

## How Fast Should the Social Security Retirement Age Rise?

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The Social Security Act of 1935 set age 65 as the age at which people could first receive benefits. The Early Eligibility Age, or EEA, was reduced to 62 for women in 1956 and for all workers in 1961. Over time, an increasing fraction of workers have taken advantage of the opportunity to claim benefits soon after they become eligible.

In recent years, however, many Social Security reform proposals recommend increasing the age at which people become eligible for Social Security retirement benefits as a way to reduce future expenditures, maintain benefit adequacy, increase labor supply, and compensate for increasing longevity. But the amount by which the benefit eligibility age is increased in reform plans is rarely chosen based upon principals of optimal social insurance. Instead, ad hoc targets are proposed, such as holding constant the number of years receiving benefits or holding constant the ratio of retirement years to work years. In this paper, we develop a model for how an “optimal” early retirement age might be determined, in light of the combined influences of rising productivity, longer lifespans, and lower disability rates. We also develop estimates for how health at each age has improved over the past 40 years – estimates that are important for thinking about how people’s ability to work at different ages has evolved over time.

The model is based on the paternalistic notion that without a pre-determined age of eligibility, some people would tend to access their retirement benefits too early (with benefits reduced accordingly) and thereby end up with a retirement benefit stream that is too low to support themselves in their later years. In an effort to prevent this “myopic” behavior, the model identifies a retirement age that is best suited, from a paternalistic perspective, for the population generally. Even though the “ideal” retirement age differs from one person to another, the model identifies a single age of eligibility for Social Security benefits, selected to minimize the combined loss from people for who are forced to start benefits later than they “ideally” should, and those who should “ideally” defer benefits even longer. The model, in some sense, makes the optimal retirement age choice for the average or typical person – a little too early for some, and a little too late for others – but on balance just right for the population overall.

Our analysis of changes in population health between 1960 and 2000 focuses initially on mortality and life expectancy. We find, for example, that the average 68 year-old in 2000 has the same probability of death in the next two years of life as the average 62 year-old had in 1960. Similar results are found for life expectancy. The life expectancy of a 62 year-old in 1960 was 14.6 years. That is the life expectancy today of a person aged 67. Thus, if one were defining a social security retirement age based only on expected years until death, the retirement age would have increased by about 5 years in the past four decades.

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But health improvements are not limited to extending the lifespan, they also involve improved functioning at each age. Thus, we also looked at self-reported health and direct physical assessments of health. For example, in the mid-1970s, 29 percent of men aged 62 reported their health as being fair or poor. By the mid-1990s, one did not reach the same share of men reporting fair or poor health until ages in the low 70s. In 1972, the average 62 year-old male with heart disease reported 20 days in bed in the previous year. By the mid-1990s, age-specific bed days were about 5 days lower across the age spectrum. As another example, the share of 65 to 74 year-olds that is unable to perform basic activities of independent living, such as dressing, bathing and doing light housework, as fallen from 12 to 9 percent. Considering a range of health status measures, our preliminary estimate is that people aged 62 in the 1960s or 1970s are in similar health to people aged 70 or more today.

While this initial paper focuses on model development and documenting the changes in health that have occurred over the past few decades, our aim in continuing work is to use these models to identify a socially optimal early retirement age for Social Security and to demonstrate how the socially optimal age changes over time.

The full working paper is available on our website, [www.nber.org/programs/ag/rrc/books&papers.html](http://www.nber.org/programs/ag/rrc/books&papers.html) as paper NB04-05.

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