categorized as "older workers" themselves, respondents suggested that ability to perform in the workplace was the only factor used in retention and promotion decisions.

Respondents were also asked to identify potential barrier to the increased use of older workers in the future and reported that some of the barriers identified in previous research were not relevant to this sample. For example, in the past, health care costs have been identified as a potential barrier to the use of older workers. In this study, 70% of the respondents did not view health care benefit costs as a barrier. Least likely to be seen as a barrier to employment of older workers was "company image" with 91% reporting that this was not a barrier. Interestingly, the most commonly reported barrier was the ability to locate the older workers with more than 60% of the respondent indicating this as a problem. About one-half of the employers also expressed concern about the skill levels of older workers.

The picture we get from these statistics is the following: Employers are more flexible when it comes to retaining older workers in the workforce and no longer adherents of the idea that job performance and age are related to one another. Employers are less concerned about the image issues or health care benefit costs than they were in the past. But they are concerned about, and view as a barrier to hiring more older workers, their ability to find the older workers to hire and the skill levels of older workers available in the employment marketplace today.

The business sector was the one sector of employers most likely to report that finding the older workers and the skill levels of available older workers were significant barriers to the use of older workers in their workforce. And, companies located in the South were more likely than those in other parts of the country to report that locating the older workers was a barrier to their use.

Although half of the companies in the study reported that they expected an increase in the number of older workers -- over the age of 65 -- in their own workforce in the next five years, very few of them had taken steps to plan for this increase. About one out of five of the employers had some program in place which recruited older workers for available jobs and only one out of ten employers had developed strategic plans for incorporating more older workers in the future into their workforce.

Those employers in our study who had participated in the SCSEP (Title V of the Older Americans Act) Program were more likely to believe that their company would experience an increase in the number of workers over the age of 65 in the next five years, more likely to have a strategic plan in place to integrate older workers into their workforce and were more likely to report a positive overall experience with older workers than those companies with no SCSEP experience. This finding is significant in that it provides us with some support for the idea that government programs can and do make a difference in the attitudes and behavior of businesses. The companies with SCSEP workers may have initially become involved in the program because they saw the availability of workers through the program as a short-term solution to a manpower problem. What emerged from their experience, however, was a long-term change in their outlook about older workers and how their workforce can benefit from the involvement of these workers over time.

The key findings of our employer study provide us with good news and bad news. The good news is that fewer employers view age as a benchmark for employability than ever before and, although there is always some acceptability of response bias that occurs in any survey, are reporting a breakdown in persistent stereotypes long held by employers about older workers. The bad news is that many employers do not realize that importance of older workers to their own continued economic viability in the future or to the continued growth of the national economy over the coming decades. Despite the fact that America is aging and that we have a record low unemployment rate coupled with a strong economy today, too many employers still view older workers as marginal or worse, not relevant to, their companies continued economic success.

The government has played a key role in changing employer attitudes and behavior towards older workers through laws prohibiting age discrimination in the workplace, the Americans with Disability Act, changes in pension funding and protection and retirement policies. But there is much more to do in order to assure that we continue on the road of economic progress. Many of the disincentives to employment of older persons enacted earlier in the century need to be revamped to reflect the realities of 1998 and the future. This Committee has heard testimony and held Forums on the aging of the Baby Boom Generation at which other speakers have outlined several age-neutral policy reforms that are needed. These reforms would send an important message to employers as well as older workers and included:

*Increasing the eligibility age for early retirement under Social Security to 65,

* Permitting workers over 65 years of age to opt out of additional Social Security contributions,

* Amending ERISA to allow pro-rated fringe benefits for part-time employees,

* Making Medicare rather than employment-based health insurance the primary source of health coverage for older workers,

* Tax credits to encourage employers to hire and train older workers and for older workers who purchase training and education to up-grade their skill levels,

* And, instituting a federal mandate that employer pensions be age neutral with no penalties in place for those retiring *after* a certain age.[1]

From the perspective of the employer study described in this testimony, there are other policy changes and actions which are needed on the national level to encourage more employers to incorporate older workers into their workforce. The first is a need for a strategy to increase the

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[1]Burkhauser, R.V. & Quinn, J.F. (1997) "Implementing Pro-Work Policies for Older Americans in the 21st Century"; and, Bass, S. (1997) "Creating Pro-Work Policies and Programs for a Graying America", Papers prepared for the US Senate Special Committee on Aging Forum on Preparing for the Baby Boomers Retirement: The Role of Employment, July 25, 1997.

awareness of employers about the demographic changes taking place that will likely influence their need for older workers in the future. Our findings suggest that many employers are not aware that these changes are occurring or that they are going to have any affect on their ways of doing business. We need leadership from the Department of Labor and the Administration on Aging to make this happen. SCSEP programs around the country and other older worker advocacy groups as well as the Business Councils and Chambers of Commerce can be recruited as ambassadors of change to bring this message to their partners and colleagues.

We also need, based upon the findings of the study, a wider net of employment programs for older workers -- for not only those who are low income, but also those who have been displaced from positions, out of work for many years, or retired and wanting to return to a meaningful part-time employment situation. This net would meet the need of employers who report that finding older workers is a significant barrier to their use in the workplace.

And, finally, and perhaps most importantly, we need a new system of training for workers of all ages. The idea that older workers may not have up-to-date skills is more than a theoretical barrier to their employability. For many, it is a reality based upon the fact that they have not benefited from in-house training on the job, been out of the labor market for some time or, as is the case in many high-tech positions, been passed by technological change. For older workers, displaced workers, and contingency workers, we need an incentive system through tax credits or subsidized programs that provide up-graded training and educational opportunities. And, we need to make sure that training and education supported by public dollars, be it employer incentives or other financing mechanisms, is based upon standards of adult education and is appropriate for older learners.

Employers can and will make the necessary accommodations for an increase in older workers. The issue before us today however is how quickly can they do it and what kinds of help will they need to incorporate more older workers into the American workforce. Studies have shown that older adults are interested in working, most of them report an interest in part-time employment. Older people are also interested in learning new technology as evidenced by the experience of Senior Net and other computer access organizations designed for older adults. It is now up to businesses and government to make sure that the disincentives to their employment are eliminated and to educators to ensure that they have the skills required to continue as vital partners in employment or meaningful volunteer work in order that we as a society fully benefit from the vast elder resources available to us.

The CHAIRMAN. Mr. Huard.

STATEMENT OF PAUL R. HUARD, VICE PRESIDENT OF POLICY AND COMMUNICATION, NATIONAL ASSOCIATION OF MANUFACTURERS, WASHINGTON, DC

Mr. HUARD. Thank you, Mr. Chairman. I want to express the appreciation of our 14,000 members and the 18 million people employed in manufacturing for your holding these hearings and thank you for the opportunity to present our views.

It is obvious that the nominal subject matter of this hearing, raising retirement ages, would, in fact, improve solvency. Clearly, if you went back to the situation that pertained at the outset and set the normal retirement age 5 or 6 years higher than average life expectancy, you would have a pretty spectacular improvement in solvency. The question is, to what extent is raising the retirement age a good idea, and perhaps just as importantly, is there a better idea?

We think that there are substantial indications that raising the retirement age is not a good idea, both from the employer's standpoint and the employee's standpoint. As the previous panel explored at length, from the employee's standpoint, particularly for people employed in physically arduous jobs, it may not be very feasible. Certainly, given the longstanding trend toward early retirement, it may not be desirable for a lot of people to have to work longer.

As was also explored in the cases, for many groups, particularly minorities, it may well be unfair. A lot of people pay a lot of taxes into the Social Security system and never get it back. There is, indeed, a system of survivor benefits, but if you happen to die shortly before beginning receipt or shortly after, and you do not have minor children or you do not have a surviving spouse, or you have a surviving spouse that is entitled to a higher benefit because he or she worked for their lifetime, too, basically, almost every dime you paid into the system is forfeited, and this happens more often than most of us would care to admit and it particularly happens with minority groups. So I think that those are important considerations from the employee's standpoint.

From the employer's standpoint, we have a fairly widespread system in this country of employer-sponsored and employer-paid benefit plans, many of which would be adversely affected in terms of cost by an increase in the Social Security retirement age. A lot of pension plans are coordinated with Social Security. If a worker delayed drawing Social Security because he could not get a full benefit until 68 instead of 65, he might in many cases be eligible for an increased payment for those 2 or 3 years from the employer plan, which would significantly increase the cost of the employer plan.

Employers frequently pay for a significant portion of disability insurance. If you stayed on disability until 68 instead of staying on it until 65, which is the normal situation today, again, the employer cost, and, in some cases, if there is a copayment, the employee costs would go up.

Similarly, health care. While I realize we are talking about the retirement portion of Social Security here, there has also been a lot of talk about increasing the eligibility age for Medicare. A lot of employers who provide post-retirement coverage pay for health benefits until Medicare kicks in. Raising the retirement age would have a significant negative impact there.

So these are all things which are not insignificant in terms of the cost to employers of providing benefits that they now currently provide, which would be just arbitrarily increased if we increased the normal retirement age for Social Security.

In terms of whether or not there is a better idea, I think certainly moving to a system, as a number of distinguished members of the panel here are interested in, a system of personal retirement accounts could provide a much more flexible approach to solving the Social Security problem. It would, instead of the relatively inflexible approach of increasing the retirement age, still leave more flexibility for a worker to determine when he or she decides to retire.

The opportunity for growth, if the investment is in the personal retirement accounts are anything approaching historical averages, would be better than the opportunities under the fixed annuity system that we currently have for Social Security, and the fairness issue, I think, would be considerably approved. Because the worker would own the personal retirement account, it would be irrelevant whether or not they actually begin to draw benefits, because if they died prematurely or unexpectedly or accidentally, their heirs, surviving spouse, children, would be able to inherit the account.

So on all scores, I think that looking toward a partial transformation of the system to include a significant portion of the current FICA tax invested in personal retirement accounts presents a much better option.

Now, I understand there is the transition problem. When you divert a portion of current FICA taxes into personal retirement accounts, it is no longer available to pay benefits. That is what we call the transition problem.

It is not necessarily a slam dunk that you have to handle the transition problem by raising the retirement age or by raising payroll taxes. The government is currently enjoying very large surpluses, and I would suggest that rather than entertain various politically popular schemes to just refund these to the American workers in the form of income tax cuts, maybe we could use this pleasant but unexpected revenue stream to help finance the transition problem for transforming Social Security into a more balanced system which includes a significant portion devoted to personal retirement accounts.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Huard.

[The prepared statement of Mr. Huard follows:]

National Association of Manufacturers

Testimony

of Paul R. Huard
Senior Vice President, Policy and Communications
National Association of Manufacturers

before the **Special Committee on Aging**
of the **United States Senate**

on **"The Impact of a Higher Retirement Age"**

July 15, 1998

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TESTIMONY OF PAUL R. HUARD

SENIOR VICE PRESIDENT
POLICY AND COMMUNICATIONS

of

THE NATIONAL ASSOCIATION OF MANUFACTURERS

regarding

"THE IMPACT OF A HIGHER RETIREMENT AGE"

before the

SPECIAL COMMITTEE ON AGING

of the

UNITED STATES SENATE

July 15, 1998

Summary

Although solvency of the Social Security retirement system might be achieved through increased retirement age, any such change would create substantial problems for employee benefit plans, to the detriment of a great number of individuals in the workforce. Moreover, the simplistic question of a uniform age for retirement rapidly becomes an obsolete consideration. An increasingly diverse workforce requires not uniformity, but flexibility. The only apparent means of providing individuals in the workforce with the flexibility necessary to retirement security is through personal accounts under a fundamentally reformed Social Security system. Although the NAM has not taken a position on the question of an increased Social Security retirement age,

we address the questions asked by the Committee with reference to the experience of NAM members regarding employee benefit plans.

* * *

Thank you Chairman Grassley. I am Paul Huard, Senior Vice President for Policy and Communications of the National Association of Manufacturers. I am pleased to represent the NAM today in testifying before this committee concerning the impact of a higher retirement age on solvency of the Social Security retirement system, and of the effects upon employees and employers.

This afternoon, I shall respectfully suggest that the committee direct its attention not to the question of a uniform retirement age, but rather, to policy that allows individuals increased flexibility as they plan for and approach their retirement.

The NAM

The National Association of Manufacturers is the oldest broad-based trade association in the nation. Founded over a hundred years ago, the NAM encompasses 14,000 member companies that account for 85-percent of goods manufactured in the United States. NAM members range in size from companies with fewer than 50 employees, to those with more than 100,000.

