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November 2010

# SOCIAL SECURITY REFORM

## Raising the Retirement Ages Would Have Implications for Older Workers and SSA Disability Rolls



G A O

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## Abbreviations

AIME	Average indexed monthly earnings
DI	Disability Insurance
EEA	Earliest eligibility age
ESTR	Employment Support for the Transition to Retirement
FRA	Full retirement age
HRS	Health and Retirement Study
HUD	Department of Housing and Urban Development
OASI	Old-Age and Survivors Insurance
OASDI	Old-Age, Survivors, and Disability Insurance
SNAP	Supplemental Nutrition Assistance Program
SSA	Social Security Administration
SSI	Supplemental Security Income
WIA	Workforce Investment Act

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United States Government Accountability Office  
Washington, DC 20548

November 18, 2010

The Honorable Herb Kohl  
Chairman  
Special Committee on Aging  
United States Senate

Dear Mr. Chairman:

Life expectancy has increased over the last several decades, and by 2050 persons age 65 or older will account for more than 20 percent of the total U.S. population, up from about 13 percent in 2000. Without significant changes in retirement decisions, these improvements in longevity are expected to lengthen the average number of years that Americans spend in retirement and contribute to the expected long-term revenue shortfall in the trust funds for Social Security's Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs (collectively known as OASDI). The 2010 report from the Social Security Board of Trustees projects that the trust funds' assets will be exhausted by 2037.<sup>1</sup>

In light of the long-term trust fund solvency issues and increased longevity, many have suggested changing the earliest eligibility age (EEA) at which workers first qualify for retirement benefits, the full retirement age (FRA) at which they receive full benefits, or both.<sup>2</sup> By reducing monthly benefits for those taking early benefits or delaying eligibility, raising the retirement ages could create an incentive for workers to delay retirement, thus earning more income and possibly saving more for retirement. However, raising the retirement ages would likely increase the number of workers applying for and receiving DI benefits. More DI applications and beneficiaries would reduce some of the financial savings for the combined OASI and DI trust funds and increase the Social Security Administration's (SSA) disability caseload, which already faces a serious backlog.<sup>3</sup> Further,

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<sup>1</sup>See *The 2010 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Trust Funds*.

<sup>2</sup>The Social Security Amendments of 1983 (P.L. 98-21) raised the FRA from age 65, starting with retirees born in 1938, gradually up to age 67 for those born in 1960 or later.

<sup>3</sup>In addition, an increase in disability claims would result in increased administrative costs for the agency because, according to SSA, the costs for adjudicating disability claims are much higher than the cost of adjudicating retirement claims.

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higher retirement ages would mean that many workers in their sixties would have to wait to receive retirement benefits or receive lower benefits. As a result, this could create a financial hardship for those who cannot continue to work because of poor health or demanding workplace conditions, but do not qualify for DI or Supplemental Security Income (SSI), a separate assistance program administered by SSA for certain people with limited income and assets.

In this context, you asked us to address issues related to the potential impact of raising the EEA or FRA on the DI program and on older workers—in general, workers in their sixties, but in particular those approaching age 62, just prior to becoming eligible for retirement benefits. This report answers the following questions: 1) What do the health, occupational, and demographic characteristics of those near retirement age indicate about the potential for these individuals to continue working at older ages? 2) What is known about the effect a change in Social Security’s EEA and FRA could have on retirement and disability benefits and applications for disability? 3) What policy options might help mitigate the effects of increased retirement ages on those who may not be able to work longer?

To address these objectives, we

- conducted an analysis of data on older workers using the Health and Retirement Study (HRS);<sup>4</sup>
- reviewed selected studies of health, occupational, demographic, and financial conditions of older workers;
- reviewed selected studies of the impact of changing the retirement age;
- reviewed relevant federal laws and regulations;
- interviewed SSA officials and reviewed related agency data; and

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<sup>4</sup>The HRS is a national panel study intended to provide data related to retirement, health insurance, saving, and economic well-being. Data is collected by the Institute for Social Research, University of Michigan. For more information see <http://hrsonline.isr.umich.edu/>.

- 
- interviewed experts and reviewed literature to identify potential policy options that have been proposed to mitigate the effects of raising the retirement ages on older workers.

We do not intend the options identified by the experts we interviewed or identified in our research to be an exhaustive list. In addition, we did not assess or evaluate the potential policy options that were proposed to mitigate any potential impacts of a change in the retirement age, nor do we necessarily recommend any such options. We found the data to be sufficiently reliable for the objectives of this report.

We conducted this performance audit from May 2010 to October 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

On October 21, 2010, we briefed your staff on the results of our analysis. We have also updated the enclosed slides after the date of our original briefing. (See appendix I for the briefing slides.) This report formally conveys the information provided during this briefing. In summary:

- While general improvements in longevity, health, and workplace conditions over recent decades suggest that most workers would be capable of working to a later retirement age, many older workers would face health or physical challenges that could prevent them from working longer.<sup>5</sup> According to our analysis of preretirement age individuals using the HRS, about one-quarter of age 60-61 workers—those just prior to early retirement eligibility and most likely to be impacted by a change in retirement age—from 1998 to 2008 reported a work-limiting health condition, and about two-thirds of those who work report having a job that is physically demanding. Also, those workers who might have more difficulty working to an older retirement age have less education and lower household income than those who do not report health limitations. Disability rates increase with age, suggesting that workers postponing retirement would face increasing likelihood of becoming disabled. Even healthy older workers may have trouble staying in the labor force longer,

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<sup>5</sup>In this report, “older workers” refers primarily to those workers approaching the EEA, but may also include those working up until their FRA—typically, workers in their early sixties.

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as those that lose their jobs are less likely than younger workers to get rehired.

- Raising the EEA or FRA could increase the number of applications to and beneficiaries of DI and other assistance programs, as well as change retirement benefits. Raising the EEA would postpone eligibility for retirement benefits and could cause some older individuals with work-limiting health conditions to apply for DI instead of waiting to claim retirement. Raising the FRA reduces retirement benefits for individuals who retire early, and could create a financial incentive to apply for DI benefits, which are not reduced. A few researchers have begun to study the effects of the prior increase in the FRA, and two studies conclude that the increase has led to more DI applications. SSA actuaries estimate that raising the FRA further would increase the number of DI beneficiaries. With respect to the OASDI trust funds, the actuaries project that raising the FRA would improve solvency, but raising the EEA alone would worsen solvency.<sup>6</sup>
- Experts we interviewed indicated that modifications to the DI program and policy changes that provide alternative income support for low-income workers or employment support could help older workers who are unable to work, do not qualify for DI benefits, and are unable to receive enough support from existing programs. While existing programs like unemployment insurance and workers' compensation could provide some support for older workers, they are generally of limited duration and not everyone may qualify. Some proposals to support older workers include modifying the DI program, such as by allowing determinations of "partial disability" similar to how the Veterans Administration determines disability. According to SSA, however, this would be a major change, and SSA would expend significant resources in making such modifications to the DI program. Other proposals include options for income support in the absence of DI, such as setting different EEA's for workers based upon lifetime earnings, with lower earners having an earlier eligibility age; however, this policy may not specifically target workers who experience a disabling condition. In addition, tax incentives for employers and workers to encourage employment for older workers or those with disabilities—

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<sup>6</sup>The actuaries project that the impact on the trust funds would range from negative 0.03 percent of taxable payroll to 0.62 percent, depending on whether the EEA, FRA, or both are raised; the magnitude and speed of the increase; and how workers alter their retirement behavior. However, the provisions reflect published estimates only, and do not include the full range of options. For instance, beneficiaries who delay their retirement from age 62 to a later age will have larger benefits for the rest of their lives. In addition, SSI and other public assistance benefits would be reduced with a larger Social Security benefit.

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such as an earned income tax credit for older workers with a disability—or early intervention return-to-work support could keep some older workers in the workforce and deter them from applying for DI benefits. However, any proposal to mitigate the impacts of a higher retirement age would increase benefit costs, either within DI or in other assistance programs.

Raising the EEA would likely have larger effects than a comparable rise in the FRA on retirement decisions, DI applications and awards, and on vulnerable older workers because it would remove the age-62 early retirement option, as opposed to lowering benefits for all early retirees. Changes in the retirement age could conceivably improve retirement security for able-bodied workers if they cause them to work longer and save more for retirement, but it could worsen security for those unable to do so. In addition, an FRA increase by itself could also hurt the retirement security if workers continue to retire at age 62 and do not have a clear understanding of the monthly benefit reductions. While policy options exist to mitigate the impact on affected workers, doing so will likely require expanding programs and increase benefit costs. Finding the balance between worker protections and costs will likely be challenging.

