Federal Policies Offer Mixed Signals about When to Retire

What GAO Found

Federal policies offer incentives to retire both earlier and later than Social Security’s full retirement age depending on a worker’s circumstances. The availability of reduced Social Security benefits at age 62 provides an incentive to retire well before the program’s age requirement for full retirement benefits; however, the gradual increase in this age from 65 to 67 provides an incentive to wait in order to secure full benefits. The elimination of the Social Security earnings test in 2000 for those at or above their full retirement age also provides an incentive to retire. Medicare’s eligibility age of 65 continues to provide a strong incentive for those without retiree health insurance to wait until then to retire, but it can also be an incentive to retire before the full retirement age. Meanwhile, federal tax policy creates incentives to retire earlier, albeit indirectly, by setting broad parameters for the ages at which retirement funds can be withdrawn from pensions without tax penalties.

Nearly half of workers report being fully retired before turning age 63 and start drawing Social Security benefits at the earliest opportunity—age 62. Early evidence, however, suggests small changes in this pattern. Traditionally, some workers started benefits when they reached age 65. Recently, workers with full retirement ages after they turned 65 waited until those ages to start benefits. Also, following the elimination of the earnings test, some indications are emerging of increased workforce participation among people at or above full retirement age.

GAO’s analysis indicates that retiree health insurance and pension plans are strongly associated with when workers retire. After controlling for other influences such as income, GAO found that those with retiree health insurance were substantially more likely to retire before the Medicare eligibility age of 65 than those without. GAO also found that men with defined benefit plans were more likely to retire early (before age 62) than those without, and men and women with defined contribution plans were less likely to do so.

Federal Retirement Age-Related Rules

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<th>Social Security</th>
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Sources: GAO (analysis); Art Explosion (images).


To view the full product, including the scope and methodology, click on the link above.
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