Because of the importance of the issue to member companies, the NAM became a leader among trade associations in addressing Social Security solvency and the need for reform of the current system. In 1995, the NAM formed a task force to examine the dimensions of the pending insolvency of Social Security, and to consider potential remedies. Last year, the task force presented its recommendations to the NAM Board of Directors, which approved a "Statement of Principles for Social Security Reform." To the best of our knowledge, the NAM was the first employer group in the country to reach such a consensus on the fundamental aspects of reform.

Employee Benefit Plans Sponsored by NAM Member Companies

The great majority of NAM members sponsor benefit plans that provide employees with retirement benefits, health care coverage, or other benefits, such as life insurance and disability coverage. Benefit plans constitute a form of compensation to employees. As a consequence, each employer designs plans that best accommodate the needs of a particular group of employees. Thus, plan design and the mix of benefits offered vary widely. Such variety makes generalizations difficult. Regardless, the design consideration most nearly universal to all employee benefit plans is the overriding significance of normal retirement age ("NRA") under the Social Security system.

The NAM has not taken a position on the issue of an increased retirement age under Social Security. Moreover, the question raised by this Committee is not whether the NRA should be increased, but the effects of doing so. In this regard, we are pleased to make the following observations concerning the NRA, employer-sponsored benefit plans, and changes to the structure of Social Security.

The Social Security Retirement Age and Employee Benefit Plans

With respect to an archetypical defined benefit pension plan, the NRA marks the time at which an individual may retire with a "fully-accrued" benefit. Such a benefit is likely based on a combination of final average compensation and years of service with the employer. The normal form of benefit is a joint and survivor annuity for the retiring employee and his or her spouse.

In addition, the NRA serves as a factor in formulas that determine the level of benefits payable at an early retirement age ("ERA"). In this regard, most defined benefit plans provide for an actuarially reduced benefit, as a direct comparison to the benefit based on NRA.

(Defined benefit plans, in which a formula determines retirement payments, are the obverse of defined contribution plans. With the latter, annual employer contributions to an individual's account, plus accrued earnings, may be distributed at the time the individual reaches an age specified in the plan, frequently an age less than NRA or ERA.)

Separately and significantly, the NRA affects employers' cost of health care coverage for employees, and determines the design of post-retirement health care plans.

The Normal Retirement Age and Solvency of the Social Security System

The National Commission on Retirement Policy ("NCRP"), convened by the Center for Strategic and International Studies, after a year of intensive work, recommended an increase in the NRA and ERA. Warren Batts, former Chairman of the NAM, was pleased to serve on this bipartisan commission, chaired by House and Senate Republicans and Democrats, one of whom was Sen. Breaux, the ranking minority member of this Committee.

The NCRP released its conclusions in May. Under the NCRP proposal, such increases in NRA and ERA would prove largely responsible for restoration of long-term solvency to the Social Security retirement system, without the necessity of tax increases. The Commission determined, quite simply, that an increase in the NRA provides the single most effective means of reducing liabilities under Social Security, and thus proves most effective in restoring solvency to the system.

Although members showed concern for the issue during deliberations of the Commission, the NCRP did not specifically address the potential effects of increased NRA and ERA upon individuals. It seems appropriate that this Committee examine the issue carefully.

The Normal Retirement Age and Individuals in the Workforce

As others presenting testimony to this Committee are likely to note, the Social Security NRA remains, as always, arbitrary with respect to individuals. Age 65, or 67, or 70 may mean little or nothing with respect to whether a person is physically and mentally capable of continuing as a wage earner. The theory of "human depreciation" espoused more than half a century ago, assumed age 65 as the point of physical exhaustion. The theory may have had at least some value at that time, when labor usually meant strenuous physical activity. But work and the workforce have changed dramatically.

Some vocations remain toilsome, and physical strength, stamina and agility constitute prerequisites. Construction workers, firefighters, and oil well "roughnecks" come to mind. However, machine technology and electronics have altered the nature of work fundamentally. Physical capacity becomes far less significant than mental attributes. The technology-intensive workplace depends more upon problem solving, flexibility and imagination displayed by individuals.

The premium of the intellectual over the physical becomes obvious in modern manufacturing. Although physical stamina and agility continue important in certain trades on the shop floor, *mental* agility is of primary importance throughout the entire organization. The continuing value of individual workers is determined less by physical factors than by predisposition to remain actively engaged in performance of the daily effort.

As a consequence, employers find that employees increasingly treat retirement as a matter of individual choice. The physical is less a determinate than the mental. Individuals retire less because they *have* to, than because they *want* to. And increasingly, individuals want to retire earlier, not later.

Changing Assumptions about "Retirement"

At the time Social Security was enacted, and a decade later, as defined benefit plans became ubiquitous, two assumptions were in order.

First, an individual worked for a single employer for an extended number of years – likely as not, 30. Secondly, at age 65, the worker was physically limited, so that "retirement" constituted a period of reduced activity. Social Security existed so as to supplement life savings and insure against poverty after the individual was unable to affect his economic situation. For the individual who had accrued the benefit during his extended working years with one employer, a pension provided deferred compensation in the form of a life annuity. Such a paradigm still exists, but has become remarkable for its novelty.

Although some persons in the workforce may actually become exhausted by age 65 (or 67 or 70), most are not. And if some choose traditional inactivity, most do not. In this regard, "retirement" increasingly becomes a means by which individuals pursue part-time or non-traditional vocations, outside the traditional norm.

Moreover, fewer individuals spend an extended portion of their working lives with a single employer. Thus, fewer enjoy a pension benefit sufficient in itself to subsidize an inactive retirement. The emerging pattern is cash-out of any accrued pension benefits in a lump sum. Such an amount, plus retirement savings through defined contribution plans or Individual Retirement Accounts, provide the means by which individuals pursue a new vocation or non-traditional activities in advance of the "normal" retirement age as defined by Social Security.

Thus, in the new paradigm, "retirement" means voluntary termination of employment, perhaps a decade or more before NRA, and the individual's continued participation elsewhere in the workforce for an indefinite period. Anecdotal evidence suggests that the experience of manufacturers is little different than for employers in other sectors of the economy. It clearly appears that if individuals have accumulated substantial retirement savings, through a traditional pension plan or otherwise, they are likely to elect early "retirement."

The new paradigm is encouraged by another great change in the workforce: Two-earner families. Both such spouses may have accumulated deferred compensation though pension plans or retirement savings vehicles. One spouse may remain actively engaged in the tenured vocation while the other "retires" to a new occupation or non-traditional activities. For such persons, like others noted above, the Social Security normal retirement age represents little more than an accounting function. A uniform retirement age becomes increasingly irrelevant in a non-uniform workplace and a non-traditional economy. Individuals need *flexibility,* not uniformity.

Potential Effects of Increased Retirement Age on Benefit Plans and Individuals

As noted above, employee benefit plans are unique to employers and to groups of employees. Thus, such plans can provide necessary flexibility to accommodate changes in the workforce and the economy.

The availability of early retirement provisions under defined benefit plans (sometimes combined with bonus retirement points) has encouraged individuals to retire as a matter of choice rather than necessity. To a similar effect, 401(k) plans and other defined contribution vehicles have provided both the funds and flexibility to allow early exit from an organization, for reasons unique to each employee so choosing. An increased NRA would limit such flexibility.

(Although the ERA might remain age 62 with any increase in the NRA, the following discussion assumes that NRA and ERA would increase in tandem.)

The "normal" retirement age under Social Security, whatever the number of years, will continue to have an immediate effect upon the design of employer-sponsored retirement plans. This is a consequence of the widespread practice of "integrating" retirement benefits under qualified plans with benefits under Social Security. (The term that describes integration according to technical tax rules is "permitted disparity." The following discussion refers to integration in a generic sense.)

Under integration, the pension benefit accrued, and the contributions to certain defined contribution plans, are offset by the retirement benefit an individual receives from Social Security. Thus, the benefit under the pension plan, beginning at NRA, is reduced by the Social Security benefit. Such a reduction reflects the fact that employers have paid payroll taxes through which a nominal half the Social Security benefit is funded.

However, if an employer offers an early retirement benefit (beginning before eligibility for Social Security) the plan may pay the equivalent of the Social Security benefit as a subsidy until the former employee attains NRA. An employer may find it economically feasible to provide such a deemed Social Security benefit for a five-year period (between age 60 and 65). However, an increase in the NRA to age 70 would double the cost of the subsidy. Thus, employers would be less likely to adopt such a provision, to the detriment of employees. Much of the flexibility gained through early retirement provisions would be lost as a consequence.

Separately, an increased NRA would cause a correspondingly greater actuarial reduction of pension benefits, dramatic in the case of *earlier* early retirees. In order to continue benefit integration, employers would raise "normal" retirement age under pension plans to correspond to an increased Social Security NRA. For individuals in early or mid 50's, the greater actuarial discount from the new normal age under the plan would reduce the pension benefit more steeply, regardless of whether an employer provided a deemed Social Security benefit as a subsidy. An increase in the Social Security NRA would affect other benefit plans as well.

The cost of long-term disability plans would increase, because such plans typically provide benefits until a disabled individual reaches ERA. As noted, we assume that an increase in ERA would follow in tandem with an increased NRA. Thus, the plan sponsor would be liable for disability benefits over a greater number of years, with an increase in plan costs as a consequence. The costs would appear as increased premiums by employers (and employees as well, in typical plans) for disability coverage.

Finally, an increase in the NRA would raise the cost of employer-provided health care substantially. To the extent that the higher NRA, though the effect on benefit plans and otherwise, encouraged delayed retirement, the costs of health care would increase to reflect a correspondingly older population of employees. And if an employer provided post-retirement medical coverage for early retirees, such costs would increase as well. Such plans typically provide benefits until early retirees become eligible for Medicare. The higher NRA, equivalent one supposes to an increased Medicare eligibility age, would mean a longer period of coverage and an older, correspondingly less healthy, retiree population.

Thus, an increased NRA would increase the costs of employee benefit plans substantially, discouraging employers from offering the range and value of benefits currently available. As a consequence, both employers and employees alike would lose much of the flexibility that make plans valuable under early retirement programs and otherwise.

Individual Retirement Accounts as a Means of Enhancing Flexibility for Individuals

Through the information set out above, we have responded to the questions specifically asked by the Committee – effects on Social Security solvency and upon individuals through an increased retirement age. For reasons noted, such an increase appears detrimental to the *flexibility* which most individuals seek in planning for and approaching retirement. In conclusion, we suggest that much of the lost flexibility could be regained though substantial reliance on a system of personal retirement accounts under a fundamentally reformed Social Security system.

Personal accounts, repositories of the retirement savings of a lifetime, would offer all individuals in the workforce a degree of flexibility similar to early retirement programs and the defined contribution plans discussed above. Such accounts would give all persons the opportunity to tailor "retirement" to personal preference and changing circumstance. In this regard, such accounts would prove increasingly appropriate to a more diverse workforce and complex national economy.

The twin assumptions of long tenure with a single employer and terminal physical ability at a uniform age will continue to erode. Traditional defined benefit plans will continue as a means for a significant portion of the workforce to accomplish retirement income security through accrual of annuities. But increasingly, such defined benefit plans are assumed limited to large "institutional" employers. Historically, such employees are less mobile than for the workforce at large, so that accrual of substantial retirement benefits is a more realistic assumption.

But even traditional plans begin to assume more of the features common to defined contribution plans – lump sum payment of accrued benefits, "cash balance" features, and early retirement options. That defined benefit plans mimic individual account plans suggests that the latter type of plan, with its greater flexibility and more "personal" features, is increasingly the retirement vehicle of choice for individuals in a changing workforce.

As this Committee is well aware, Social Security is a defined benefit plan. Like employer-sponsored pension plans, Social Security provides benefits based on an individual's earnings history, payable in annuity form. If employer-sponsored defined benefit plans are proving less effective in meeting the needs of individuals, it seems obvious that the same would be true of the current Social Security system.

In this regard Chairman Grassley, rather than seeking to establish the "correct" retirement age, the Committee might examine the issues of an aging population in the context of individual choice and flexibility. And if it does so, we suggest that the Committee is likely to conclude that personal retirement accounts, analogous to employer-sponsored defined contribution plans, should provide the principal retirement benefits under a fundamentally reformed Social Security system.

STATEMENT OF CAROLYN J. LUKENSMEYER, EXECUTIVE DIRECTOR, AMERICANS DISCUSS SOCIAL SECURITY PROJECT, WASHINGTON, DC

Ms. LUKENSMEYER. Good afternoon, Chairman Grassley and Senator Santorum. We are delighted to have an opportunity to share some of our data with you today.

Americans Discuss Social Security is funded by the Pew Charitable Trusts and the whole focus of our work is a discussion with the American public on the issues of Social Security reform. In the first year of our work, we have polled 17,000 Americans and we have been in 15 States—as Senator Grassley acknowledged, one of them was Iowa—in which about 3,700 Americans have engaged in 4 to 6 hours of real discussion on this issue. This afternoon, given your focus, what I will keep my remarks to is mainly poll data relative to retirement age.