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## Agency Comments and Our Evaluation

We provided a draft of this report to SSA for its review and comment. They provided us technical comments, which we have incorporated as appropriate.

We are sending copies of this report to relevant congressional committees. In addition, this report will be available at no charge on GAO's Web site at [www.gao.gov](http://www.gao.gov).



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If you or your staff have any questions about this report, please contact me at (202) 512-7215 or [bertonid@gao.gov](mailto:bertonid@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made key contributions to this report are listed in appendix III.

Sincerely yours,

A handwritten signature in black ink that reads "Daniel Bertoni". The signature is written in a cursive style with a large initial 'D' and 'B'.

Daniel Bertoni  
Director, Education, Workforce,  
and Income Security Issues

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# Appendix I: Social Security Reform: Implications of Raising the Retirement Ages

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## **SOCIAL SECURITY REFORM: Raising the Retirement Ages Would Have Implications for Older Workers and SSA Disability Rolls**

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**Briefing for the Senate Special Committee on  
Aging**

**October 21, 2010**

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## Introduction

- Long-term projected insolvency of the Social Security Old-Age Survivors and Disability Insurance (OASDI) trust funds have prompted proposed reforms to improve their long-term financial position.
  - Improvements in life expectancy have led to proposals to raise the earliest eligibility age (EEA) above 62, the full retirement age (FRA) above 67, or both.
- Raising the retirement ages could:
  - encourage people to save more for retirement and reduce the years those savings must last, and
  - improve the long-term financial position of the Old-Age and Survivors Insurance (OASI, or retirement) program.



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## Introduction

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- However, higher retirement ages could also:
  - postpone or lower monthly benefits, creating financial hardship for workers who cannot work longer; and
  - increase demand for Social Security Disability Insurance (DI) and other benefits, eroding the financial savings to OASDI.



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## Objectives

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Given these concerns, we addressed the following research objectives:

- (1) What do the health, occupational, and demographic characteristics of those near retirement age indicate about the potential for these individuals to continue working at older ages?
  - (2) What is known about the effect a change in Social Security's early eligibility and full retirement ages would have on retirement and disability benefits and applications for disability?
  - (3) What policy options might help mitigate the effects of increased retirement ages on those who may not be able to work longer?
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## Scope and Methodology

To address our objectives, we:

- conducted an analysis of older workers using the Health and Retirement Study (HRS);
- reviewed selected studies of health, occupational, demographic, and financial conditions of older workers;
- reviewed selected studies of the impact of changing the retirement age;
- interviewed Social Security Administration (SSA) officials and reviewed related agency data;
- interviewed experts on potential policy options that have been proposed to mitigate the effects of raising the retirement ages on older workers; and
- reviewed relevant federal laws and regulations.

Background: OASDI Trust Fund



## Retirement and Disability Trust Funds Face Long-Term Deficit, Prompting Proposals to Improve Solvency

- SSA estimates, as of 2010, that the gap between long-term OASDI program outlays and revenues represents about 2 percent of Social Security-taxable wages.
- OASDI trust fund assets are projected to be exhausted by 2037.
- In order to improve solvency, Social Security must increase revenues, decrease costs, or some combination of the two.
  - Raising the retirement ages is one of the options to reduce costs. Other reform options to improve solvency that have been suggested include adjusting benefit indexation, raising tax rates or the taxable wage base, and altering tax treatment of benefits.



## Background: Social Security Retirement Benefits

# Social Security Offers Discounted Retirement Benefits at the EEA

- Social Security pays retirement benefits to eligible workers, based on work and earnings history.
- Beneficiaries may choose to begin receiving benefits as early as their EEA, age 62; however, the payments will be lower than if they chose to wait until the FRA.<sup>1</sup>
- “Full” retirement benefits are available at the beneficiary’s FRA.
  - Reforms in 1983 raised the FRA gradually from 65 to 67, depending on a beneficiary’s birth year, with the EEA remaining at 62 (see figure 1).
  - Monthly benefit amounts continue to rise for workers who delay benefits beyond their FRA until age 70.
- On average, a beneficiary has approximately the same expected lifetime benefits irrespective of the age at which benefits begin.

<sup>1</sup>Under the current formula, the benefit reduction is 5/9 of 1 percent for each month up to 36 months before the FRA and then 5/12 of 1 percent for each additional month.

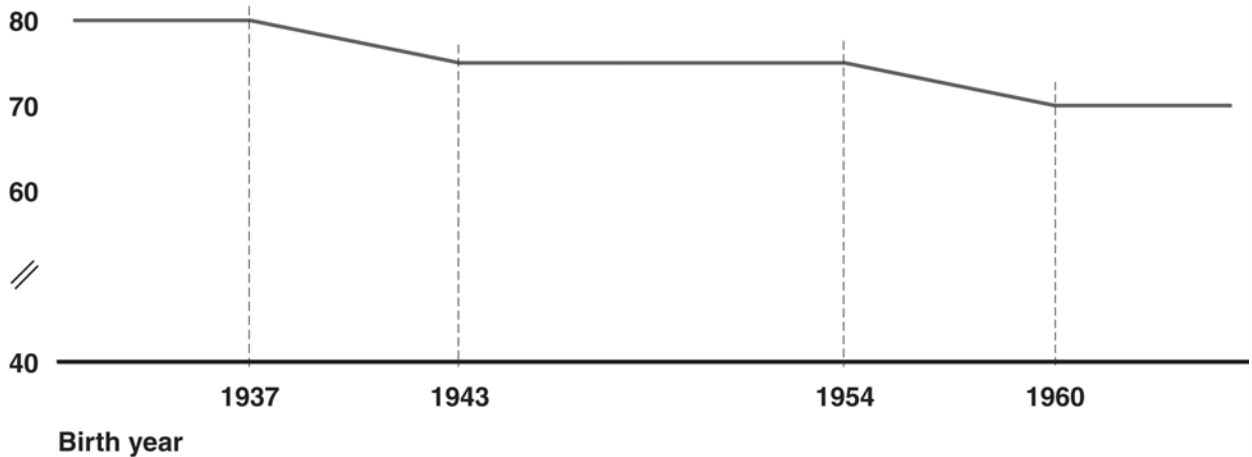


Background: Social Security Retirement Benefits



**Figure 1: Age-62 Retirement Benefits, as Percentage of FRA Benefits, by Birth Year**

Percentage of FRA-benefit available at age 62



Birth year

Source: Office of the Chief Actuary, Social Security Administration.



## Background: DI Benefits

### DI Benefits Use Similar Formula as Retirement Benefits

- Social Security pays cash benefits to workers with sufficient recent work history and who are unable to work because of a medical condition that meets Social Security's definition of disability.
- OASI and DI use a common benefit formula, but unlike retirement benefits, DI benefits are not discounted for beneficiaries younger than their FRA.<sup>2</sup>
- Social Security also offers Supplemental Security Income (SSI), which pays cash benefits to the aged, blind, and persons with disabilities with little or no income or assets, regardless of work history.
  - SSI is funded by general tax revenues, not through the OASDI trust funds.

<sup>2</sup>The DI and OASI benefit formulas calculate the primary insurance amount (PIA) using a worker's Average Indexed Monthly Earnings (AIME). For an individual in 2010, PIA replaced a total of 90 percent of the first \$761 in AIME, 32 percent of earnings between \$761 and \$4,586, and 15 percent of the AIME more than \$4,585.

