

Working for Retirement Security

Longer life spans and other demographic changes are making it increasingly expensive to finance an adequate retirement income. One way to reduce this burden is for older workers to participate longer in the workforce. Policy makers should consider ways to remove barriers to continued work at older ages with the objective of improving the economic security of American workers in their retirement years.

EXECUTIVE SUMMARY

Over the past 50 years, Americans have enjoyed steadily increasing life spans, and they have also been retiring earlier. The combined effect of these two trends is that the average American worker today can now be expected to spend 50 percent more time in retirement than a similar worker 50 years ago. Experts project life spans will continue to increase.

As a result, the amount of income that must be put aside to fund workers' retirement must grow. Funding retirement is becoming more expensive for individual workers and for our public retirement systems, and the expense is growing to the point where it is putting strains on the ability of workers and society to bear it. Under our retirement systems that depend on workers and/or firms putting aside earnings during the working years to fund retirement income, the period of accumulation is getting shorter while the payout period is getting longer. Under our Social Security system, which uses the contributions of today's workers to pay today's retirees, the declining number of workers relative to retirees raises costs directly.

Although the need to set aside income has grown, many workers have not been accumulating enough savings in their personal or retirement accounts. Rapidly rising health care costs also consume a growing share of earnings and retirement incomes. Experts project these costs will continue to rise faster than national income. Social Security benefits, the major source of income in retirement for most workers, are on track to replace a smaller share of pre-retirement income (about 4 percent less) as the normal retirement age rises to 67, owing to reforms enacted in 1983. Most individuals choose to receive the earliest yet smallest Social Security benefit available to them. The long-term financing imbalances in Social Security remain an unresolved issue.

For some share of our population, economic security in retirement is at risk. The problem is greater for widows and single women, who on average live longer than men, and tend to accumulate fewer savings and earn lower Social Security benefits.

In the past, this Advisory Board has recommended that policy makers address the long-term financial health of our Social Security system, and we have drawn attention to the predictable but growing threats to retirement security. In this report, the Board adds its voice to a growing consensus that one effective way to shore up retirement security in the future is to find ways to extend individual working careers when possible.

Continuing to work and/or postponing retirement benefits can significantly increase the resources available to individuals in retirement. Every additional year spent working provides income, reduces the need to draw down one's assets, provides an additional opportunity to save,

and allows already accumulated savings to grow. This can be especially important for those approaching retirement with inadequate savings and for those who will experience longer than average lifetimes.

More Americans choose to begin receiving Social Security benefits at the earliest age of eligibility than at any other age. But for each year they delay taking benefits, they can significantly increase their monthly benefit for the rest of their lives. This choice can be critical for economic security at older ages.

At the same time, delaying retirement also has the potential to enhance economic security for those covered by employer-sponsored retirement plans. In most traditional defined benefit plans and in cash balance plans today, benefit accruals continue for many workers at advanced ages. In defined contribution plans, extending work has two beneficial effects: (1) it extends the period over which contributions are made; and (2) it shortens the period where accumulated savings are relied on for retirement income.

Having a greater share of older Americans continuing to work will also provide additional tax revenue to improve the financial condition of the Social Security system as well as state and federal government budgets. Extending individual working lives should ameliorate the projected decline in national labor force growth and add to national income.

We recommend that older workers should be given information about the personal advantages of remaining employed for a longer period of their lifetimes to the extent they are able. We also recommend that individuals be encouraged strongly to consider under what circumstances it would be advantageous for them to delay the age they choose to begin receiving Social Security benefits.

We recommend that the Social Security Administration continue to provide the most accurate and objective information possible to help the public make appropriate choices about when to claim benefits. The agency should review all communication with the public to ensure it is not inadvertently encouraging people to claim at the earliest date possible.

There are already signs that older workers are beginning to reverse a decades-long trend toward earlier retirement, perhaps responding to the pressures described above. In addition, fewer people are applying for Social Security benefits at the earliest possible age. Some recent survey data suggest that those nearing the usual retirement ages desire and intend to work to older ages.

A substantial share of older Americans, however, will not be able to work longer because of ill health, disability, or a lack of employment opportunities. And even for those who wish to work longer, important barriers to remaining employed still exist. Our current patchwork of laws and regulations should be changed to do a better job of helping those who can work a few years longer and secure a better standard of living in retirement.

We believe there are opportunities to reform policies and regulations that affect Social Security, public and private pensions, health care, and tax and labor laws that can assist workers to stay in the workforce longer and reward their efforts adequately.

We recommend that public policy should be geared toward removing barriers and improving incentives to continued employment at older age. A set of coordinated and coherent policies should encourage and support those who want to extend their working lives, while providing adequate support for those who are unable to do so.

We reiterate that our nation's systems of providing economic security to those who cannot work should be maintained and improved. Nothing in this report should be seen to contradict this strong belief.

Raising awareness of the benefits of longer working lives and supporting the choices of those who desire to do so will require more than just a more coherent set of policies:

We encourage employers to evaluate how older workers can continue to contribute in the workplace and, to the extent it is economically feasible, to adopt policies and practices that can accommodate a greater share of those who desire to extend their working lives. Older workers and their advocates, for their part, should consider the requirements they will have to meet so that continued employment benefits employer and employees alike.

In addition, individuals, institutions and public policies should recognize the importance of making lifelong investments that enhance a worker's ability to remain productive at older ages and adapt to the changing needs of the economy. Adequate preparation for retirement is a life-long endeavor.