What we know from our polls is that generation X-ers and baby boomers have very different expectations about aging and what they will do when they are old and retired than what is the actual experience of older Americans today. Young and middle-aged people think they will work later in life, work more during retirement, and be more involved in activities like volunteer work, hobbies, travel, and learning new skills.

The chart would show that only half of younger people expect to retire before age 65. In fact, today, fully 69 percent of current retirees had already retired by that age. So the expectations of how long I will work if I am young and middle-aged are much higher than is true of today's retirees. Now, factors in the future may change that, but it is very clear that it is important to note it is the discrepancy between those expectations and the actual data now.

We thought at this point you might just get a little kick out of seeing some of the other differences in perceptions and realities about old age. Clearly, young people expect to travel significantly in their old age, and, in fact, people 65 or over suggest that only about 46 percent of them are actually able to do that financially and health-wise.

Some more serious issues. About 47 percent of young people expect not to be able to drive when they are 65 or older, sometime during that period. Lots of us are appreciative that, in fact, that data is only 15 percent of people over 65 lose the capability to drive.

Critical to the issue of retirement, almost 30 percent of young people expect to be dependent on their children in their old age, and, in fact, today, only 5 percent of people over 65 are actually dependent on their children.

We wanted to share a little bit in what we have discovered about public perceptions about the Social Security debate. It will be no surprise to this committee that the American public is alarmed about the future prospects of Social Security. Over half of Americans, 55 percent, think Social Security is headed for major financial trouble. Only one in ten feel that the Social Security program is really solid and secure.

What we wanted to highlight, however, was that this belief that the system is in crisis is in the context that actually very few

Americans today understand what the Social Security policy debate is all about. As was stated earlier, we have found in our forums around the country, we are informing people that this retirement age has already been raised to 67. In fact, 23 percent of the American public claims to know nothing at all about the potential of raising the retirement age.

I think it is important for your committee to note, even though today you are only focused on retirement age, that that is the proposal that more people know about than any other. Any of the rest of them, it is even higher percentages of people that are unaware of the reform proposal. The good news is that information is in our forums, we find people excited to learn about it, but to date, the information is not widely distributed and understood.

The earlier panel talked some about savings for retirement. One of our polls also focused on that. Americans are not doing all we can to prepare for retirement. Only about a quarter of us, 23 percent, are systemic savers. Forty-seven percent are casual savers, and the number we really should be worried about is one in three of all non-retired people are doing nothing to prepare for retirement.

What is a little beyond the conventional wisdom about this that I think it is important to note is that our survey demonstrates that limited income is what creates the biggest barrier to systemic saving. Income is even more important than age and savings behavior, and conventional wisdom suggests that young people are not saving, as you get older, you begin to save. Our data would show that the real distinction is limited income, not age.

Again, an important thing to look at in the macro policy arena on this issue, 25 percent of Americans make under $20,000 a year, and as our chart shows—it is actually in our written testimony—50 percent of those people are not saving at all.

The real area that I think we have maybe potentially added a little new knowledge is in the area of barriers to working in these polls. In our images of aging survey, people were asked a list of problems that are associated with aging, and we have evidence that three of these problems are actual barriers that prevent people from working. Those three are being seriously ill, not able to drive, or having trouble walking. So this is not the hugely disabled category that we are already speaking about in disability benefits, but these are people who have health barriers to being in the workforce.

For each age group except people 70 and over, people who are experiencing one of these problems are less likely to work either full time or part time, compared with people who have none of the problems, and let us just for a moment focus only on the category of 50 to 64, those people who are pre-retirement. As you can see on the chart, those people approaching retirement age, about two-thirds of them who face none of these barriers are still in the workforce, 65 percent, either full-time or part-time. Only a third of them who have one of these barriers are actually still in the workforce. It was a pretty dramatic drop. Even among those who have recently reached age 65, you can see that those facing no barriers at all are three times as likely to continue working as those with a barrier.

The next important question I am sure, hopefully, I will anticipate, is when do people begin to experience these three barriers physically in their life? Among people younger than age 50, it is only about one in ten, 13 percent, to be exact. But when you look at people in their pre-retirement years, 50 to 64, that proportion jumps to one in four, 25 percent. It continues to rise, so that by the time you are looking at people who are 70 or older, fully 53 percent of the American population has one or more of these three physical barriers to working.

I am delighted to share more in response to questions either from our forums or from the poll data. Thank you very much for inviting us.

[The prepared statement of Ms. Lukensmeyer follows:]

Public Opinion and Issues Surrounding Increasing the Retirement Age

Statement of Carolyn J. Lukensmeyer,
Executive Director, Americans Discuss Social Security
before the
Senate Special Committee on Aging
United States Senate
July 15, 1998

Good afternoon. Mr. Chairman and Members of the Committee, I am pleased to accept the Chairman's invitation to appear before you. My name is Carolyn J. Lukensmeyer and I am the Executive Director of Americans Discuss Social Security. ADSS is a project funded by The Pew Charitable Trusts to encourage discussion among all Americans on the future of Social Security. Americans Discuss Social Security has developed a three-pronged strategy to meet this goal: public polling, citizen engagement, and a non-partisan, educational media campaign. Today I will focus on the results of several of our surveys which contain data on factors relevant to retirement age.

I. Images of Aging

Generation X and the Baby Boom Generation have expectations about aging and retirement that are markedly different than the experiences of older Americans today. Young and middle-aged people think they will work later in life, work more during retirement, and be more involved in activities like volunteer work, hobbies, travel, and learning new skills. Younger generations are also more upbeat than older people about what it means to be retired. They view retirement as a chance for a "new beginning" in life and think they will live well during retirement, even as they believe the Social Security program will do little, if anything, to help them. They expect to rely mainly on their own savings and investments, and secondarily on the retirement benefits provided by their employers.

- Three-quarters of people who haven't yet retired think they will have more than enough money to meet their expenses during retirement; 67% think their own savings and investments will be more important than their Social Security benefits in shaping their financial well-being in retirement.

- Half of people age 18 to 49 think retirement is a chance for a new beginning in life; only a third of current retirees agree.

- Only half of younger people expect to retire before the age of 65, but fully 69% of current retirees had already retired by that age (see graph on next page). Retirement means not working at all for 61% of current retirees, but only 40% of younger people agree.

- Only about half of people age 18 to 49 expect to benefit from the Social Security program when they reach old age. However, almost everyone in the immediate pre-retirement years expects to receive benefits. Eighty-five percent of people age 50 to 64 either already receive Social Security benefits, or expect to in the future.

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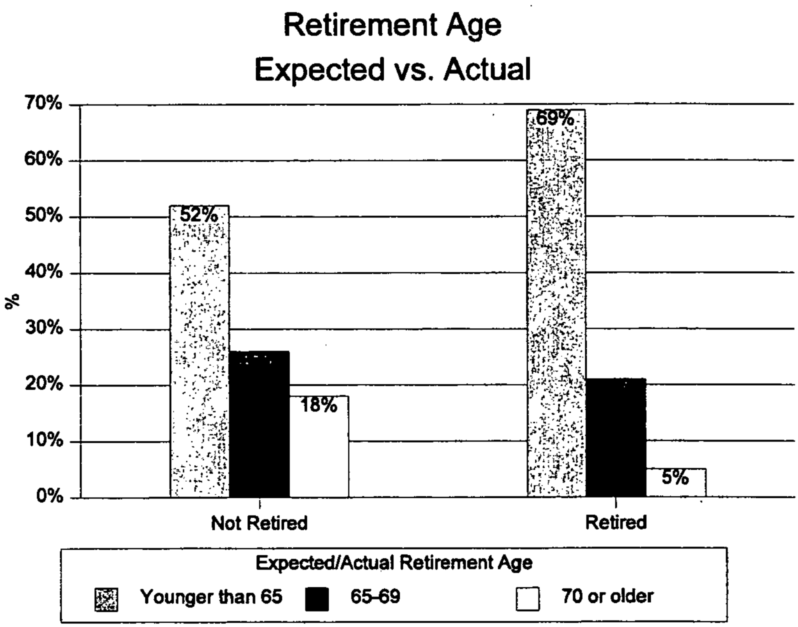

Retirement Age
Expected vs. Actual
70%
60%
50%
40%
30%
20%
10%
0%
%
52%
18%
69%
5%
Not Retired
Retired
Expected/Actual Retirement Age
Younger than 65
65-69
70 or older

Old Age

There are surprises ahead for today's young people. Old age is different than what they anticipate. This is one finding of a nationwide survey we conducted to help frame a national discussion about the future of Social Security in an aging society.

Our premise: the more we all understand about how we and our fellow citizens view old age, the easier it will be to figure out what role Social Security should play in it.

PERCEPTIONS Percent of Americans **18-34** who expect these things to happen when they get old.		REALITIES Percent of Americans **65 and Over** who have experienced these things.
77	**More Travel**	46
76	**More Hobbies**	56
69	**Less Active**	41
64	**New Skills**	28
62	**More Respect**	53
58	**Less Stress**	50
48	**Serious Illness**	25
46	**Get Social Security**	90
47	**Can't Drive**	15
44	**Get Medicare**	80
43	**Fewer Responsibilities**	50
41	**Trouble Walking**	30
38	**Lose Bladder Control**	14
32	**Less Sex Life**	37
29	**Become Senile**	2
29	**Dependent on Kids**	5
26	**Be Lonely**	24
13	**Be Poor**	18

SOCIAL SECURITY Americans Discuss Social Security

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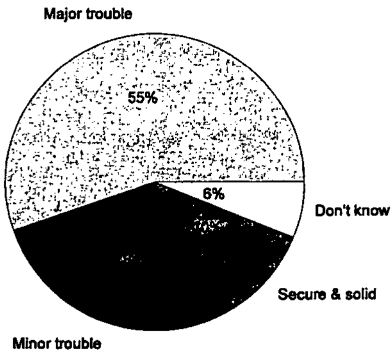
II. **Public Perceptions About the Social Security Debate**

The American public is alarmed about the future prospects for Social Security. Over half of Americans (55%) think Social Security is headed for major financial trouble, and another 29 percent feel it is headed for minor trouble. Only one in ten feels the Social Security program is secure and solid. Also, most people think big changes are required in order to avert this trouble, and believe the consequences of inaction will be far more severe than most experts predict. Most experts expect that, even in the absence of program changes, beneficiaries thirty years from now will still be able to receive 75 percent of their expected benefits. Few members of the general public understand this view of the program's future prospects. Most are much more pessimistic, including a third who expect Social Security to completely run out of money within two decades.

Views of the Social Security Program



This belief that the system is in crisis exists despite the fact that few Americans claim to understand what the Social Security policy debate is all about. Furthermore, few people say they are following coverage of the debate in the news. In fact, the *attentive* public consists mainly of people age 50 and older.

Reflecting this inattentiveness, the public is only barely aware of many of the recent proposals to change Social Security, particularly those relating to privatization. No more than a third have heard a lot about any of eight specific proposals investigated in this survey. Many proposals are not well known even among the attentive public.

I'll read a list of some specific proposals that have been made for HOW Social Security might be changed in the future. Not everyone will have heard of these. For each one, please tell me how much YOU have heard about it. (First/Next) how much have you heard about a proposal to (INSERT)-- a lot, a little, or nothing at all?

		Heard A Lot About It	Heard A Little	Nothing At All	Don't Know/ Refused	
a.	RAISE the age when a person can collect full Social Security retirement benefits	30	47	23	*	=100
b.	Change Social Security FROM a system where the GOVERNMENT collects the taxes that workers and their employers contribute INTO a system where individuals invest SOME of their payroll tax contributions THEMSELVES	13	42	45	*	=100
c.	Change Social Security FROM a system where the taxes the government collects are invested in GOVERNMENT BONDS INTO a system where the some of the taxes are invested in the STOCK MARKET	8	38	53	1	=100
d.	REDUCE Social Security benefits for older people who have high incomes	21	51	28	*	=100
e.	INCREASE the payroll tax that workers and employers pay into the Social Security system	13	50	37	*	=100
f.	Collect payroll taxes on ALL earnings, instead of having a maximum amount	5	36	59	*	=100
g.	REDUCE the yearly cost-of-living adjustments for Social Security benefits	10	44	45	1	=100

The public may subscribe to a more alarmist view than the experts because it is focussing on different aspects of the program's financing than are the experts. Americans are well aware of the challenge to Social Security posed by the aging of the Baby Boom generation. Most know Social Security is headed for trouble in part because the number of older people is growing faster than the number of workers. But the public's perception about the way the government has managed the Social Security trust fund dwarfs its concern about the demographic trends. The government's borrowing of excess payroll tax contributions to pay for other programs, unrelated to Social Security, is the real focus of the public's concern.