Background: DI Eligibility



## DI Eligibility Determination

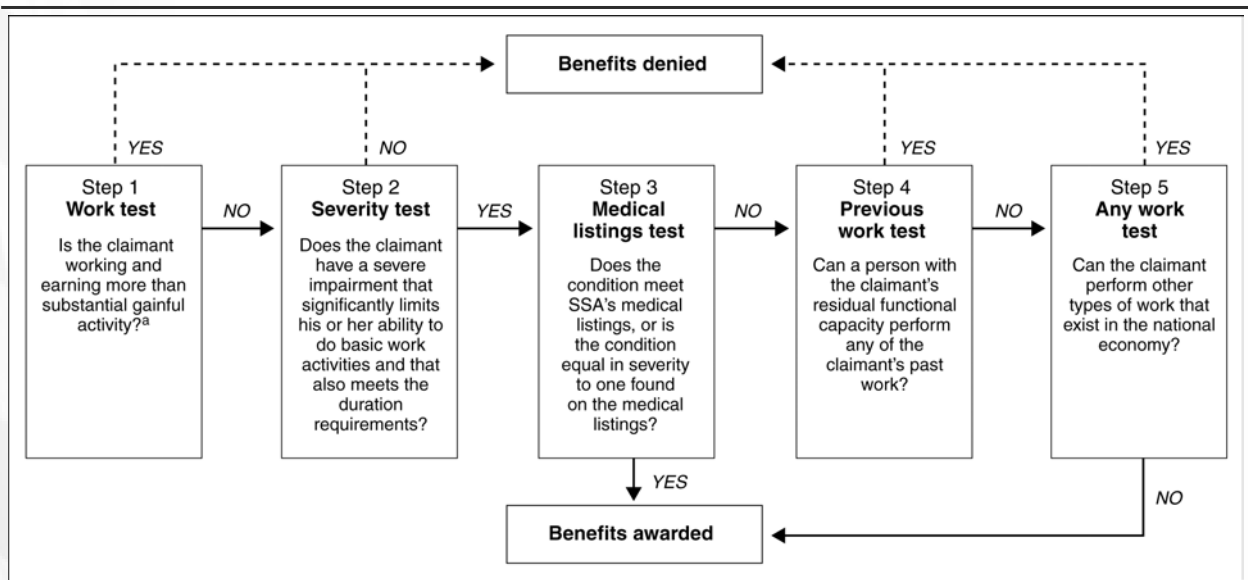
- To be eligible, workers need a certain amount of lifetime credits, depending on age, with 20 credits in the previous 10 years.<sup>3</sup>
- According to SSA, an individual has a disability if:
  - the condition precludes the applicant from performing substantial gainful employment,
  - the condition precludes the applicant from performing the work the applicant performed in the past,
  - the condition precludes the applicant from adjusting to other work in the national economy, and
  - the condition has lasted, or is expected to last, for at least one year, or has resulted in death (see figure 2).
- SSA uses medical-vocational guidelines, which factor age, residual functional capacity, education, and work history to determine if an individual can adjust to other work as part of the fifth step in the initial determination process (see figure 2).
- DI beneficiaries have a 5-month waiting period before receiving benefits after they qualify to receive disability. The average monthly benefit for DI beneficiaries ages 60-64 in 2009 was \$1,199.

<sup>3</sup>Workers age 62 and older need 40 credits to qualify for DI. Workers younger than 60 need less than 38 credits with the exact number needed for eligibility dependent upon the age of the applicant. As of 2010, individuals receive one credit for each \$1,120 of earnings to a maximum of four credits per year.



Background: DI Initial Disability Determination Process

**Figure 2: SSA Uses a Five Step Process for Initial Determination of Disability**



Source: GAO analysis of SSA data.

<sup>a</sup>In 2010 the substantial gainful activity threshold was \$1,640 per month for blind recipients and \$1,000 per month for individuals with other disabilities.

Background: DI Population of Older Workers



## While Older Workers Make Up a Small Percentage of Overall Applicants, They Have a Higher Approval Rate

- In 2008-2009, workers aged 60 and older made up 22 percent of the DI applicants and 29 percent of the initial approvals.<sup>4</sup> This is because older workers had an initial approval rate of 66 percent versus 44 percent for the population younger than 60.
- 63 percent of workers aged 60 and older in 2008-2009 received an initial determination of disability using the medical vocational guidelines.
- In 2008-2009, 31 percent of workers 60 and older were initially determined to be DI-eligible for musculoskeletal conditions, while a disability determination due to tumors was the second most common at 18 percent.

<sup>4</sup>If the applicant is not initially approved for disability, then the individual may pursue appeals at several levels. First is reconsideration by State Disability Determination Services' staff. The next appeal goes to an administrative law judge followed by an appeal to an appeals council. Finally, an individual can appeal to Federal Court.

Background: SSA Disability Caseload



## SSA Continues to Face a Disability Claims Backlog

- SSA has experienced processing delays and an increase in the total number of claims pending at the initial level of the disability determination process.<sup>5</sup>
  - In FY 2009, the average processing time for claims at the initial level was 101 days – an improvement over FY 2008 (106 days), but an increase from FY 2006 (89 days).
  - At the end of FY 2009, there were about 780,000 initial claims pending, a 40 percent increase from FY 2007.
- Although SSA has made progress in reducing its backlog at the hearings level, as of 2008 the average processing time for claims at this level was 514 days.

<sup>5</sup>For more on this topic, see GAO, *Social Security Disability: Additional Performance Measures and Better Cost Estimates Could Help Improve SSA's Efforts to Eliminate Its Hearings Backlog*, GAO-09-398 (Washington, D.C.: Sept. 9, 2009) and *Social Security Disability: Management of Disability Claims Workload Will Require Comprehensive Planning*, [GAO-10-667T](#) (Washington, D.C.: April 27, 2010).



**Objective 1**

**Most Workers Are Likely Able to Work Longer, but Many Would Face Health Obstacles**

- Improvements in health, workplace conditions, and longevity may allow most people to work longer, but many workers have not shared in these gains.
- Economically vulnerable workers are more likely to have health challenges that will make working longer difficult.
- While labor force participation among older workers continues to grow, even older workers who are physically able to work longer may be unable to find jobs.



Objective 1: Overall Gains

## General Health and Work Condition Gains Have Improved Potential for Working Longer, but Gains Have Not Been Distributed Equally

- According to the Centers for Disease Control and Prevention, average life expectancy at age 65, as of 2006, was 18.5 years, 3.3 years higher than in 1970.
  - However, from 1970-2006 life expectancy for 65-year old African-American males improved 2.6 years versus 4.0 years for white males.
  - Over that period age-65 male life expectancy increased 3.9 years vs. 2.7 years for women, but age-65 women's life expectancy remains 2.7 years longer.
- According to two Urban Institute reports, fewer Americans are working physically demanding jobs while older adult health has improved.<sup>6</sup>
  - From 1971 to 2006, the percentage of American workers holding physically demanding jobs fell from 57 to 46 percent, and the share of workers in blue-collar jobs fell from 36 to 24 percent.
  - Between 1983 and 2007, the percentage of 55-64 year olds reporting poor or fair health dropped from 25 to 19 percent.
    - However, all of these health gains occurred before 1998.

<sup>6</sup>Richard W. Johnson, "Employment at Older Ages: Opportunities and Challenges," July 2010 and Richard W. Johnson and Gordon B.T. Mermin, "Older Americans' Economic Security: Will Changing Job Demands Boost Older Workers' Prospects?" (Washington, D.C.: Urban Institute, September 2008.) 15





Objective 1: Health Key to Retirement Decision

## Health Is a Key Factor in Retirement Decision for Many Workers

- U.S. Census Bureau reported that almost one-third of people age 55-64 who were not working in 2004 cited chronic illness or disability as the main reason.
- According to the Employee Benefit Research Institute's 2010 Retirement Confidence Survey, 41 percent of retirees leave the workforce earlier than planned, and among these 54 percent did so for health or disability reasons.
- The Center for Retirement Research at Boston College reported that 29 percent of all men who claim Social Security retirement benefits at 62 report being in poor or fair health, whereas only 12 percent of men who claim at a later age report poor or fair health.<sup>7</sup>

<sup>7</sup>Natalia Zhivan, Steven A. Sass, Margarita Sapozhnikov, and Kelly Haverstick, "An 'Elastic' Earliest Eligibility Age for Social Security," (Boston, MA: Center for Retirement Research at Boston College, Number 8-2, February 2008.)

Objective 1: Challenges Facing Older Workers



## Many Preretirement Age Workers Still Face Health and Physical Challenges to Working Longer

- According to GAO analysis of the Health and Retirement Study (HRS), among adults who were 60-61 years old from 1998 to 2008:
  - 57.9 percent were working for pay, 42.4 percent full time.
  - 25.6 percent reported being in fair or poor health.
  - 27.7 percent reported that their health limited their ability to work.
  - 63.6 percent of those working had a job that was physically demanding at least some of the time.
    - However, only 6.4 percent with a physically demanding job also reported fair or poor health.
- Preretirement blacks and Hispanics were much more likely than whites to report fair or poor health, to have a work-limiting health condition, or to have applied for DI or SSI (see table 1).



Objective 1: HRS Summary Statistics

**Table 1: Minority Older Workers More Likely to Face Health Challenges**

	Percentage of adults			
	Work physically demanding job	In fair or poor health	With a work-limiting condition	Applied for DI or SSI
White Non-Hispanic	36.4%	20.0%	25.1%	13.0%
Black	37.8	38.1	36.5	28.0
Hispanic	38.4	47.5	31.5	20.9

Source: GAO analysis of Health and Retirement Study, all 60-61 year old respondents interviewed from 1998 to 2008.

