

Lowering the Heat Around Raising Retirement Age

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House Majority Leader Steny Hoyer and Republican counterpart John Boehner may feel as though they were battered this summer when they suggested that because people are living longer, Social Security retirement ages should rise. Both met with a hailstorm of criticism, some of which derived from myths surrounding the retirement age.

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Myth 1: Increasing the retirement age will reduce benefits. Compared with what today's retirees get, no. Under most proposals, increasing the retirement age reduces only the rate of benefit growth from one generation of retirees to the next, as real annual benefits still grow and people continue to live longer.

Under Congressional Budget Office projections, for instance, increasing the normal retirement age gradually from 67 (where current law will put it by 2022) to 70 would still allow expected median lifetime benefits per person to increase from about \$250,000 for today's people in their 50s to \$360,000 for their 10-year-old kids.

Myth 2: Increasing the retirement age discriminates against low-income workers who have shorter life expectancies. Nope, and it's largely irrelevant. Low-income groups receive a disproportionate share of disability benefits, and any change in retirement age wouldn't affect those on disability or those who don't live long enough even to receive old-age benefits. There are many better ways to protect and help low-income workers.

Myth 3: Increasing the retirement age makes Social Security reform regressive. Wrong again. The progressivity of reform will be determined by the package as a whole, not by bits and pieces. Not that it should matter, then, but partly because retirement age changes don't affect those on disability, higher-income groups tend to be relatively more affected by increases in the retirement age.

By way of contrast, consider the commonly discussed reform of tweaking the annual cost of living adjustment (COLA). Whereas a retirement age change asks people to adjust when they are healthier and wealthier, COLAs compound over retirement to hit hardest those in their late 80s or 90s, whose annual benefits eventually might fall by 10 or 15 percent.

Myth 4: Social Security's Old-Age Insurance goes to the old. Not really. Social Security has morphed into a middle-age retirement system. It defines people as old - eligible for Old-Age Insurance - when they are 62. When this benefit was first made available 70 years ago, people couldn't get it until they were 65, and on average they retired at age 68 (compared with about 64 today).

If Americans were to retire for the same number of years today as they did then, on average they would work until about age 75 and, within another 60 years, to age 80. Instead, most draw benefits for about a decade more than they did when the system was first established - now approaching one-third of their adult lives. One or another partner in a couple retiring at age 62 today will probably draw benefits for about 26 years!

Myth 5: The elderly need to fear such Social Security reforms as increasing the retirement age. Of all the crazy myths that interest groups can rant, blog and tweet about, none is sillier than this one. Budget reform is around the corner, and the elderly will feel the pinch along with everyone else. Already, subsidies for Medicare Advantage plans held by the elderly have been cut back, and some tax rates are likely to rise.

But Social Security reform? Apart from the possible COLA change, not a single Social Security benefit reform option on the table would affect anyone currently older than 60. Literally, grandfathers are grandfathered into today's system. Social Security reform is almost entirely an issue for today's middle-aged and young people. Purely from self-interest, the elderly should lobby for Social Security reform because no other budget revision so totally exempts them from sharing the pain of deficit reduction.

Social Security is a huge program - its 2009 tab came to \$678 billion, or about 20 percent of the federal budget - with lots of moving parts. Because the effects of the whole system matter most, the electorate and the elected need to see how all reforms fit together to make Social Security solvent and secure for all generations.

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