In your opinion, which of the following, if any, are REASONS the Social Security program MIGHT be headed for financial trouble in the future? (First/Next), do you think trouble might be ahead because (INSERT), or not?

		Yes, This Is A Reason	No, Not A Reason	Don't Know/ Refused	
a.	Most older people get back more money in benefits than they paid into the program while they were working	44	49	7	=100
b.	Even people who could afford to retire comfortably on their own savings get benefits	50	45	5	=100
c.	The yearly cost-of-living increases are too high	51	44	5	=100
d.	The number of older people is growing faster than the number of workers	73	24	3	=100
e.	The government has spent the Social Security reserves for other programs that are not related to Social Security	79	14	7	=100

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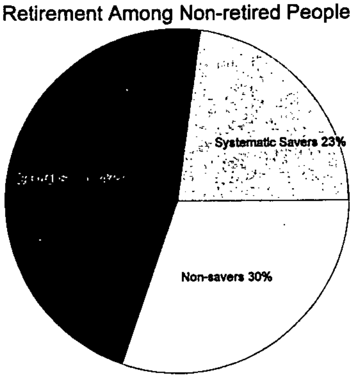
III. **Saving for Retirement**

Americans are not doing all they can to prepare for retirement. Non-retired adults can be classified into three groups with respect to their approach to preparing for retirement. Overall, about a quarter of non-retired people (23%) are ***systematic savers***. These people have calculated how much their retirement will cost, they save on their own either by contributing regularly to an IRA or other type of account or investment specifically for retirement, and, if they have one, take advantage of an employer-sponsored retirement program by making annual contributions.[1] About half of non-retired people (47%) are ***casual savers***. They are doing something to prepare for retirement, whether it is taking advantage of an employer-sponsored retirement program, or saving regularly on their own, or just calculating what their retirement will cost. But they are not doing all they can do. And one in every three non-retired people (30%) are ***non-savers*** and do nothing to prepare for retirement.

Different Approaches to Saving for
Retirement Among Non-retired People



Having limited income creates the biggest barrier to systematic saving. Young people with above average incomes are almost as likely to be systematic savers as those 50 and older with above average incomes. Similarly, very few non-retired people with incomes below $40,000 are systematic savers regardless of their age (see graph next page).

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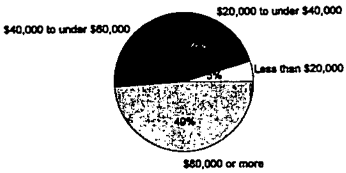
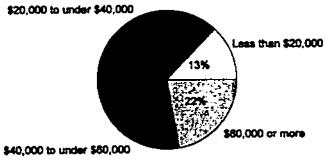
[1]Either through their employer or their spouse's employer.

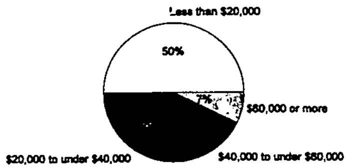
Income Profiles of Systematic, Casual and Non-Savers



Systematic Savers



Casual Savers



Non-savers

The people who are preparing the least for retirement are the ones who know the least about retirement's financial demands. Specifically, they know the least about what financial professionals recommend about saving for retirement, about how much income they will need in retirement to maintain their standard of living, and also about how much the Social Security program will provide for them once they reach retirement age. At the same time, they seem to show more faith in the Social Security program than Americans who are saving.

Many people are missing convenient ways to save for retirement. Only 66 percent of those who have a retirement savings plan at work, such as a 401-K plan, make a contribution to the plan every year. In fact, 30 percent of non-retired adults who have not yet begun to save for retirement could start saving by contributing to a plan offered by their employer or their spouse's employer.

IV. **Barriers to Working**

In one ADSS survey, people were asked about a list of problems that are associated with aging. Three of these problems are barriers that prevent people from working. They are:

- being seriously ill
- not being able to drive
- having trouble walking

For each age group (except those age 70 and older), people who are experiencing at least one of these problems are less likely to work either full or part time, compared with those who have none of these problems.

	18-49		50-64		65-69		70+	
	Barrier	None	Barrier	None	Barrier	None	Barrier	None
	%	%	%	%	%	%	%	%
Employed full or part-time	62	84	31	65	9	25	4	7
Not employed	38	16	69	35	91	75	96	93
	100	100	100	100	100	100	100	100

As the table illustrates, until people reach about age 70, having one or more of these problems is a major barrier to working. For example, among people age 50 to 64 who are approaching retirement age about two-thirds who face none of these barriers are working (65%). Only about one-third of those who face a barrier are working (31%). Even among those who have recently reached age 65, you can see that those facing no barriers are almost three times as likely to continue working (25% vs. 9%).

The next question is: When do people reach these "barriers to working"? Among those younger than age 50, only about one in ten are facing a work barrier (13%). But when you look at people in their pre-retirement years (age 50-64), the proportion jumps to one in four. After this, the proportion steadily rises. When you look at people age 70 and older, fully one-half have reached a barrier to working (53%).

	18-49	50-64	65-69	70+
	%	%	%	%
Reached barrier	13	26	42	53

Thank you, Mr. Chairman. Attached to my written testimony are topline results from each of the surveys I mentioned. I will be happy to answer any questions you have.

Appendix

Selected Topline Results

Americans Discuss Social Security

Images of Aging

A survey conducted for The Pew Research Center by
Princeton Survey Research Associates

TOPLINE RESULTS

November 26, 1997

Job # 97052C
N =2,006 adults age 18 and older, including
597 age 18 to 34
845 age 35 to 54
223 age 55 to 64
329 age 65 and older
Field period: October 14 - November 17, 1997

Margin of Error:	±2% total sample
	±4% 18 to 34
	±3% 35 to 54
	±7% 55 to 64
	±6% 65 and older

Q1 I want to get your opinion about what you think life is like for people of different ages. In your opinion, how many people in their (INSERT) enjoy life? Almost all, most, about half, some, or hardly any?

	Almost all	Most	About half	Some	Hardly any	DK/ Ref	
Forties	26	35	28	6	2	3	=100
18-34	24	36	31	6	1	2	=100
35-54	28	34	27	6	3	2	=100
55-64	26	37	26	4	3	4	=100
65+	27	32	29	4	3	5	=100
Fifties	22	36	28	9	2	3	=100
18-34	18	37	26	15	3	1	=100
35-54	24	35	28	8	2	3	=100
55-64	27	38	23	7	3	2	=100
65+	23	35	32	4	1	5	=100
Sixties	18	31	30	13	5	3	=100
18-34	17	30	29	15	7	2	=100
35-54	15	35	29	14	4	3	=100
55-64	23	31	25	13	6	2	=100
65+	21	24	39	8	3	5	=100
Seventies	12	20	31	21	12	4	=100
18-34	10	19	29	22	17	3	=100
35-54	10	21	32	23	10	4	=100
55-64	14	17	33	18	11	7	=100
65+	19	21	31	15	8	6	=100
Eighties	9	11	24	28	22	6	=100
18-34	8	12	23	28	25	4	=100
35-54	8	11	25	31	20	5	=100
55-64	14	10	20	25	25	6	=100
65+	8	9	28	24	17	14	=100
Nineties	10	8	14	24	35	9	=100
18-34	10	8	16	26	36	4	=100
35-54	10	9	14	26	33	8	=100
55-64	13	8	8	21	40	10	=100
65+	6	8	12	18	36	20	=100

Q2 How would you rate the overall quality of <u>your</u> life? Would you say it is excellent, good, only fair or poor?

Total		18-34	35-54	55-64	65+
36	Excellent	35	37	40	35
47	Good	49	46	45	47
14	Only fair	14	14	13	14
2	Poor	2	3	2	3
1	Don't know/Refused	*	*	*	1
100		100	100	100	100

Q3 How would you rate your own health? Would you say it is excellent, good, only fair or poor?

Total		18-34	35-54	55-64	65+
35	Excellent	40	37	30	25
48	Good	48	48	49	45
13	Only fair	10	11	15	24
4	Poor	2	4	6	6
*	Don't know/Refused	0	*	0	0
100		100	100	100	100

Q4 Overall, how would you rate your financial situation? Would you say it is excellent, good, only fair or poor?

Total		18-34	35-54	55-64	65+
10	Excellent	7	11	12	12
46	Good	43	47	48	48
32	Only fair	34	32	32	31
11	Poor	15	10	8	8
1	Don't know/Refused	1	*	*	1
100		100	100	100	100

Q5 How much thought have you given to what your life will be like when you are old? Would you say you have given this a lot of thought, some thought, only a little thought, or have you given this no thought at all?

Total		18-34	35-54	55-64	65+
37	A lot	38	37	38	36
39	Some	37	43	41	29
16	A little	18	14	14	19
7	Not at all	6	5	6	13
1	Don't know/Refused	1	1	1	3
100		100	100	100	100

Q6 In your view, what is the best thing about being old?

		18-34	35-54	55-64	65+
22	Enjoying life	18	22	22	32
19	More time and freedom	14	20	21	28
18	Retiring	20	21	17	9
18	Family and friends	20	16	16	17
17	Wisdom/Respect/Knowledge	19	21	13	8
6	Financial security/independence	6	6	5	5
8	Other	6	7	12	13
18	Nothing/Don't know	18	17	17	21

Q7 What worries you the most about being old?

		18-34	35-54	55-64	65+
45	Health/Illness/ Physical problems	42	50	49	39
22	Money/Finances	25	26	16	10
9	Becoming dependent on other/ Becoming a burden	6	8	14	10
6	Being alone/ Losing family and friends	8	6	4	7
6	Death/Dying	10	5	1	5
10	Other	12	10	10	10
16	Nothing/Don't worry	11	12	21	29

Q8 In general, at what age do you think middle age ends and old age begins?

		18-34	35-54	55-64	65+
8	Younger than 50	14	6	6	3
11	50-54	15	10	11	7
13	55-59	18	12	10	9
20	60-64	21	21	19	18
18	65-69	14	21	17	17
14	70-74	9	17	16	14
8	75 or older	4	6	12	15
5	It depends	3	4	6	11
3	Don't know/Refused	2	3	3	6
100		100	100	100	100

Q9 How old were you at the high point of your life, or, do you think you haven't reached it yet? **(IF HAVEN'T REACHED IT YET)** Well then, how old do you think you will be at the high point in your life?

		18-34	35-54	55-64	65+
10	Less than 30	20	6	4	5
18	30-39	34	11	10	8
23	40-49	23	26	19	17
20	50-59	7	30	23	22
15	60 or older	3	12	32	32
3	It depends	2	3	2	4
11	Don't know/Refused	11	12	10	12
100		100	100	100	100
22	Already past	3	16	40	64
19	Current decade	16	22	25	13
43	Yet to come	65	47	21	6
16	Don't know/Refused	16	15	14	17
100		100	100	100	100

Q10 How do you feel about your age? Do you feel younger than your age, older than your age, or would you say you feel your age?

		18-34	35-54	55-64	65+
57	Feel younger	38	66	72	63
11	Feel older	22	6	4	4
30	Feel your age	39	26	21	29
2	Don't know/Refused	1	2	3	4
100		100	100	100	100

Q11 And how do you feel you look compared to other people your age? Do you feel you look younger, look older, or look about the same as others your own age?

		18-34	35-54	55-64	65+
58	Look younger	49	62	67	58
7	Look older	14	5	4	2
34	Look your age	37	33	26	38
1	Don't know/Refused	*	*	3	2
100		100	100	100	100

Q12 Do the people of your generation seems older, younger, or about the same as the people of your PARENTS' generation when they were your age?

		18-34	35-54	55-64	65+
18	Seem older	27	13	14	11
56	Seem younger	46	63	55	60
21	Seem about the same	22	20	23	21
5	Don't know/Refused	5	4	8	8
100		100	100	100	100

D1 And how old are you now?

12	18-24
21	25-34
22	35-44
17	45-54
11	55-64
17	65 or older
*	Refused
100	

Q13 Would you say you look forward to being in your **(INSERT)**, or do you worry about being in your **(INSERT)**?

	Look forward to	Worry about	Neither/ Both	DK/ Ref		
Forties	70	14	15	1	=100	(844)[2]
Fifties	62	19	18	1	=100	(1278)[3]
Sixties	52	28	19	1	=100	(1559)[4]
Seventies	41	39	19	1	=100	(1769)[5]
Eighties	34	44	21	1	=100	(1938)[6]
Nineties	28	46	24	2	=100	(1987)[7]

Q14 Overall, which comes closest to your personal view of retirement...do you see retirement as...