Objective 1: Challenges Facing Older Workers



## Older Workers With Health Problems May Be More Economically Vulnerable

- Among 60-61 year olds, those reporting good or excellent health, compared to those reporting fair or poor health (see table 2):
  - Were more than twice as likely to have some college education;
  - Were about twice as likely to be working overall and working full time;
  - Had more than twice the household income and almost 4 times the wealth;
  - Were more likely to have a pension at their current job.
- Similarly, those reporting no work-limiting health limitation showed similar advantages compared to those with a limitation.



Objective 1: Challenges Facing Older Workers

**Table 2: Key Descriptive Statistics, Age 60-61 Adults, 1998-2008**

	All age 60-61	In fair or poor health	In good or excellent health	With a work-limiting health condition	With no work-limiting condition
With at least some college (percent)	42.2%	23.4%	48.6%	29.1%	47.1%
Working (percent)	57.9%	34.8%	65.8%	21.0%	71.9%
Working full time (percent)	42.4%	23.7%	48.9%	11.3%	54.3%
Median household income (2008 dollars)	\$52,684	\$27,696	\$62,923	\$28,992	\$62,473
Median household wealth (2008 dollars)	\$184,355	\$63,048	\$249,550	\$89,207	\$232,071
With pension at current job (percent)	52.8%	44.4%	54.4%	37.9%	54.5%
<b>Total in sample</b>	<b>6,944</b>	<b>1,777</b>	<b>5,163</b>	<b>1,913</b>	<b>5,031</b>

Source: GAO analysis of Health and Retirement Study, all 60-61 year old respondents interviewed from 1998 to 2008.



Objective 1: Disability Rates

## Disability Incidence Higher among Older Workers and Economically Vulnerable

- Disability rates increase with age, suggesting that workers postponing retirement would face increasing likelihood of having a disability.
  - According to SSA, average annual DI incidence from 2000-09 was 9.4 for age 50-54, 14.8 for age 55-59, and 17.2 for 60-64 year olds.<sup>8</sup>
- An Urban Institute study found that the disability rate roughly doubles as a cohort ages from age 55 to 64.<sup>9</sup>
  - Between 1992 and 2006, about 43 percent of adults reported a disability by age 64
  - Certain subpopulations have higher rates by age 64 (see figure 3):
    - 58.0 percent of African Americans and 53.1 percent of Hispanics,
    - 61.3 percent of those not graduating from high school, and
    - 67.7 percent of lowest income quartile in 1991.

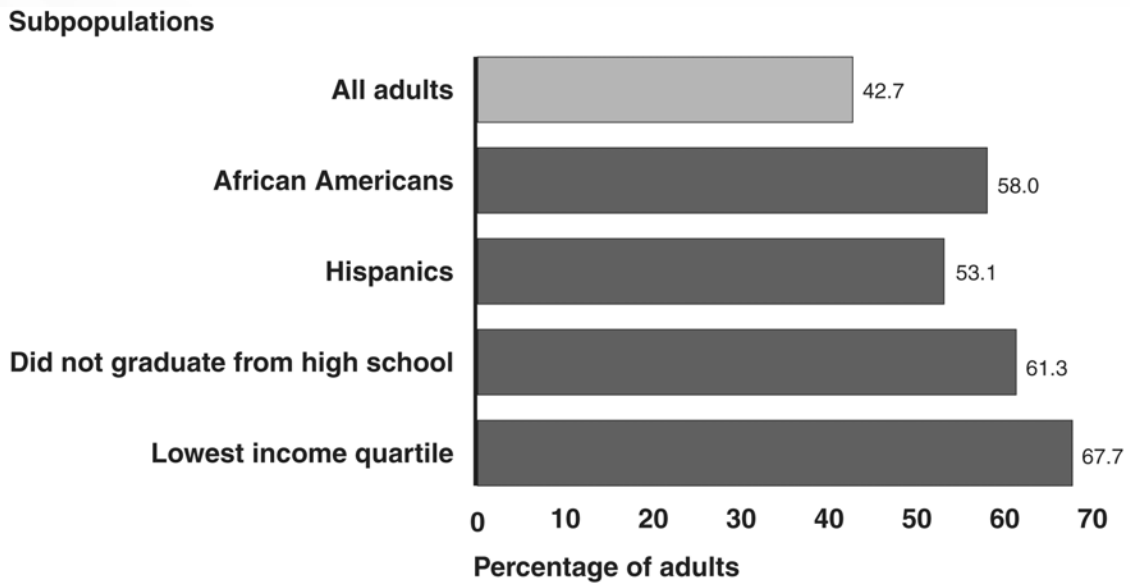
<sup>8</sup>Incidence is the number of DI awards per 1,000 DI-insured workers not already receiving benefits.

<sup>9</sup>Richard W. Johnson, Melissa M. Favreault, and Corina Mommaerts, "Work Ability and the Social Insurance Safety Net in the Years Prior to Retirement," (Washington, D.C.: Urban Institute, The Retirement Policy Program Discussion Paper 10-01, January 2010.) 21



Objective 1: Disability Rates

**Figure 3: Percentage of Adults Reporting a Disability by Age 64, 1992-2006**



Source: Richard W. Johnson, Melissa M. Favreault, and Corina Mommaerts, "Work Ability and the Social Insurance Safety Net in the Years Prior to Retirement," (Wash. D.C.: Urban Institute, The Retirement Policy Program Discussion Paper 10-01, January 2010.)



Objective 1: Labor Force Participation

# Figure 4: Older Workers Are Increasingly Likely to Be in the Labor Force



Source: Bureau of Labor Statistics, "Spotlight on Statistics: Older Workers," July 2008.





Objective 1: Labor Force Participation

**...and Older Workers are Projected to Make Up an Increasing Share of the Labor Force**

**Table 3: Projected Percentage Change in Labor Force, By Age, 2006-16**

<b>Age</b>	<b>Percent change 2006-16</b>
75 and older	84.3%
65 to 74	83.4
55 to 64	36.5
25 to 54	2.4
16 to 24	-6.9

Source: Bureau of Labor Statistics, "Spotlight on Statistics: Older Workers," July 2008.

Objective 1: Challenges Facing All Older Workers



## But Even for Healthy and Willing Older Workers, Labor Market May Not Accommodate Them

- While workers over age 55 are less likely than younger workers to lose a job, when they do they are less likely than younger workers to find other employment.
  - A 2001 GAO report used data from the 2000 Displaced Worker Survey to show that 9 percent of older workers lost their jobs from 1997 to 1999, a rate that is less than the 11 percent of younger workers who lost their jobs over the same period of time.
    - However, 57 percent of older workers who lose their jobs retire, partially or fully, following a job loss.
  - Similarly, an Urban Institute study using 1996, 2001, and 2004 Survey of Income and Program Participation data finds that older workers are less likely to lose their jobs, but those that do remain unemployed longer.<sup>10</sup>

<sup>10</sup>Richard W. Johnson and Corina Mommaerts, "Age Differences in Job Loss, Job Search, and Reemployment," Prepared for the 12th Annual Joint Conference of the Retirement Research Consortium (Washington, D.C.: August 2010).



Objective 1: Many Potentially Affected

## Many Workers Potentially Affected Each Year by a Higher EEA

- As of December 2008, about 2.8 million 62-64 year olds were receiving Social Security retirement benefits.
  - If a rise in the EEA delayed eligibility for retirement benefits until age 65, 62-64 year olds would have to wait for retirement benefits, with some being unable to work longer.
  - Among these, many would not qualify for DI benefits, making them more financially vulnerable.



## Objective 2

### **Raising the Retirement Ages Would Change Retirement Benefits and Could Increase DI Applications and Costs**

- Raising the EEA delays eligibility for retirement, and may cause workers to apply for DI benefits instead of working longer.
- Raising the FRA reduces benefits for early retirees, creating a financial incentive to apply for DI over retirement benefits.
- SSA actuaries project that raising either retirement age would increase DI incidence rates. They estimate that raising the EEA would worsen the OASDI deficit, while raising the FRA would improve it.<sup>11</sup>

<sup>11</sup>The effects on disability incidence rates and the OASDI deficit would depend on how high and how quickly the ages were raised, and how workers alter their retirement behavior in response to the changes.



## Objective 2: Raising the EEA

### Raising the EEA Could Cause Workers to Delay Retirement and Induce Those with Health Problems to Apply for DI

- Raising the EEA may increase the number of DI applications and awards among workers with health problems or physically demanding jobs.
  - If the EEA were raised, workers would no longer have the option of claiming early retirement benefits at age 62.
    - Many able-bodied individuals are likely to work until the new EEA, thus possibly saving more and receiving higher monthly benefits, which may improve their retirement security.
    - Workers with health problems may face challenges: they may not be able to continue working, and they may lack the financial resources needed to exit the labor force without retirement benefits.
      - For financial support, these workers might apply for DI, which is available to eligible individuals who must stop working before they reach the EEA.
      - Workers who cannot work and do not qualify for DI are likely to face financial hardship.<sup>12</sup>
- Raising the EEA would have a negative impact on OASDI solvency because DI costs would rise and expected total lifetime retirement benefits would not change.