45	a chance for a whole new beginning in life
36	a continuation of life as it was before retirement
14	a step down from life as it was before retirement
2	Neither
3	Don't know/Refused
100	

[2]Based on those age 18 to 39.

[3]Based on those age 18 to 49.

[4]Based on those age 18 to 59.

[5]Based on those age 18 to 69.

[6]Based on those age 18 to 79.

[7]Based on those age 18 to 89.

Q15 I'm going to read a list of things that sometimes happen when people age. For each one, please tell me whether this HAS happened to you, whether you THINK this will happen to you, or if you think it WILL NOT happen to you. (INSERT). HAS this happened to you, do you THINK this will happen to you, or do you think it WILL NOT happen to you?

Q16 Which of these things do you think you will enjoy the MOST?

	Has happened	Will happen	Will not happen	DK/ Ref		Enjoy MOST
Getting benefits from the Medicare program	18	44	33	5	=100	1
Being more respected	35	41	20	4	=100	4
Traveling more for pleasure	23	58	18	1	=100	33
Learning new skills	29	47	23	1	=100	8
Spending more time on hobbies and interests	28	61	10	1	=100	24
Having fewer responsibilities	19	41	38	2	=100	6
Collecting Social Security	20	44	32	4	=100	2
Having less stress in your life	20	49	28	3	=100	17
			Don't know/Refused			5
						100

Q17 Now, here are some bad things that sometimes happen when people age. For each one, please tell me whether this HAS happened to you, whether you THINK this will happen to you, or if you think it WILL NOT happen to you. (INSERT). HAS this happened to you, do you THINK this will happen to you, or do you think it WILL NOT happen to you?

	Has happened	Will happen	Will not happen	DK/ Ref	
Being seriously ill	12	44	37	7	=100
Being senile	1	28	65	6	=100
Being poor	17	14	65	4	=100
Being lonely	16	25	57	2	=100
Becoming dependent on your children	2	22	73	3	=100
Not being sexually active	13	31	51	5	=100
Not being able to drive a car	5	48	44	3	=100
Not being able to make ALL your own decisions	4	35	57	4	=100
Having trouble walking	13	37	47	3	=100
Not being able to be as active as before	17	61	20	2	=100
Not being needed by other people	6	29	62	3	=100
Not being able to afford the health care you need	9	36	51	4	=100
Not being able to control your bladder	6	36	51	7	=100
Receiving lower quality medical care, just because you're on Medicare	3	42	48	7	=100

Q18 How difficult would it be for you to accept **(INSERT)**. Would it be very difficult, somewhat difficult, not too difficult, or not difficult at all if this happened to you?

	Very difficult	Somewhat difficult	Not too difficult	Not at all difficult	DK/ Ref	
Being lonely	38	33	16	11	2	=100
Becoming dependent on your children	47	28	10	12	3	=100
Not being sexually active	23	33	20	22	2	=100
Not being able to drive a car	43	32	12	12	1	=100
Not being able to make ALL your own decisions	61	27	6	5	1	=100
Having trouble walking	63	27	6	4	*	=100
Not being able to be as active as before	37	45	12	5	1	=100
Not being needed by other people	39	34	14	11	2	=100
Not being able to control your bladder	62	25	7	4	2	=100

Q19 In your opinion, are there things a person can do to stay young?
Q20 What are they?

		18-34	35-54	55-64	65+
88	Yes	85	91	90	87
44	Exercise/Stay fit	49	50	43	24
35	Eat right/Don't smoke/ Don't drink	39	39	29	19
34	Keep busy/Stay active	25	33	44	45
21	Have a good attitude/ Think young/Be happy	22	21	18	18
14	Take care of yourself	19	12	11	8
13	Keep mind active/ Continue to learn	5	16	17	16
12	Stay close to family and friends	9	13	14	15
6	Relax/Avoid stress	5	7	5	4
4	Pray/Have faith	3	6	4	4
3	Other	3	3	2	1
12	No/Nothing/Don't know	15	9	10	13

Q21 Overall, do you think **(INSERT)** will have a negative effect or a positive effect on your own health during your old age?

	Positive effect	Negative effect	Neither	DK/ Ref	
Your diet	79	19	1	1	=100
The amount of exercise you get	83	15	1	1	=100
Your family health history	56	37	3	4	=100
The amount of stress in your life	39	56	3	2	=100
The amount you smoke	59	37	3	1	=100
The amount of alcohol you drink	62	32	5	1	=100

Q22 Which of the following comes closest to what retirement means for you? Does it mean...

45	Not working at all at a paying job
24	Working less at the job you had before retirement
25	Working for pay at a different job
2	Working the same amount at the same job/Not retiring
4	Don't know/Refused
100	

Q23 Does your idea of retirement include any unpaid or volunteer work?

75	Yes
23	No
2	Don't know/Refused
100	

Q24 At about what age do you plan to retire, or are you already retired?

22	Already retired
8	Younger than 55
12	55-59
19	60-64
21	65-69
8	70 or older
6	Don't ever plan to retire
1	Have never worked/Don't plan to
3	Don't know/Refused
100	

Q25 At what age did you retire?

8	Younger than 40
8	40-49
25	50-59
28	60-64
21	65-69
5	70 or older
5	Don't know/Refused
100	
(415)[8]	

mean = 57
median = 62

---

[8]Based on those who are retired.

Q26a How has your standard of living changed since you retired? Would you say it has gone up, gone down, or stayed about the same?

14	Gone up
17	Gone down
67	Stayed about the same
2	Don't know/Refused
100	
(415)[7]	

Q26b How do you think your standard of living will change when you (retire/are older)? Do you think it will go up, go down, or stay about the same?

15	Go up
17	Go down
67	Stay about the same
1	Don't know/Refused
100	
(1591)[9]	

[9]Based on those who are not retired.

Q27 Please tell me how much you think each of the following will help you have enough money during your old age. Do you think (INSERT) will help you a lot, some, only a little, or not at all?

	A lot	Some	Only a little	Not at all	DK/ Ref	
Social Security						
Total	14	29	36	20	1	=100
Not retired	8	28	40	23	1	=100 (1591)
Retired	35	36	20	7	2	=100 (415)
Your own savings and investments						
Total	50	29	12	8	1	=100
Not retired	53	29	12	6	*	=100 (1591)
Retired	41	29	12	16	2	=100 (415)
The retirement benefits from a job						
Total	31	36	16	16	1	=100
Not retired	31	39	17	13	*	=100 (1591)
Retired	33	22	14	28	3	=100 (415)
An inheritance						
Total	19	21	17	42	1	=100
Not retired	20	21	19	39	1	=100 (1591)
Retired	16	17	11	54	2	=100 (415)
Money from your children or other family members						
Total	5	14	22	57	2	=100
Not retired	6	15	25	53	1	=100 (1591)
Retired	4	13	10	69	4	=100 (415)

Q28 Some people feel it's getting harder for older Americans to have enough money to live comfortably. How serious a problem do you think this (will be/is) in general for PEOPLE YOUR AGE (when they get older)? Would you say...

		18-34	35-54	55-64	65+
52	Very serious	55	54	48	43
38	Somewhat serious	37	39	40	36
7	Not too serious	6	6	7	11
1	Or not at all serious	1	*	2	5
2	Don't know/Refused	1	1	3	5
100		100	100	100	100

Q29 How serious a problem (do you think it will be/is it) for YOU PERSONALLY to have enough money to live comfortably (when you reach old age/in old age)? Would you say...

		18-34	35-54	55-64	65+
17	Very serious	21	17	15	11
34	Somewhat serious	36	35	30	27
33	Not too serious	31	34	37	35
15	Or not at all serious?	12	13	15	25
1	Don't know/Refused	*	1	3	2
100		100	100	100	100

Q30 **(IF NOT RETIRED)** Do you personally have any money saved to live on when you get older? **(IF RETIRED)** Do you have any personal savings or investments now?

		Non-retired	Retired
67	Yes	66	70
32	No	33	27
1	Don't know/Refused	1	3
100		100	100
		(1591)	(415)

Q31 If you were retired today, about how much money per month do you think it would cost for you to live comfortably?

9	Less than $1,000
24	$1,000 to less than $2,000
33	$2,000 to less than $4,000
17	$4,000 or more
17	Don't know/Refused
100	
(335)[10]	

mean = $2,872

[10]Based on those 50 or older and not retired.

Q32 **(IF NOT RETIRED)** When you (retire/are older), do you expect you'll have enough money to...
(IF RETIRED) Do you currently have enough money to...

		Non-retired	Retired
25	Live very comfortably	25	28
45	Meet your expenses with a little left over for extras	47	39
22	Just meet your basic living expenses	21	23
6	Not enough to meet expenses	6	8
2	Don't know/Refused	1	2
100		100	100
		(1591)	(415)

Q33A Is your mother still living?

64	Yes
36	No
*	Don't know/Refused
100	

Q33B Is your father still living?

49	Yes
50	No
1	Don't know/Refused
100	

Q34 **(IF MOTHER IS LIVING)** How old is your mother?
(IF MOTHER IS NOT LIVING) How old was your mother when she died?

Q35 **(IF FATHER IS LIVING)** And how old is your father?
(IF FATHER IS NOT LIVING) How old was your father when he died?

Q36 Are any of your grandparents still living? **(IF YES)** Which ones?

22	Mother's mother
10	Mother's father
16	Father's mother
8	Father's father
67	No/None
1	Don't know/Refused

Q37 **(IF MOTHER'S MOTHER IS LIVING)** How old is your mother's mother?
(IF MOTHER'S MOTHER IS NOT LIVING) How old was your mother's mother when she died?

Q38 **(IF MOTHER'S FATHER IS LIVING)** How old is your mother's father?
(IF MOTHER'S FATHER IS NOT LIVING) How old was your mother's father when he died?

Q39 **(IF FATHER'S MOTHER IS LIVING)**How old is your father's mother?
(IF FATHER'S MOTHER IS NOT LIVING) How old was your father's mother when she died?

Q40 **(IF FATHER'S FATHER IS LIVING)** How old is your father's father?
(IF FATHER'S FATHER IS NOT LIVING) How old was your father's father when he died?

Q41 Has anyone in your family, including your parents or grandparents, ever lived in any kind of special housing for older people? This includes a retirement community, an assisted living or continuing care facility, or a nursing home.

36	Yes
64	No
*	Don't know/Refused
100	

Q42 Do you have any children of your own, either natural or adopted? **(IF YES)** How many?

75	Yes
17	Yes, one
25	Yes, two
16	Yes, three
17	Yes, four or more
25	No, none
*	Refused
100	

(IF ONE CHILD)
Q43 How old is this child?

(IF MORE THAN ONE CHILD)
Q44 What is the age of your oldest child?

(IF MORE THAN ONE CHILD)
Q45 What is the age of your youngest child?

Q46 Do you have any grandchildren? (IF YES) How many?

32	Yes
5	Yes, one
5	Yes, two
4	Yes, three
18	Yes, four or more
68	No, none
100	

D2 RECORD SEX:

48	Male
52	Female
100	

D3 How would you describe your employment status? Are you employed at a full-time job, employed at a part-time job, unemployed, or a homemaker?

53	Employed full-time
11	Employed part-time
4	Unemployed
7	Homemaker
1	Disabled
2	Student
22	Retired
*	Don't know/Refused
100	

D4 Are you now married, LIVING AS married, separated, divorced, widowed, or have you NEVER been married?

55	Married
4	Living as married
3	Separated
11	Divorced
8	Widowed
19	Never married
*	Don't know/Refused
100	

D5 Is your (husband/wife/partner) employed at a full-time job, employed at a part-time job, unemployed, retired, or a homemaker?

60	Employed full-time
9	Employed part-time
2	Unemployed
15	Retired
13	Homemaker
1	Disabled
*	Don't know/Refused
100	
(1167)[11]	

D6 What is the last grade or class you completed in school?

17	Less than high school graduate (grade 11 or lower)
32	High school graduate (including GED certificate)
5	Technical, trade, or business school after high school
23	Some college or university, but no 4-year degree
15	College or university graduate (BA, BS, or other 4-year degree received)
8	Post-graduate or professional schooling after college (including work towards an MA, MS, Ph.D., JD, DDS or MD)
*	Refused
100	

D7 In politics TODAY, do you consider yourself a Republican, Democrat or Independent?
D8 As of today, do you lean more to the Republican Party or more to the Democratic Party?

40	Republican Total
28	Rep.
12	Lean Rep.
44	Democrat Total
32	Dem.
12	Lean Dem.
10	Independent (no lean)
3	No preference (no lean)
*	Other party (no lean)
3	Don't know/Refused
100	

[11]Based on those who are married or living as married.

D9 In general, would you describe your political views as very conservative, conservative, moderate, liberal, or very liberal?

37	Conservative Total
6	Very conservative
31	Conservative
37	Moderate
20	Liberal Total
15	Liberal, OR
5	Very liberal
6	Don't know/Refused
100	

D10 Are you of Hispanic or Latino descent, such as Mexican, Puerto Rican, Cuban, or some other Spanish background?

6	Yes
93	No
1	Don't know/Refused
100	

D11 What is your race? Are you White, Black, Asian, or some other race?

84	White
11	Black
1	Asian
3	Other or mixed race
1	Don't know/Refused
100	

D12 Do you own or rent your own home?

67	Own
26	Rent
6	Some other arrangement
1	Don't know/Refused
100	

D13a Have you paid off the mortgage on your house yet, or not?

65	Yes
33	No
2	Don't know/Refused
100	
(579)[12]	

D13b How old do you think you will be when you pay off the mortgage?

10	50-59
40	60-69
17	70-79
9	80-89
5	90 or older
5	Never
14	Don't know/Refused
100	
(212)[13]	

D14 Last year, that is in 1996, what was your (and your husband's/wife's/partner's) total income from all sources before taxes? Just stop me when I get to the right category.

12	Less than $10,000
13	$10,000 to under $20,000
15	$20,000 to under $30,000
13	$30,000 to under $40,000
16	$40,000 to under $60,000
13	$60,000 to under $100,000
6	$100,000 or more
12	Don't know/Refused
100	

[12]Based on homeowners age 50+.

[13]Based on homeowners age 50+ who have a mortgage.

Americans Discuss Social Security
Tracking Survey

Topline Results
March 30, 1998

Princeton Survey Research Associates

Job #98029
N = 1,200 adults age 18+ (including an oversample of 200 adults age 50+)

Margin of error: ±3%
Interviewing: March 13 - March 22, 1998

INTRODUCTION: Hello, my name is ____________________ and I am calling on behalf of Princeton Survey Research Associates in Princeton, New Jersey. We are conducting a short opinion poll to find out what people think about some important issues.

SELECTION PROCEDURE FOR MAIN SAMPLE: May I please speak with the YOUNGEST MALE age 18 or older, who is now at home?

IF NO MALE AT HOME NOW: Then, may I please speak with the OLDEST FEMALE age 18 or older who is now at home?

SELECTION PROCEDURE FOR OVERSAMPLE: It's important that we get opinions from all kinds of people. Does your household include anyone age 18 to 49? **(AFTER RESPONSE, CONTINUE.)** And does your household include anyone age 50 or older? **(IF NO OR REFUSED, TERMINATE. IF YES, CONTINUE.)**

For this survey, may I please speak with a man 50 years old or older who is at home now? **(IF NO MALE AT HOME, ASK:** Then may I please speak with a woman 50 years old or older who is at home now?)

1. We're interested in your views about what problems our country's political leaders should be working HARDEST to solve. In your opinion, which ONE of the following areas should get the HIGHEST priority from the President and Congress?

2. And, which of these areas should get the NEXT highest priority?

	Top Priority	Next Priority	Top/Next Priority
Education	30	22	51
Health care	18	20	39
Social Security	16	18	34
Taxes	13	10	23
Drug abuse	11	12	23
The environment	4	7	11
Campaign finance	1	3	4
Some other problem	4	4	8
Don't know/Refused	3	3	3
	100	100	

3. Thinking about the last month or so, which of these national issues, IF ANY, have you discussed with your friends, neighbors, family members, or co-workers? Have you discussed or not?

	Yes	No	Don't Know/ Refused	
a. Education	68	32	*	=100
b. Health care	67	32	1	=100
c. Social Security	69	30	1	=100
d. Taxes	54	46	*	=100
e. Drug abuse	53	46	1	=100
f. The environment	47	52	1	=100
g. Campaign finance	14	85	1	=100

4. There has been a lot of debate lately in Washington and around the country about the Social Security program. This is the government's program to provide income for older people. How closely have you been following this debate? Would you say very closely, fairly closely, not too closely, or not closely at all?

11	Very closely
34	Fairly closely
33	Not too closely
22	Not closely at all
*	Don't know
*	Refused
100	

5. How would you rate your own understanding of what this Social Security DEBATE is all about? Would you say your understanding of the Social Security debate is excellent, good, only fair or poor?

5	Excellent
29	Good
43	Only fair
20	Poor
2	Don't know
1	Refused
100	

6. Some people now think the Social Security program is headed for financial trouble in the future, while other people think the program is basically secure and solid. What is your view? Do you think Social Security is headed for MAJOR trouble, MINOR trouble, or do you think the program is secure and solid?

55	Major trouble
29	Minor trouble
10	Secure and solid (no trouble)
6	Don't know
*	Refused
100	

7. Which of the following comes CLOSEST to describing what YOU think is needed to keep the Social Security program out of trouble in the future? Do you think this program needs no changes, small changes, or big changes?

7	No changes
30	Small changes
57	Big changes
6	Don't know
100	

8. Do you think EVERYONE will need to give something up at SOME POINT, in order for the Social Security program to continue into the future, or not?

70	Yes
23	No
7	Don't know
*	Refused
100	

9. If no changes are made to the Social Security program over the next twenty years, what do you think will happen? Will Social Security...

32	Run out of money COMPLETELY
37	Have ONLY enough money to pay everyone LESS THAN HALF the benefits they would get today
12	Have enough to pay everyone about THREE-QUARTERS of the benefits they would get today
9	Have enough to pay FULL BENEFITS to everyone
9	Don't know
1	Refused
100	

10. Before today, how much thought had you given to the way the Social Security program might have to be changed-- a lot of thought, some thought, only a little, or none at all?

20	A lot
41	Some
28	Only a little
10	None at all
1	Don't know
*	Refused
100	

11. How strong are your opinions about changing Social Security-- very strong, somewhat strong, not too strong, or not strong at all?

31	Very strong
41	Somewhat strong
18	Not too strong
7	Not strong at all
3	Don't know
*	Refused
100	

12. Have you ever DISCUSSED your views about the way the Social Security program might be changed with a friend, neighbor, family member, or co-worker?

13. (IF YES) Have you had a discussion like this in the past MONTH or so, or not?

58	Yes, had discussion
33	Within last month
25	Not within last month
41	Never had discussion
1	Don't know/Refused
100	

14. Do you think that policy makers in Washington understand how people like you feel about CHANGING the Social Security program, or do you think they don't really understand how people like you feel?

25	Understand
69	Don't understand
3	Neither/Both (VOLUNTEERED)
3	Don't know
*	Refused
100	

15. Suppose you wanted your elected representatives in Washington to know something about your own views about changing Social Security. Do you think it would be easy or hard for you to make your views known?

33	Easy
62	Hard
2	Mixed/Neither (VOLUNTEERED)
3	Don't know
*	Refused
100	

16. How do you think you would go about making YOUR views known?

52	Write a letter
16	Call/Fax
6	E-mail
11	Contact state representative
4	Vote/Support political party
10	Boycott, protest, petition, use media
4	Other
20	Don't Know

17. In your opinion, how good a job are news organizations doing at reporting about the Social Security debate -- an excellent job, a good job, only a fair job, or a poor job?

3	Excellent
24	Good
44	Only fair
21	Poor
8	Don't know
*	Refused
100	

18. Why do you feel that way?

Based on random half-sample of respondents.

41	Not enough coverage, minimizing issue
14	Coverage is biased
8	Coverage is confusing
17	Coverage is good/informative/up-to-date
4	Keeps government and big business honest
21	Don't know
(563)	

19. Thinking about the news coverage you see and hear on television, in newspapers, in magazines, or on radio . . . do you feel there has been too much, too little, or about the right amount of news coverage of the debate about changing Social Security?

3	Too much
65	Too little
24	About the right amount
8	Don't know
*	Refused
100	

20. How would you describe the news coverage overall? Would you say it has been mostly informative or mostly confusing?

26	Mostly informative
62	Mostly confusing
6	Both/Neither (VOLUNTEERED)
6	Don't know
*	Refused
100	

21. I'll read a list of some specific proposals that have been made for HOW Social Security might be changed in the future. Not everyone will have heard of these. For each one, please tell me how much YOU have heard about it. (First/Next) how much have you heard about a proposal to (INSERT)-- a lot, a little, or nothing at all?

		Heard A Lot About It	Heard A Little	Nothing At All	Don't Know/ Refused	
a.	RAISE the age when a person can collect full Social Security retirement benefits	30	47	23	*	=100
b.	Change Social Security FROM a system where the GOVERNMENT collects the taxes that workers and their employers contribute INTO a system where individuals invest SOME of their payroll tax contributions THEMSELVES	13	42	45	*	=100
c.	Change Social Security FROM a system where the taxes the government collects are invested in GOVERNMENT BONDS INTO a system where the some of the taxes are invested in the STOCK MARKET	8	38	53	1	=100
d.	REDUCE Social Security benefits for older people who have high incomes	21	51	28	*	=100
e.	INCREASE the payroll tax that workers and employers pay into the Social Security system	13	50	37	*	=100
f.	Collect payroll taxes on ALL earnings, instead of having a maximum amount	5	36	59	*	=100
g.	REDUCE the yearly cost-of-living adjustments for Social Security benefits	10	44	45	1	=100

22. As far as you know, about what portion of the federal budget is spent on the Social Security program? Is it...

17	Less than five percent
22	About ten percent
17	About twenty percent
7	About forty percent
2	Fifty percent or more
35	Don't know/Refused
100	

23. As far as you know, which of the following types of people are eligible for Social Security benefits? (Are/Is) (INSERT) eligible, or not?

		Yes, Eligible For Social Security[14]	No	Don't Know/ Refused	
a.	Workers of any age who become disabled and cannot work	84	11	5	=100
b.	People over the age of 65 who have a part-time job	84	11	5	=100
c.	People who retire in their EARLY 60s	69	25	6	=100
d.	Children under the age of 18 whose employed mother or father has retired or died	72	18	10	=100
e.	The husband or wife of a worker who has died	79	13	9	=100

24. As far as you know, which of the following statements describes what happens to the money that an individual pays into Social Security?

13 It is held in trust or reserve for that person until he or she is eligible to receive benefits OR,
78 It is used to pay people who are already receiving benefits
9 Don't know
* Refused
100

[14] Including ONLY SOME are eligible

25. In your opinion, which of the following, if any, are REASONS the Social Security program MIGHT be headed for financial trouble in the future? (First/Next), do you think trouble might be ahead because (INSERT), or not?

		Yes, This Is A Reason	No, Not A Reason	Don't Know/ Refused	
a.	Most older people get back more money in benefits than they paid into the program while they were working	44	49	7	=100
b.	Even people who could afford to retire comfortably on their own savings get benefits	50	45	5	=100
c.	The yearly cost-of-living increases are too high	51	44	5	=100
d.	The number of older people is growing faster than the number of workers	73	24	3	=100
e.	The government has spent the Social Security reserves for other programs that are not related to Social Security	79	14	7	=100

26. And, which of these do you think is the MAIN reason the Social Security program might be headed for financial trouble?

45	The government has spent the Social Security reserves for other programs
26	The number of older people is growing faster than the number of workers
12	The cost-of-living increases are too high
6	Even people who could afford to live comfortably on their own get benefits
5	Most older people get more money than they paid in
1	None of these (VOLUNTEERED)
5	Don't know/Refused
100	

27. Please tell me which of the following political activities, if any, you have participated in within the last FIVE years. First, in the last five years have you . . .

		Yes	No	Don't Know/ Refused	
a.	Phoned or written to a public official regarding an issue or problem that was concerning you	38	62	*	=100
b.	Contributed money to a candidate or political party	24	76	*	=100
c.	Volunteered to work on a campaign for a particular candidate or party	12	88	*	=100
d.	Written a letter to a newspaper or called a radio or TV talk show to make your views known on an issue	21	79	*	=100
e.	Attended a public forum or discussion on an issue that concerned you	35	65	*	=100

28. How often do you use a computer to go on-line to get information about current events, public issues, or politics? Would you say you do this regularly, sometimes, hardly ever, or never?

14	Regularly
12	Sometimes
13	Hardly ever
61	Never (includes: never use a computer)
*	Don't know
*	Refused
100	

29. How much of the time do you think you can trust the government in Washington to do what is right-- just about ALWAYS, MOST of the time, or only SOME of the time?

1	Just about always
23	Most of the time
68	Only some of the time
6	Never (VOLUNTEERED)
2	Don't know
*	Refused
100	

30. **(IF NOT RETIRED)** These next questions are about the things you may have thought about, or done, to prepare for retirement. Have you ever calculated how much money you (and your husband/wife/partner) will need in order to maintain your standard of living during retirement?