<sup>12</sup>A 2006 study by Mermin and Steurele finds that, compared to currently scheduled benefits, raising the retirement ages increases the share of beneficiaries age 62 and older with family incomes below the wage-indexed poverty level in 2050 from 28.14.4 percent to 16.2 percent, an increase of 1.5 million people.



## Objective 2: Raising the FRA

### Raising the FRA Would Reduce Retirement Benefits, and Could Encourage More to Apply for DI Benefits, Which Are Not Reduced

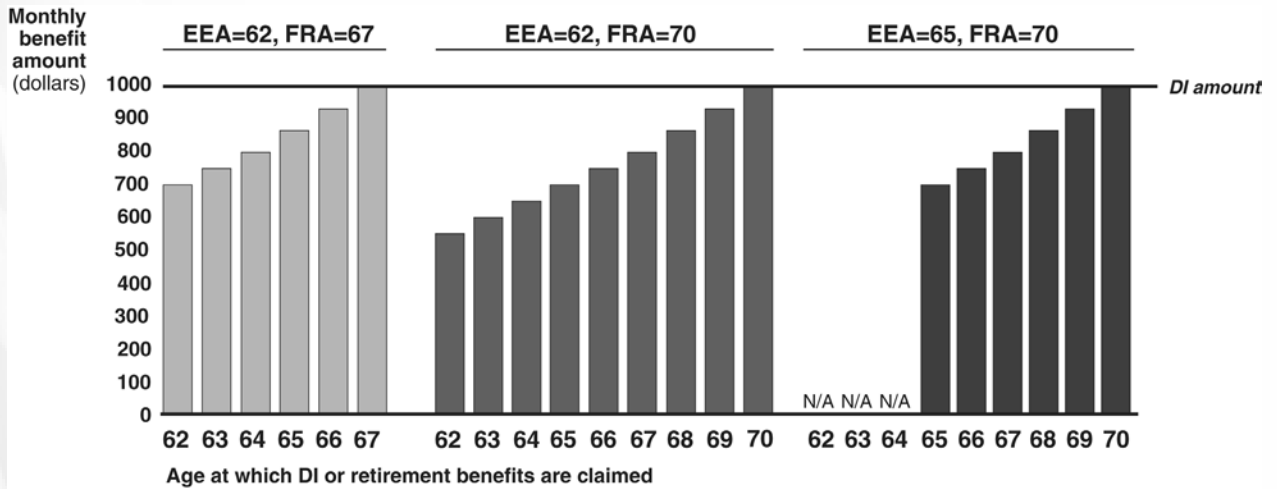
- Raising the FRA would reduce monthly and expected lifetime benefits for all pre-FRA retirees, compared to current program rules.
  - If the EEA were unchanged, workers would retain the option of claiming early benefits starting at age 62.
  - It is unclear to what extent raising the FRA would induce able-bodied individuals to delay retirement; workers who do not work longer could face lowered monthly benefits throughout retirement.
- By lowering monthly retirement benefits, raising the FRA would increase the relative generosity of DI benefits—which are unreduced—providing additional incentive for eligible workers to apply for DI instead of retirement (see figure 5).
- The effect of raising the FRA on DI applications also depends on the degree to which individuals are deterred by the lengthy DI determination process or the uncertainty of receiving benefits.<sup>13</sup>

<sup>13</sup>Medicare and health care reform could also influence individuals' decisions to apply for DI. DI beneficiaries become eligible for Medicare 2 years after their DI benefits commence, so any change to the Medicare eligibility age could change incentives to apply for DI. To the extent that health care reform increases health insurance coverage among older workers, this could reduce the importance of Medicare eligibility in creating an incentive to apply for DI. 29



Objective 2: Raising the Retirement Ages

**Figure 5: Examples of DI and Retirement Benefits at Different Ages under Different EEA and FRA (PIA = \$1,000/month at FRA)**



Source: GAO example using SSA benefit formulas. PIA is the OASI primary insurance amount available to an individual at FRA.



## Objective 2: Raising the FRA

### A Few Studies Conclude that the Prior Increase in the FRA Has Led to More DI Applications

- The 1983 Social Security reforms began raising the FRA for individuals retiring in 2000, and a few researchers have begun studying the effects of this increase on DI applications:<sup>14</sup>
  - Duggan, Singleton, and Song find that raising the FRA led to a small—but statistically significant—increase in DI enrollment: an additional 0.6 percent of men and 0.9 percent of women between ages 45 and 64 received DI benefits in 2005 as a result of the changes.
  - Li and Maestas conclude that an average 4-month increase in the FRA slightly increases the 2-year DI application rate by 0.04-0.30 percentage points. The effect is greater among those with a work-limiting health problem (0.22-0.89 percentage points).
- A rising number of DI applications could also increase SSA's workload and the number of pending claims at all levels of the disability determination process.

<sup>14</sup>See appendix II for a summary of studies that examine the effects of raising the retirement ages on applications for disability and retirement benefits.





**Objective 2: Disability Incidence Projections**

**SSA Actuaries Project that Raising the Retirement Ages  
Would Result in Higher Disability Incidence Rates**

**Table 4: Assumed Disability Incidence Rates (per 1,000) During  
Year 2050 for Various Retirement Age Scenarios<sup>15</sup>**

Policy	DI Incidence Rates <sup>16</sup>			
	Age 62		Age 64	
	Men	Women	Men	Women
Current law (FRA=67; EEA=62)	22.45	16.26	16.19	11.84
Raise only the FRA (FRA=68; EEA=62)	23.34	17.11	22.28	16.43
Raise both the FRA and the EEA (FRA=68; EEA=65)	24.23	17.95	28.37	21.01

Source: Social Security Administration Memorandum, August 31, 2010.

<sup>15</sup>Incidence is the number of DI awards per 1,000 DI-insured workers not already receiving benefits. Scenarios based on the Intermediate Assumptions of SSA's 2010 Trustees Report.

<sup>16</sup>Higher disability incidence rates could lead to increased Medicare costs because DI beneficiaries become eligible for Medicare 2 years after their DI benefits commence.



**Objective 2: Trust Fund Projections**

**SSA Actuaries Project that Raising the EEA Could Worsen OASDI Trust Fund Solvency, but Raising or Accelerating the FRA Could Improve Solvency**

**Table 5: Estimated Effects of Raising the Retirement Ages on OASDI Solvency over 75 Years<sup>17</sup>**

<b>Policy change</b>	<b>Long-Range OASDI Actuarial Deficit (percent of taxable payroll)<sup>18</sup></b>
Raise the EEA gradually from age 62 to 65	Increase by 0.03%
Raise the FRA by one month (for those turning 62 in every even-numbered year after 2022) <sup>19</sup>	Decrease by 0.40
Raise the FRA from 66 to 67 one year earlier than current law (for those turning 62 between 2016 and 2021) <sup>20</sup>	Decrease by 0.41

Source: Social Security Administration.

<sup>17</sup>All estimates are based on the Intermediate Assumptions of SSA's 2009 Trustees Report. For more policy changes and the projected effects on OASDI, see SSA's Office of the Chief Actuary Web site: [www.ssa.gov/oact](http://www.ssa.gov/oact).

<sup>18</sup>The actuaries project that the impact on the OASDI trust funds would range from negative 0.03 percent of taxable payroll to 0.62 percent, depending on whether the EEA, FRA, or both are raised; the magnitude and speed of the increase; and how workers alter their retirement behavior.

<sup>19</sup>In this proposal, benefits would be indexed to longevity after the FRA reaches age 67 under current law, which occurs for individuals who turn 62 in 2022 and later.

<sup>20</sup>After 2021, the FRA would be indexed to maintain a constant ratio of expected retirement years (life expectancy at the FRA) to potential work years (FRA minus 20).



**Objective 3**

**Objective 3: Policies to Alter Disability Program, Provide Alternative Income Support, and Encourage Staying in Workforce Could Mitigate Impact of Retirement Age Changes**

- Older workers may qualify for other assistance programs and services, but some will not receive any support.
- DI program modifications could increase eligibility for older workers.
- Other policy options would provide alternative income support for low income workers and encourage employment.