49	Yes
51	No
*	Don't know/Refused
100	
(889)	

31. **(IF NOT RETIRED AND RESPONDENT OR SPOUSE IS EMPLOYED)** As far as you know, does (your employer) (or) (your husband's/wife's/partner's employer) offer any of the following types of retirement or pension plans?

		Yes	No	Don't Know/ Refused		
a.	A 401-k plan?	56	40	4	=100	(829)
b.	Any other pension plan where YOU can make direct contributions yourself?	37	59	4	=100	(829)
c.	A pension or PROFIT-SHARING plan where your EMPLOYER makes ALL the contributions?	29	66	5	=100	(829)
d.	An E-SOP, or employee stock ownership plan?	19	75	6	=100	(829)

32. **(IF NOT RETIRED)** For each of the following ways to save for retirement, please tell me whether this is something you (and your husband/wife/partner) do EVERY year, SOME years, or not at all?

		Every Year	Some Years	Not At All	Don't Know/ Refused		
a.	Contribute money to an IRA account?	19	15	65	1	=100	(889)
b.	**(IF YES TO Q31a or b)** Contribute to a 401-k plan or other employer pension plan?	66	8	25	1	=100	(575)
c.	Set aside money for retirement in accounts or investments of your own?	34	17	48	1	=100	(889)

33. **(IF NOT RETIRED)** As far as you know, in order to prepare for RETIREMENT, what percentage of income do financial professionals think is the MINIMUM a person should set aside each year? Is it...

6	At least two percent of income
26	At least five percent
39	At least ten percent, or
17	At least twenty percent
12	Don't know/Refused
100	
(889)	

34. **(IF NOT RETIRED)** As far as you know, how much money do financial professionals think most people will need AFTER they are retired in order to keep their standard of living about the same as it was BEFORE they retired? Will most people need...

25	About 90 percent of their pre-retirement income
47	About 70 percent
17	About 50 percent, or
4	About 40 percent in order to keep up their standard of living in retirement?
7	Don't know/Refused
100	
(889)	

35. **(IF NOT RETIRED AND YOUNGER THAN 65)** Do you happen to know about how much money you will get each month from the Social Security program after you retire?

18	Yes
79	No
3	Don't know
*	Refused
100	
(856)	

36. **(IF NOT RETIRED AND YOUNGER THAN 65)** Have you ever gotten a letter from the Social Security Administration telling you how much money you have contributed to the program in payroll taxes so far?

22	Yes
77	No
1	Don't know
*	Refused
100	
(856)	

D1. **RECORD RESPONDENT'S SEX:**

48	Male
52	Female
100	

D2. In politics today, do you consider yourself a Republican, a Democrat, or Independent?
D3. **(IF INDEPENDENT OR DON'T KNOW)** As of today, do you lean more to the Republican Party, or to the Democratic Party?

37		Total Republican
	26	Republican
	11	Lean Republican
45		Total Democrat
	32	Democrat
	13	Lean Democrat
11		Independent
2		Other (VOLUNTEERED)
5		Don't know/Refused
100		

D4. What is your employment status? Are you self-employed, employed at a full time job, employed part time, unemployed, retired or a homemaker?

11	Self-employed (full or part time)
48	Employed full time
9	Employed part time
5	Unemployed
18	Retired
8	Homemaker
1	Disabled (VOLUNTEERED)
*	Don't know/Refused
100	

D5. Are you now married, LIVING AS married, separated, divorced, widowed or have you NEVER been married?

52	Married
4	Living as married
4	Separated
12	Divorced
9	Widowed
18	Never married
1	Refused
100	

D6. **(IF MARRIED OR LIVING AS MARRIED)** Is your (husband/wife/partner) self-employed, employed at a full time job, employed part time, unemployed, retired or a homemaker?

10	Self-employed (full or part time)
48	Employed full time
9	Employed part time
3	Unemployed
18	Retired
10	Homemaker
2	Disabled (VOLUNTEERED)
*	Don't know/Refused
100	
(681)	

D8. What is the last grade or class you COMPLETED in school?

16	Less than high school graduate (Grades 11 or less)
33	High school graduate, Grade 12, or GED certificate
4	Technical, trade, or business after high school
24	Some college or university work, but no 4-year degree
14	College or university graduate (BA, BS or other 4-year degree received
9	Post graduate or professional schooling after college (including work towards an MA,MS, Ph.D., JD, DDS, or MD degree)
*	Refused
100	

D11. Last year, that is in 1997, what was your total FAMILY income from all sources before taxes? Just stop me when I get to the right category.

9	Less than $10,000
15	$10,000 to under $20,000
15	$20,000 to under $30,000
14	$30,000 to under $40,000
17	$40,000 to under $60,000
12	$60,000 to under $100,000
6	$100,000 or more
12	Don't know/Refused
100	

The CHAIRMAN. Dr. Wagner, in your testimony, you discussed employers' experience with and attitudes toward older workers. In your study, did you find differences in employers' views on retaining older workers versus hiring of older workers, retaining them versus hiring?

Then let me ask one more question before you answer. Are employers more willing to retain older workers already employed by the company but less willing to hire the older workers?

Ms. WAGNER. Well, Senator, we did not ask questions that specifically looked at those issues, but we could infer some insight about those issues from the analysis of the data, and what I would say is that there is a difference among the employers in terms of retaining versus hiring older workers per se. There is a sense of loyalty to retaining the older worker.

The first question was—was that your first question? I am sorry.

The CHAIRMAN. The same question asked a little bit differently, so you have answered it, yes. Thank you.

Ms. WAGNER. OK.

The CHAIRMAN. Then I would ask, again, Dr. Wagner, and Mr. Huard, employers used to have the philosophy that the first one hired was the last one fired. Today, when a company merges with or is taken over by another company, the new employer often offers buyouts and incentives to older workers to encourage them to retire from the company early. In your opinion, what has accounted for this shift in attitude among employers and how well it affects our aging workforce?

Ms. WAGNER. I think that one of the reasons that this trend has been observed is that we have a different set of values in the workplace than we did, say, 20 years ago. We do not have a lifetime commitment, obligation, when the employment contract is made. Employees leave on the average of every 5 years. They might change a job. Companies are purchased. So I think that we are seeing that old way of looking at that commitment break down because of that.

The CHAIRMAN. I have heard that before, so I am asking you only because of your being a scholar in this area. Is there backup to that, studies to document the attitudinal change? I do not dispute that it has taken place, but——

Ms. WAGNER. Yes. There have been some studies that have looked at what are the values that employers hold toward their workers and what is the commitment, the contractual obligation, and it does show a shift in that and it is more of a short-term type of thing.

The CHAIRMAN. Mr. Huard.

Mr. HUARD. Well, I can think of two possibilities, and certainly if I think of a third or a fourth, I will add the response in writing.

One is that the old system was largely, in many cases, in any event, a response to requirements of the unionized workforce, where seniority applied so that the oldest and most senior workers were almost never laid off. This was not necessarily a choice made by management, it was required under the union contract. Now, what you have had in the last several decades is a significant decline in the unionization of the industrial workforce. It used to be one in three industrial workers were unionized. Now, it is about one in ten.

The other factor, of course, is employer pension and retirement plans frequently make it attractive to offer an early out, so that it is basically a win-win situation. If a company, particularly a company that has been created as a result of a merger, has surplus workers, they have the mechanism and the tools, namely the 401(k)s, the retirement plans, to offer an early out, and, of course, it becomes attractive to the employees to take it.

So I think it is a combination of declining unionization and the availability of employer retirement and profit sharing plans that has increased the early buyout phenomenon. If there are other factors of significance that I stumble across when I go back and ask my staff, I will send you a response in writing.

The CHAIRMAN. Thank you.

Ms. Lukensmeyer, from what I understand from the testimony that was given on our first panel by the General Accounting Office, one of the biggest determining factors for workers deciding when to retire is the worker's financial situation. Those who feel financially secure, obviously, may be in a position to retire earlier and want to. For people in the 18- to 49-year age range, have you noticed any correlation between when they intend to retire and their savings habits?

Ms. LUKENSMEYER. When they intend to retire and their savings habits? No, I do not think our data suggested a distinction in terms of those age groups.

The CHAIRMAN. OK. Well, then, let us leave it this way. If you come to the conclusion it did, submit me an answer in writing, please.

Ms. LUKENSMEYER. We will do that.

The CHAIRMAN. Paul, I hope that one of the outcomes of today's hearing will be a better understanding of the interaction between government and the programs of government and then the private sector that need to be addressed if the retirement age was increased further. Your answer to managing these interactions is to create personal accounts to get needed flexibility. I want to come back to that.

But first, we have also Federal laws which regulate who is supposed to get benefits, how much they can accumulate, and a wealth of regulations which still get in the way of this flexibility. Is it your position that your members do not need additional flexibility in designing benefit plans that could provide more opportunities for older workers to continue working?

Consider some of the options mentioned by Dr. Wagner as an example, proration of benefits for part-time workers under ERISA, opting out of FICA tax for workers beyond age 65, et cetera. She named them there. What is your reaction and the answer to my first question?

Mr. HUARD. I think, quite clearly, our members would always opt for greater flexibility. One of the things that has been a source of increasing frustration over the three decades or more that have elapsed since the enactment of ERISA in 1974, I guess it is two decades, almost three, getting to be three, is that the regulations restricting how employer welfare plans, employer benefit plans, employer pension plans become more and more onerous, more and more restrictive, and this has in some cases resulted, I think, in the case clearly of the so-called defined benefit type of pension plan, the regulatory burdens and restrictions that resulted in a decrease in that type of plan and an increase in so-called defined contribution plans, like 401(k)s, and I think if employers had more flexibility, they would eagerly grasp it to help some of these problems associated with the aging workforce and how their benefits are handled when they transition out of the workforce and into retirement.

The CHAIRMAN. Back to the issue. As I said, I wanted to discuss personal accounts, which you brought up, and that is something that we are looking at as that could very easily become a component of Social Security.

Would proposals that include contributions of 2 percent, for instance, of taxable wage base generate enough money to close the income gap for low-wage workers who cannot qualify for disability benefits?

Mr. HUARD. I might have to come back and answer that in writing. I think that that kind of numerical analysis is a little tough to do, sitting here in front of the microphone.

The CHAIRMAN. But you have not done work on that already?

Mr. HUARD. No.

The CHAIRMAN. OK.

Mr. HUARD. No. We have not—maybe the Senator can answer your question. [Laughter.]

The CHAIRMAN. Senator Breaux, why do you not answer it right now, then.

Senator BREAUX. No.

The CHAIRMAN. OK. The answer is no.

Dr. Wagner, you talked about some of the good news from the study which indicated that stereotypical views about older workers are beginning to break down. How much of this would you contribute to the improved economy that we have today and contrast the early 1990's when some of these other studies were completed and the economy was not so good?

Ms. WAGNER. I think the economy has a lot to do with it. I think that much of what we are seeing today in the success of older workers being both retained and hired is due to the strong economy, and you have seen, for example, for the first time, a change in the number of people who are retiring earlier, which I think demonstrates that it is not just the availability of benefits that influences people's retirement decisions. It is also the economy and what their job opportunities are. As our other panelists mentioned, there are health issues, too. So it is a very complicated issue, but the economy certainly plays a very, very important role.

The CHAIRMAN. My last question will be to you, Ms. Lukensmeyer. In your polling data of people's reactions to the different Social Security reform proposals, how well do people understand the various proposals and have you found that people have a good understanding of the implication of these proposals? Then more specifically, what is their reaction to the raising of the retirement age?

Ms. LUKENSMEYER. An excellent question, Chairman Grassley. We did our first polling in the field in March of this year, so in part, it was previous to some of the education efforts that have gone, in terms of the White House conferences, our own, a lot of other grassroots coalitions that are out there. We discovered that, in fact, retirement is, in fact, the best understood of the proposals, or the most exposure to it, know it is out here, know it is being talked about.

But most of the rest of the proposals, and I could pull out some of those numbers if you give me a minute here, really are not understood at all and not even known that they are being talked about.

For example, in terms of making a shift to some private retirement accounts, the numbers there, there is barely any understanding of what those are at this point in time. Now, clearly, there are categories of workers who have been exposed to some more of that discussion, but in terms of survey polling, the suggestions are that——

The CHAIRMAN. Have you found a difference, then, between the poll taken in May and as you have discussed this at your 15 meetings? At the cumulation of those 15 meetings, has there been a better understanding of it?

Ms. LUKENSMEYER. It is our suspicion that, in fact, things have shifted in these months, but again, we try never to extrapolate from people who are gathered in the room, and we right now have in the field a tracking poll which we will be able to report on by the end of this month that asks about all the major proposals that are on the table at the moment and we would be glad to submit that to you in writing as soon as we have it back.

The CHAIRMAN. It seems to me that that is significant. In the President's proposal of this one year of discussion, we hope at the end of one year, we have some greater understanding so there is some more of a mandate from the electorate than what we would normally have.

Ms. LUKENSMEYER. That is our belief, too, and that is why we will attempt to do the tracking poll once every, probably, quarter.

One of the other things that I think is important to say is that we will then also be putting policy options into a survey poll by the end of our month because we found in our forums that people very quickly grasped the reality that no single reform will, in fact, solve this problem. As you discussed with the earlier panel, this is going to have to be some combination of reform proposals.

So we believe that the public needs to be asked that in survey forms, where they are not just responding to retirement age alone, private retirement accounts alone, reduced benefits alone, but they need to begin to think about it in the same way that you will be thinking about it, as a package of those objects.

Your earlier question, I picked up those numbers. In terms of raising the retirement account, people who say they have heard a lot about it is only 30 percent. This is the March timeframe. Excuse me, that was retirement age.

Private retirement accounts, only 13 percent in the March timeframe said they really felt they had heard enough about it to begin to understand it.

We asked about whether or not the government itself should invest in something other than the Treasury bonds that it currently does. Only 8 percent of people felt they had ever heard anything about that.

So you can see the general knowledge about the reforms in the March timeframe was very low. I think we will be able to see whether that has shifted here in a few weeks.

The CHAIRMAN. It seems to me for the Congress and the President to be able to get enough of a consensus to move ahead, that those figures are going to have to be closer to 40 or 45 percent. They probably do not have to be 50 percent for Congress to move, but they obviously have to be out of the single digits.

Senator Breaux.

Senator BREAUX. Or get Congressmen who are not interested in being reelected.

The CHAIRMAN. I know, but then we become trustees of the people rather than representatives of the people.

Senator BREAUX. Thank you very much, all of you, for your comments. Mr. Huard, thank you for your presentation. I note that Steve Elkins is behind you and I want to thank him for the good participation and work on NAM's behalf with the CSIS Social Security proposal. He has been very helpful in that regard.

Dr. Wagner, what type of employers were in your survey? I was just wondering, was it a mix of large, small, medium, or what?

Ms. WAGNER. Right. It was a mix of all sizes and all sectors, so we had service sectors, the business sector, manufacturing, and construction, the whole thing.

Senator BREAUX. I think that when you isolate trying to fix Social Security with just one proposal, one proposal always looks pretty horrific, I guess, and when you talk about gradually phasing in a retirement age, even very gradually, if you look at it by itself, if that is the only thing you do, it makes it look kind of a little scary. But if you recognize that it is going to take a combination of all of these things, then it makes it a little bit more understandable and probably a little bit more palatable.

I take it, Mr. Huard, your members probably would not get real excited with increasing the payroll tax.

Mr. HUARD. I think that is exactly right, particularly our smaller members. We have over 10,000 members who are fairly small, and with them, the payroll tax is a much bigger proportional problem than it is, say, with someone with a workforce of 50,000 or 60,000.

Senator BREAUX. Of your members, do you have any idea what the average mandatory retirement age would be? Many companies have a mandatory retirement age for their employees. Is there sort of an average figure for the people that you represent?

Mr. HUARD. I would think most of the plans would have a normal retirement age of 65. I use the word "normal" advisedly. They tell me that the way Congressman Claude Pepper made mandatory retirement something of a no-no.

Senator BREAUX. Yes. But do not most companies, at least for their management officials, have a mandatory retirement age?

Mr. HUARD. For relatively few, yes. The really top management, it will normally be 65, occasionally lower, but typically 65.

Senator BREAUX. I appreciate your observations on all of this. I think it has been helpful. We are looking at only one perspective of it, and one perspective is not going to cut it. One party is not going to get it done. So it will have to be a combination of looking at things like a gradual phase-in of the retirement age, and the private investment accounts.

My staff was just showing me, every Federal employee has an option that we do not have under Social Security and we are doing great. We can put up 10 percent of our salary in a Thrift Savings Plan. We get to pick whether it is going to be in the least-risky fund or a more moderate risk or the most-risky fund.

For the last 10 years since we have had it, the high-risk fund has averaged 16 percent return. Social Security averages 2.7. I mean, there is something wrong out there somewhere and if we cannot see that, we must have blinders on. The high-risk fund last year, I think, the younger people in my office who are in the high-risk plan, they got a 41 percent return on their savings account, and Social Security gets 2.7 percent.

I mean, we just cannot continue with these numbers. We have to do something, and it is going to take everybody working together, business and labor and old people and young people and working people because everybody is affected. This is not a problem that is only for old people. We have got a lot more children in this country living in poverty than we have seniors. So we have a real challenge and I think that your suggestions have been helpful in letting us see the various options that we have and, hopefully, have the political courage to do what is right in the next Congress.

Thank you, Mr. Chairman, and thank you all.

The CHAIRMAN. We have had two very splendid panels and we are an end in itself here at this committee. We are part of the President's process of generating more knowledge in this area, and I think our two panels have done that very well. Thank you very much, and we look forward to additional dialog on this issue with the public through this committee in the months ahead, as well. Thank you all very much.

Ms. WAGNER. Thank you.

Mr. HUARD. Thank you, Mr. Chairman.

Ms. LUKENSMEYER. Thank you.

The CHAIRMAN. The committee is adjourned.

[Whereupon, at 3:43 p.m., the committee was adjourned.]

APPENDIX

Social Security
Americans Discuss Social Security

A project funded by The Pew Charitable Trusts

August 7,1998

The Honorable Charles Grassley
United States Senate
135 Hart Senate Office Building
Washington, DC 20510

Dear Senator Grassley:

At the hearing of the Special Committee on Aging which you chaired on July 15, you asked us for data concerning any correlation between the savings habits of people in the 18-to-49 age range and when they intend to retire. Our polling data indicates that savings does have an effect on expectations of the time of retirement.

Both Generation-Xers (18-29) and Boomers (30-49) who have retirement savings expect to retire earlier than those who do not. Forty-two percent of Gen-Xers who have already started saving for retirement expect to retire before they are 60 years old. Only 30 percent of those who have not started to save expect to retire as early.

While, on average, Boomers expect to retire slightly later than Gen-Xers, the same trend appears. Thirty-one percent of Boomers who have begun saving for retirement plan on retiring before they reach 60. Only 16 percent of those who have not started saving expect to retire as early. One-quarter of the Boomers who have no retirement savings say they expect to retire when they are 70 or older, or say they never plan to stop working. Only 14 percent of the Boomers who have started to save are this pessimistic.

We hope this information proves useful to you and the members of the committee.

Sincerely,

Carolyn J. Lukensmeyer

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Executive Director

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Statement
for the Printed Record of the hearing on
"Living Longer, Retiring Earlier:
Rethinking the Social Security Retirement Age"
Senate Special Committee on Aging
Dallas L. Salisbury
The Employee Benefit Research Institute (EBRI)
July 15, 1998

Analysis using the EBRI-SSASIM2 Policy Simulation Model has shown that increasing the normal retirement age to 67 by the year 2011 and indexing it to longevity thereafter would save the Old-Age and Survivor's Insurance (OASI) program a projected 5.3 percent in total costs[1] over 75 years and 13.5 percent in annual costs in 2070.[2] In lieu of such positive financial implications, policymakers face the question of how a raise in the normal retirement age would affect beneficiaries. Issues include whether increasing the normal retirement age would be an effective means of achieving the policy goals in mind, from what perspectives such a reform can be viewed by policymakers and the public, and the extent to which such an increase would disadvantage workers in physically demanding occupations.

In making these decisions, policymakers will likely find the following three points of interest. First, few persons today actually wait to retire at Social Security's normal retirement age. Since 1960, the percent of Social Security beneficiaries with a reduction in benefits for early retirement has grown from 11.8 percent to 71.1 percent (Chart 1, U.S. Social Security Administration, 1997). In addition, EBRI tabulations on data since 1988 have shown an increasing percentage of early retirees among those ages 55 to 64 (EBRI, 1997). In 1988, for example, 10.4 percent of the population ages 55-62 were retired, as compared with 12.5 percent in 1996. In 1988, 32 percent of the population ages 63-64 was retired, as compared with 36.5 percent in 1996, the last date for which data are available. These data suggest that if the goal of raising the normal retirement age is to encourage delayed retirement by raising the "age hurdle," the more significant hurdle in reality for most workers is the early retirement age.

Second, an increase in the normal retirement age can and has often been viewed as a benefit decrease. However, since 1960, remaining life expectancy at age 65 has increased almost 21.7 percent, giving the average American an extra 3.1 years in later life (table 1, U.S. Department of Health and Human Services, 1997). Had the Social Security retirement ages been indexed to longevity since 1960, the normal retirement age would be 68.1 years today, and the early retirement age would be 65.1 years. Because the

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[1] Cost rates are the ratio of the present value of tax income to the present value of taxable payroll for the years in a given period.
[2] Saving projections expressed relative to the current system.

retirement ages have not been indexed to longevity, beneficiaries have actually been receiving progressively larger total expected lifetime benefits since 1960 in part because they have been living more years on the program. Depending on one's perspective, keeping the benefit period steady rather than growing over time is on one hand a benefit cut, and on another hand simply a way of more closely maintaining historical benefits.

Table 1: Life Expectancy At Age 65

Year	Years of Remaining Life Expectancy
1960	14.3
1970	15.2
1980	16.4
1985	16.7
1990	17.2
1995	17.4

Source: U.S. Department of Health and Human Services, 1997

Finally, the prospect of raising the normal and/or early retirement ages raises questions about the ability of some workers to continue employment until eligibility age—specifically workers with physically demanding occupations. While overall, research in this area is still in need of support and continuation before such effects can be adequately assessed, one ground-breaking study by Burkhauser, Couch and Phillips (1995) was done using data from the Health and Retirement Survey (HRS).[3] They found that "the great majority of those who take early benefits have both good health and economic well-being." Contrary to popular conception, they found that only about 5 percent of those taking early retirement and 2 percent of those retiring at normal retirement age reported a health limitation. These results suggest that an increase in the normal retirement and/or early retirement ages would not force droves of workers in ill health to continue employment or to apply for Social Security disability benefits.

However, whether those workers who do have ill health later in life but who are too young to qualify for Social Security retirement benefits should be forced to rely on disability or welfare benefits for support is an important policy issue. Today, Social Security disability benefits are issued only through a complex determination process. As a society, we may decide that persons in their sixties should not be held to the same disability standards as younger persons. Burkhauser et al. (1995) suggest that older workers with health limitations may be particularly vulnerable to hardship in the face of an increased normal and/or early retirement age. Among those who reported a health limitation at early retirement age, Burkhauser et al. found that the incidence of poverty was high.

While certainly not an exhaustive list, the above three considerations are likely to be important considerations to policymakers and the public alike in considering a raise in

[3] For additional analysis on the HRS, see

the normal retirement age. First, if delayed retirement is sought in order to increase retirement age, an increase in the early retirement age is a more likely impetus. Second, because of increases in life expectancy at age 65, a raise in the normal and/or early retirement age(s) may be perceived by policymakers and the public as a benefit cut or as simply a means of maintaining historical benefits. Finally, while it may be unlikely that a deluge of beneficiaries would flock to the disability and/or welfare rolls upon an increase in retirement age(s), present research suggests that some innovative policy provisions will likely need to be designed for those most vulnerable to adversity under such a policy reform.

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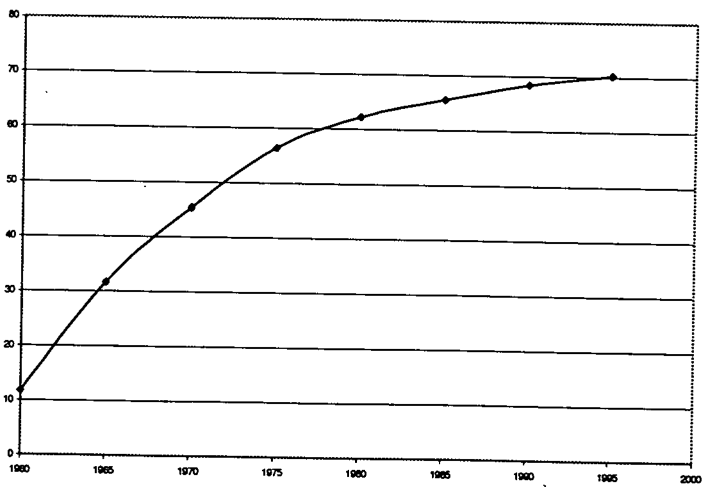
Chart 1: Percent of Social Security Beneficiaries with Benefit Reductions for Early Retirement, 1960-1995



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