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**Objective 3: Policy Options**

## **Policy Options**

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- This objective describes possible policy options that could mitigate the effects increasing the retirement age could have on older workers who might not be able to work longer.
  - All of the policy options discussed in this section came out of interviews with experts and reviews of the literature. The listed policy options are not intended to be exhaustive, and GAO did not assess them and does not necessarily recommend their implementation.
  - Each of these proposed options seeks either to expand already existing programs or create new programs to address individuals affected by an increase in the EEA or FRA and, as such, would increase the costs of providing benefits.
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**Objective 3: Existing Assistance Programs**

**Table 6: Older Workers, Prior to Retiring, May Qualify for Other Programs and Services, But Some Will Not Receive Any Support**

<b>Program</b>	<b>Description</b>	<b>Limitation</b>
Unemployment insurance	Temporary financial assistance to unemployed workers.	Limited benefit duration and some may not meet the eligibility requirements.
State short-term disability insurance	Time limited partial income replacement for individuals who are unable to work due to disability.	Limited benefit duration and few states provide short-term disability coverage. <sup>21</sup>
State workers' compensation	Partial income replacement and medical coverage for individuals who sustain work related injury or illness.	Provides supports only for individuals whose injuries or illnesses are job-related.

<sup>21</sup>According to the Congressional Research Service, *Leave Benefits in the United States*, RL34088 (2009), five states—California, Hawaii, New Jersey, New York, and Rhode Island—and Puerto Rico have mandated short-term disability coverage for qualifying individuals. California and Rhode Island do not require employer contributions; Hawaii, New Jersey, and New York do.



**Objective 3: Other Existing Programs**

**Pre-retirement Older Workers May Qualify for Other Assistance Programs and Services, But Some Will Not Receive Any Support (cont)**

<b>Program</b>	<b>Description</b>	<b>Limitation</b>
Department of Labor's Workforce Investment Act (WIA) One-Stop Career Centers	Provides employment assistance, including to individuals with disabilities. Some centers have disability program navigators who provide support to other WIA staff working with individuals with disabilities and who work to improve links with employers.	Funding for disability program navigators ended after federal fiscal year 2009, and concerns exist about individuals with disabilities access to WIA services.
Supplemental Nutrition Assistance Program (SNAP) and Department of Housing and Urban Development (HUD) Rental Assistance	SNAP subsidizes food purchases. HUD Rental Assistance provides public housing, subsidized housing or rental vouchers.	For low income households, the elderly and the disabled. <sup>22</sup>

Source: Review of literature and prior GAO work.

<sup>22</sup>For SNAP in 2009, households may have \$2,000 in countable resources, \$3,000 if at least one person is 60 or older. For HUD, income is used to determine eligibility, which varies by location.



### Objective 3: DI Program Modification

## **Favoring Older Applicants More in the Medical Determination Process and Adjusting the DI Lifetime Work Credits Requirement Could Increase Eligibility for Older Workers**

- Make age an even more important factor in the DI determination process by putting more weight on the category in the medical-vocational guidelines.
  - This could increase the number of older workers who are determined to be disabled.
  - The vocational factors already put weight on age.
- Loosen the DI lifetime work credits requirement to make more older workers eligible to apply for DI.
  - This could increase the number of older workers able to apply for DI if their irregular work history, possibly as a result of their disability, makes them ineligible.

Note: GAO has not assessed these options and does not necessarily recommend their implementation.



### Objective 3: DI Program Modification

#### Emulating Department of Veterans Affairs (VA) Disability Procedures Could Allow for Partial Disability Determinations, but Could Also Expand the DI Pool to Individuals Who Aren't Neediest

- VA assigns a percentage rating for the applicant's disability to allow for a "partial disability" Multiple disabilities receive a composite rating. In addition, there is no work test to receive benefits, meaning that VA disability recipients may continue working while receiving disability payments.
  - Altering DI to use VA's method of determining disability would allow DI to offer a portion of the benefit instead of needing to make an "all or nothing" determination.<sup>23</sup>
  - As individuals could continue working under the VA model, this might encourage more individuals to apply for disability beyond those who might have the greatest need.

Note: GAO has not assessed this option and does not necessarily recommend its implementation.

<sup>23</sup>David Autor and Mark Duggan, "The Growth in the Social Security Disability Rolls: A Fiscal Crisis Unfolding" (The Journal of Economic Perspectives, Vol. 20, No. 3, Summer 2006)

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### Objective 3: Other Policy Options

## Lowering the SSI Aged Eligibility Age, in Response to a Higher EEA, Could Help Low-Income Older Workers Who Are Unable to Retire

- Lower the SSI eligibility for aged beneficiaries from 65 to 62.
  - Lowering the SSI aged eligibility age would provide benefits for lower income older workers who are unable to retire if the EEA were raised above 62, but who would not be eligible for DI.
  - However, given the low asset levels for eligibility (\$2,000 for individuals and \$3,000 for couples in 2010), lowering the age might not affect many older workers.

Note: GAO has not assessed this option and does not necessarily recommend its implementation.



### Objective 3: Other Policy Options

## Implementing an “Elastic” EEA Could Help Low-Income Workers; However, the Proposal May Not Target Those Workers in Need

- An elastic EEA would assign different EEA’s to individuals based on each person’s average indexed monthly earnings (AIME) at the age of 55 as compared to the national average: those with lower AIME’s would have lower EEA’s.<sup>24</sup>
  - This would allow lower-income workers, who are more likely to have lower life expectancy and lower savings, access to earlier retirement benefits.
  - By focusing on workers with low AIME’s, regardless of the cause, the proposal does not specifically target workers with a disability or a physical inability to work at older age. The elastic EEA also would not capture workers who experience a drop in AIME after the age of 55.

Note: GAO has not assessed this option and does not necessarily recommend its implementation.

<sup>24</sup>For more on the elastic EEA, see footnote 7 and Zhivan, Sass, Sapozhnikov, and Haverstick (2008).



### Objective 3: Other Policy Options

## Allowing Workers with Sufficient Labor Force Participation to Retire Earlier Could Help Individuals At-Risk for Health Problems

- Allow workers with longer workforce history, set at 35 years of labor force participation, to retire at age 62 while the regular EEA is set at later ages.
  - Setting a lower EEA for those with a long workforce history, which would cover those workers who began physically demanding work at younger ages, might permit individuals who need to retire to do so while encouraging the rest of the labor force to work longer.
  - Those individuals with health problems may not be able to work long enough to claim the earlier benefit.

Note: GAO has not assessed this option and does not necessarily recommend its implementation.



### Objective 3: Other Policy Options

## Changing Tax Policy Could Encourage Disabled Older Workers to Remain in the Workforce Rather Than Apply for DI

- Eliminate Social Security and Medicare taxes for older workers and/or establish an earned income tax credit for older workers with a disability who remain in the workforce.
  - This makes older workers less expensive for employers and encourages work since older workers keep more of their income.
  - However, this does not address those who may not be able to continue working.
- Experience rate payroll tax rates for employers based upon how many employees claim DI, similar to workers' compensation program.
  - This could encourage employers to accommodate older workers to keep them on the job.
  - However, this would penalize employers for disabilities that do not result from the workplace and it might discourage employing older workers.

Note: GAO has not assessed these options and does not necessarily recommend their implementation.



### Objective 3: Other Policy Options

## Return-to-Work Support and Employer Accommodation Could Reduce or Eliminate Time Spent on Disability; However, the Proposals Could Be Ineffective or Create Disincentives for Hiring

- Offer return-to-work support early in the disability application process.
  - Return-to-work programs may be more effective if the intervention with the disabled worker occurs early, while the individuals have a strong attachment to working and may also have a continuing relationship with an employer.
  - However, return-to-work programs might be less effective for older workers with less education who have previously done physical labor.
- Require employers to accommodate older workers, such as through flexible scheduling of work hours or changing duties.
  - This could help older workers who are already employed remain on their jobs.
  - However, employers may not choose to hire older workers since the employer risks needing to make accommodations.

Note: GAO has not assessed these options and does not necessarily recommend their implementation.



**Objective 3: Proposed Policy with Multiple Components**

**The Proposed Employment Support for the Transition to Retirement (ESTR) Program Offers an Example of a Policy Proposal with Multiple Components**

- ESTR is a set of supports designed to help older workers increase their earnings and postpone the need for retirement benefits.<sup>25</sup>
- ESTR can cover individuals who experience an involuntary earnings loss due to a long term medical condition, those who experience a change in the local labor market, or those whose care for a dependent or family member is incompatible with the worker's present job. ESTR includes the following components:
  - Disability screenings and expedited DI for participants in ESTR
  - Subsidies/allowances for extraordinary work-related expenses
  - Extended unemployment benefits
  - Counseling for employment and to develop an economic security plan
  - Health risk reduction services
  - Eligible for SSI and Medicaid under current rules
  - Wage subsidy to replace lost earnings
  - Health insurance subsidy

Note: GAO has not assessed this option and does not necessarily recommend its implementation.

<sup>25</sup>See David C. Stapleton, *Employment Support for the Transition to Retirement: Can a New Program Help Older Workers Continue to Work and Protect Those Who Cannot?* (Washington, D.C.: AARP Policy Institute, April 2009).



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**Objective 3: Example of Proposed Policy**

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**The Proposed Employment Support for the Transition to Retirement (ESTR) Program Offers a Reform Example for Older Workers if the EEA or FRA Is Raised (continued)**

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- The costs and benefits of the program will vary depending upon the scope and specifics of the implementation.
  - ESTR reflects the change in disability policy towards programs which encourage work from individuals with disabilities. In addition, the program could reduce Medicare costs by avoiding increases in DI participation.
  - However, the Medicare savings would be low relative to the costs of ESTR, but it is unclear if the revenue gains from ESTR would offset the costs of the program compared to other reform options.
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Concluding Observations



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## Concluding Observations

- Raising the EEA would likely have a larger effect on retirement, DI applications, and on vulnerable older workers than raising the FRA by a comparable amount because 62 year olds would no longer be able to receive retirement benefits
  - An FRA increase by itself could also hurt retirement security by reducing monthly benefits, especially if people continue to retire at the same EEA and do not have a clear understanding of these reductions.
- Retirement age changes could benefit able-bodied adults if they delay retirement, and doing so causes them to save more and receive higher monthly Social Security retirement benefits, but could worsen retirement income security for a large minority of workers absent mitigating measures.



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Concluding Observations



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## Concluding Observations

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- The impact of raising the retirement age on trust funds and on workers depends on when changes were implemented, the magnitude of the change, and on trends in health and workplace demands.
  - Options exist to mitigate these impacts, but balancing the need for retirement income security with added costs of the mitigation efforts will be challenging.

# Appendix II: Summary of Studies Assessing the Effects of Raising the Retirement Age

Authors, study, and date (in chronological order)	Objectives, data source, and methodology	Key results and implications
<i>Effects on claiming disability and retirement benefits</i>		
Leonesio, Vaughan, and Wixon: "Early Retirees Under Social Security: Health Status and Economic Resources" (2000)	<ul style="list-style-type: none"> <li>In the context of raising the EEA, assess the extent to which poor health limits work among OASI beneficiaries aged 62-64, and the extent to which curtailment of early OASI benefits might increase DI rolls.</li> <li>1990 Survey of Income and Program Participation (SIPP) and Social Security Administration (SSA) data.</li> <li>Use health and disability measures to assess different levels of impairment severity and impact on work. After distinguishing between healthy individuals and those with one or more health problems, subdivide those with health problems into three categories: two categories use modified versions of Census Bureau measures and the third uses a statistical model developed by SSA to classify people with impairments that meet SSA's definition of disability.</li> </ul>	<ul style="list-style-type: none"> <li>The option to retire early helps not only people in good health and those with less severe impairments, but also a substantial number of people with the most severe impairments.</li> <li>More than 20% of OASI beneficiaries aged 62-64 have health problems that substantially impair their ability to work. In this age range, there were as many people with severe disabilities who receive OASI benefits as DI. In this way, OASI functions as a substantial, but unofficial, disability program for this age group.</li> <li>However, because only about 12% of beneficiaries who retired early would meet SSA's medical standard for disability benefits, raising the EEA would have only a modest impact on DI enrollment. The DI program—as currently structured—would not serve as a safety net for many of the most severely disabled early beneficiaries if the EEA were raised, as many would not qualify for DI if they lost their retirement benefits.</li> </ul>
Mitchell and Phillips: "Retirement Responses to Early Social Security Benefit Reductions" (2000)	<ul style="list-style-type: none"> <li>Examine who would be affected by reductions in early Social Security benefits and what changes workers might make in their retirement based on this altered policy.</li> <li>Health and Retirement Study (HRS) data that is linked to Social Security records (excluding respondents who were never insured for DI and retirement benefits over the relevant period).</li> <li>Policy experiment using information from older workers to estimate the potential effects of benefit reductions on retirement options. Study years between 1992 and 1998, examining people ages 57-61 at baseline in 1992 (and 64-67 in 1998) who have matched Social Security earnings and benefits data and who were not receiving a benefit from Social Security. Study which of three paths respondents took at retirement: (1) disability retirement prior to age 65, (2) early retirement between ages 62-64, or (3) full retirement at or after age 65.</li> </ul>	<ul style="list-style-type: none"> <li>Early Social Security benefit cuts would have relatively small effects on the likelihood of early retirement. Such cuts would induce more workers to delay retirement benefits rather than opt for disability retirement.</li> <li>A hypothetical reduction of \$25,000 in early retirement benefits would be expected to cause (1) fewer workers to elect early retirement, and (2) more workers to elect disability and full retirement. Of the latter group, more than twice as many would choose full retirement than disability retirement.</li> <li>If early retirement benefits were eliminated, workers would be three times more likely to opt for full retirement than disability retirement.</li> <li>Under these scenarios, workers who elect disability instead of full retirement are more likely to be in poor health, reflecting the fact that they are more likely to be medically eligible for disability benefits.</li> </ul>

**Appendix II: Summary of Studies Assessing  
the Effects of Raising the Retirement Age**

<b>Authors, study, and date (in chronological order)</b>	<b>Objectives, data source, and methodology</b>	<b>Key results and implications</b>
Duggan, Singleton, and Song: "Aching To Retire? The Rise in the Full Retirement Age and Its Impact on the Social Security Disability Rolls" (2007)	<ul style="list-style-type: none"> <li>Investigate whether and to what extent the 1983 Amendments' reduction in Social Security retired worker benefits contributed to the increase in DI enrollment.</li> <li>Aggregate data on DI enrollment rates by age, gender, and year-of-birth in each year from 1983 to 2005.</li> <li>Restrict attention to individuals between the ages of 45-64. Examine variation by cohort and by age in the change in the present value of retired worker benefits. Estimate first difference models that control for age-specific trends in DI enrollment and for common changes in each year in DI enrollment.</li> </ul>	<ul style="list-style-type: none"> <li>The Amendments significantly increased DI enrollment since 1983. An estimated additional 0.6% of men and 0.9 percent of women between the ages of 45-64 received DI benefits in 2005 as a result of the changes.</li> <li>The Amendments can explain more than one-third of the increase in DI enrollment among men and more than one-fourth of the increase among women ages 45-64 since 1983.</li> <li>The number of nonelderly individuals receiving DI was 568,000 greater in late 2005 than it would have been in the absence of the Amendments, representing 8.7% of all DI enrollment in that year.</li> <li>Because the reductions in retirement benefits have not yet been fully phased in, the long-run effect on DI enrollment in 2024 and subsequent years—when those ages 45-64 would have an FRA of 67 and an early retirement penalty of 30%—will be almost twice as large.</li> </ul>
Song and Manchester: "Have People Delayed Claiming Retirement Benefits? Responses to Changes in Social Security Rules" (2007)	<ul style="list-style-type: none"> <li>Examine changes in the age at which people claim retirement benefits in response to (1) the gradual increase in the FRA for people born in or after 1938, and (2) the removal of the retirement earnings test at ages 65-69 in 2000.</li> <li>1% sample of SSA administrative data for 1997-2005.</li> <li>Use a quasi-experimental approach that compares benefit entitlement probabilities and entitlement hazards (or the probability that those who have not yet claimed benefits will do so during the specified period) before and after the rule changes, holding age constant. Analyze three treatment groups: one that is affected only by the earnings test rule change, one that is affected by both changes, and one that is affected only by the increase in the FRA.</li> </ul>	<ul style="list-style-type: none"> <li>Specific results for cohorts of different ages are included in the article.</li> <li>Significant responses occur in the age at entitlement around the time that the rule changes come into effect. Key findings include:</li> <li>The response to the gradual increase in the FRA occurs not only among those who are close to the FRA, but also among those who are close to the EEA.</li> <li>The largest effect of the earnings test rule change in 2000 occurs at age 65. At 65, the rate of benefit entitlement increases by more than 5 percentage points among men and 3 points among women.</li> <li>The removal of the earnings test significantly increases the benefit entitlement hazard by more than 20% for those turning the FRA.</li> </ul>

**Appendix II: Summary of Studies Assessing  
the Effects of Raising the Retirement Age**

<b>Authors, study, and date (in chronological order)</b>	<b>Objectives, data source, and methodology</b>	<b>Key results and implications</b>
Li and Maestas: “Does the Rise in the Full Retirement Age Encourage Disability Benefits Applications? Evidence from the Health and Retirement Study” (2008)	<ul style="list-style-type: none"> <li>Examine the behavioral response to the increase in the FRA and the incentive it creates for older workers to apply for DI instead of early retirement benefits.</li> <li>HRS.</li> <li>Compare DI application rates among two cohorts: those born between 1931 and 1937 are the control group (because their FRA remains unaffected at age 65) and those born between 1938 and 1940 are the treatment group (because their FRA was raised above age 65).</li> </ul>	<ul style="list-style-type: none"> <li>After controlling for differences in observable characteristics, an average 4-month increase in the FRA slightly increases the 2-year DI application rate by 0.04-0.30 percentage points. The effect is significantly greater among people with a work-limiting health problem (0.22-0.89 percentage points).</li> <li>The results imply that an increase in the FRA has small effects on applications for DI. Even though the effect is larger among people with a work-limiting health problem, people with health problems only account for about 12% of the sample studied.</li> </ul>
Mastrobuoni: “Labor Supply Effects of the Recent Social Security Benefit Cuts: Empirical Estimates Using Cohort Discontinuities” (2009)	<ul style="list-style-type: none"> <li>Study the effects of the 1983 Amendments’ increase in the FRA on retirement behavior.</li> <li>Current Population Survey monthly data.</li> <li>Limit data to January 1989 to January 2007 for nondisabled individuals born between 1928 and 1941 (and who are thus age 61-65). Use regression analysis.</li> </ul>	<ul style="list-style-type: none"> <li>Workers reacted strongly to the increase in the FRA. The average retirement age for cohorts that were subject to increasing FRAs was rising by about 1 month every year, or 50% of the increase in the FRA.</li> <li>The increase is larger when controlling for other factors that have changed over time and that influence the labor supply decision of older workers.</li> </ul>
<i>Distributional effects</i>		
Munnell, Meme, Jivan, and Cahill: “Should We Raise Social Security’s Earliest Eligibility Age?” (2004)	<ul style="list-style-type: none"> <li>Examine the effects of raising the EEA from 62 to 64 on vulnerable groups and the Social Security system.</li> <li>HRS.</li> <li>Divide the sample into those who claim Social Security early (“Takers”) and those that do not (“Postponers”). Further divide the Takers into those who receive 80% or more of their income from Social Security (“Social Security Dependent”)—as this is the group that would be clearly affected by a higher EEA—and those who do not. Use regression analysis to estimate the probability of respondents being employed based on several factors.</li> </ul>	<ul style="list-style-type: none"> <li>A higher EEA is likely to keep individuals in the labor force longer. Since about half of all people claim benefits at age 62, raising the EEA could increase labor force participation for about 40% of 62 year-olds.</li> <li>About 10% of early claimers, or 4% of all individuals aged 62, are in poor health and do not have a source of income (other than work or Social Security) that would keep them out of poverty. These are the people who would be hurt by raising the EEA.</li> <li>Ensuring that these individuals could cover basic living expenses between ages 62 and 64 would require an expansion of social programs such as DI or SSI. While this group’s poverty rates would initially increase, poverty rates would be lower for this group by age 65 than the rates under current law due to the higher monthly benefits that they would receive.</li> <li>The estimated net change in OASDI spending from an increase in the EEA would be about \$9 billion a year. Assuming that 4% of people aged 62 would require SSI benefits, beyond the assistance offered by DI, the cost of the expanded safety net would rise by another \$1.4 billion.</li> </ul>

**Appendix II: Summary of Studies Assessing  
the Effects of Raising the Retirement Age**

<b>Authors, study, and date (in chronological order)</b>	<b>Objectives, data source, and methodology</b>	<b>Key results and implications</b>
Mermin and Steuerle: “Would Raising the Social Security Retirement Age Harm Low-Income Groups?” (2006)	<ul style="list-style-type: none"> <li>Examine the potential distributional impacts of raising the retirement age by about 3 years.</li> <li>Urban Institute’s Dynamic Simulation of Income Model (DYNASIM3).</li> <li>Simulate two policy alternatives: (1) raising the FRA to age 69 and 8 months and the EEA to 65, and (2) combining a slightly larger retirement age increase with an enhanced minimum Social Security benefit. Examine lifetime benefits for individuals born between 1976 and 1980 and annual total retirement income for all beneficiaries in 2050.</li> </ul>	<ul style="list-style-type: none"> <li>Simulation 1 results. Raising the retirement age does not disproportionately impact vulnerable groups because low-income workers are more likely to be disabled; people with disabilities (who are on DI) are protected from the retirement age change. High school dropouts, African Americans, and workers in the lowest fifth of earners are more likely to be disability beneficiaries than college graduates, whites, and workers in the top fifth. However, a higher retirement age could push about 1.5 million people below the poverty level in 2050.</li> <li>Simulation 2 results. A higher retirement age in conjunction with a minimum benefit only slightly increases the wage-indexed poverty rates as compared to scheduled benefits, and raises lifetime benefits for workers in the bottom fifth of earners by 6%. The modest cost of the minimum benefit examined here could be paid for by a 6-month increase in the FRA.</li> </ul>
<i>Effects on the OASDI trust funds</i>		
GAO: “Social Security Reform: Implications of Raising the Retirement Age” (1999)	<ul style="list-style-type: none"> <li>Assess how raising the retirement age could affect (1) the OASI and DI trust funds and the Supplemental Security Income (SSI) program, (2) the labor market for older workers, and (3) vulnerable populations.</li> <li>HRS and SSA data.</li> <li>Use a policy simulation model (EBRI-SSASIM2) to assess the effects of retirement age increases on trust fund solvency; interview experts on retirement behavior; conduct literature review.</li> </ul>	<ul style="list-style-type: none"> <li>Raising the full or early eligibility age or both could have net positive effects on the OASDI trust funds by reducing retirement benefits paid out and increasing payroll taxes collected.</li> <li>Raising the ages could lead to economic growth, as workers would be likely to extend their careers, and increase the number of older workers in the labor force. However, increasing the number of older workers in the labor force could create additional unemployment.</li> <li>DI and SSI caseloads could increase. More older workers might apply for DI because of the increase in the generosity of DI relative to retired workers’ benefits. The number of disabled SSI recipients could increase because more individuals are likely to become disabled as the number of working years increases.</li> <li>Older workers who are less healthy and those in blue-collar occupations (especially African-American and Hispanic workers) may face significant barriers to continued employment.</li> </ul>

**Appendix II: Summary of Studies Assessing  
the Effects of Raising the Retirement Age**

<b>Authors, study, and date (in chronological order)</b>	<b>Objectives, data source, and methodology</b>	<b>Key results and implications</b>
Panis et al. (RAND): “The Effects of Changing Social Security Administration’s Early Entitlement Age and the Normal Retirement Age” (2002)	<ul style="list-style-type: none"> <li>• Determine the financial consequences of increasing the EEA, FRA or early retirement penalty (ERP) on the OASDI program.</li> <li>• HRS.</li> <li>• Develop option value, peak value, and joint option value models that explain when workers retire and whether and when they enroll in DI. Apply model estimates to policy scenarios and simulate how workers will change their behavior. Apply Social Security rules on contributions and benefits to determine how this changed behavior affects OASDI contributions and benefits.</li> </ul>	<ul style="list-style-type: none"> <li>• At best, increasing the EEA by one year would not change the financial position of the OASDI program; at worst, it could increase OASDI liabilities by 2%.</li> <li>• Increasing the FRA and ERP is likely to lower OASDI liabilities substantially. Each year of FRA increase saves approximately 5% in benefits. An increase in the ERP from 5/9 of a percent to 1% for each month before the FRA saves about 12% in benefits. In each case, a small portion of the savings will be lost due to increased DI enrollment.</li> </ul>

Source: GAO analysis.

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

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*Social Security Disability: Management of Disability Claims Workload Will Require Comprehensive Planning.* [GAO-10-667T](#). Washington, D.C.: April 27, 2010.

*Social Security Disability: Additional Performance Measures and Better Cost Estimates Could Help Improve SSA's Efforts to Eliminate Its Hearings Backlog.* [GAO-09-398](#). Washington, D.C.: September 9, 2009.

*SSA Disability: Other Programs May Provide Lessons for Improving Return-to-Work Efforts.* [GAO-01-153](#). Washington, D.C.: January 12, 2001.

*Social Security Reform: Potential Effects on SSA's Disability Programs and Beneficiaries.* [GAO-01-35](#). Washington, D.C.: January 24, 2001.

*Social Security Reform: Implications of Raising the Retirement Age.* [GAO/HEHS-99-112](#). Washington, D.C.: August 27, 1999.



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