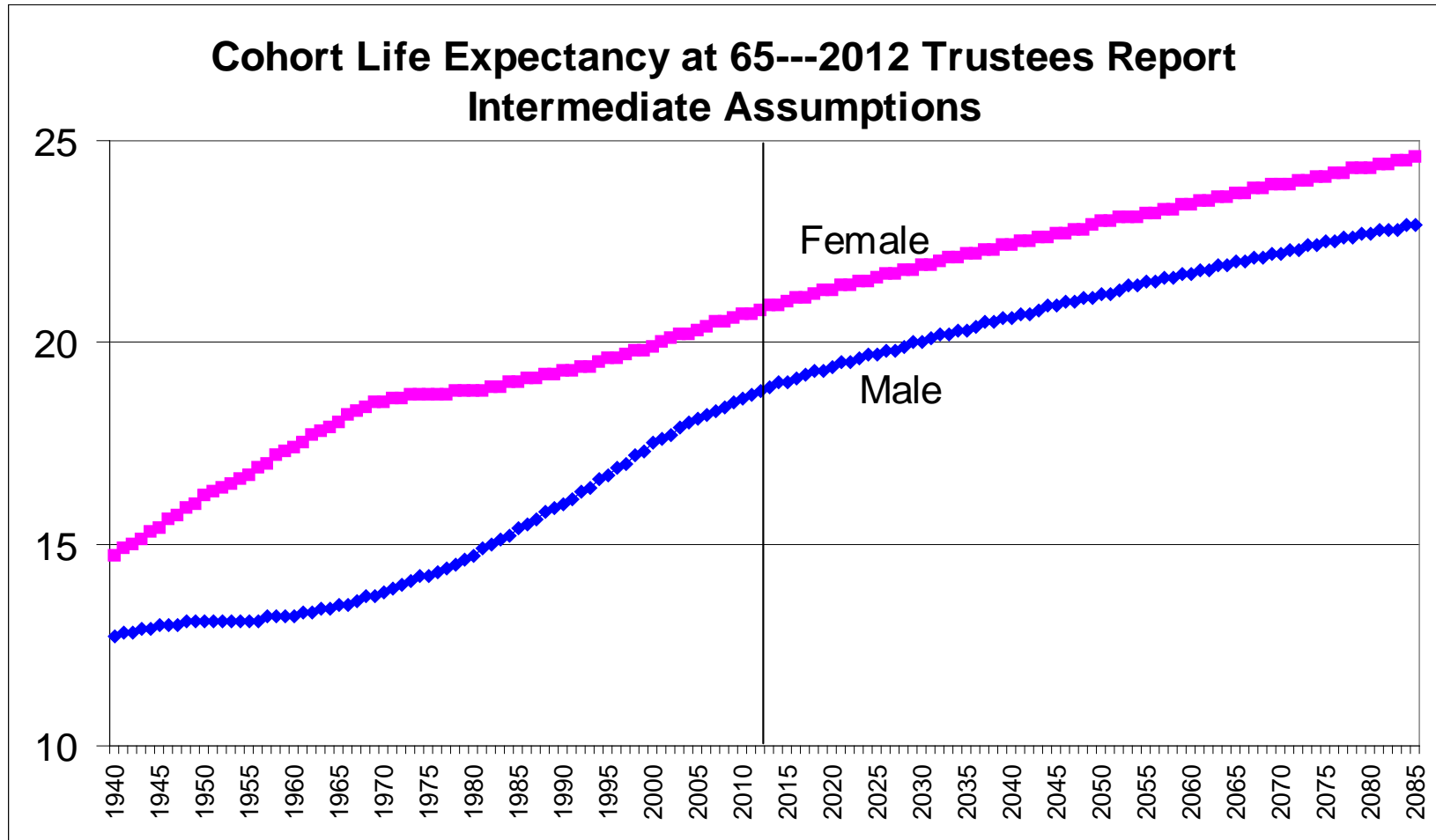

Living Longer, Working Longer — and Social Security

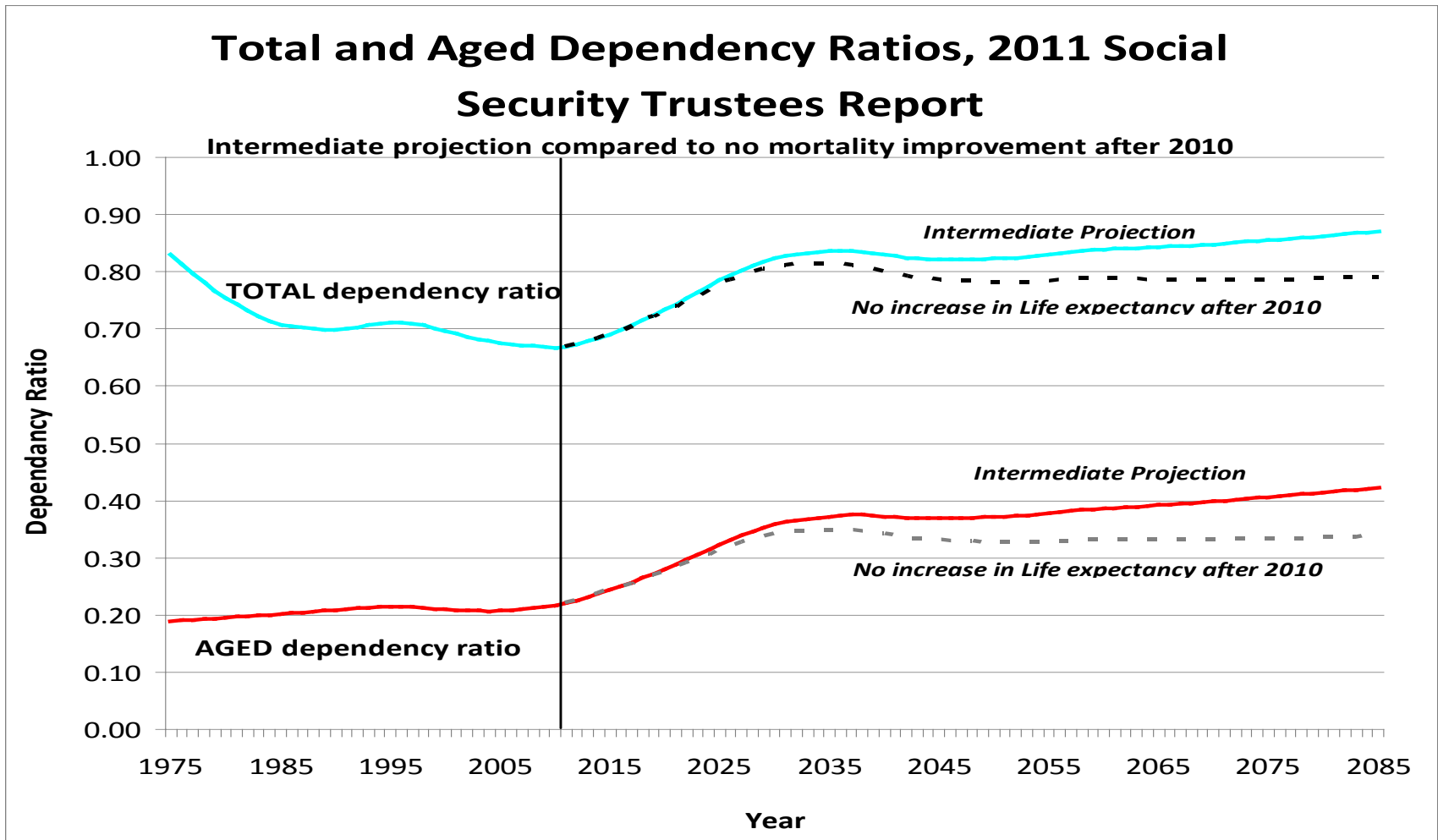
**NASI Annual Meeting February 1, 2013 Session IVb
Stephen C. Goss**

Death rates have declined at older ages: Future generations will continue to live longer

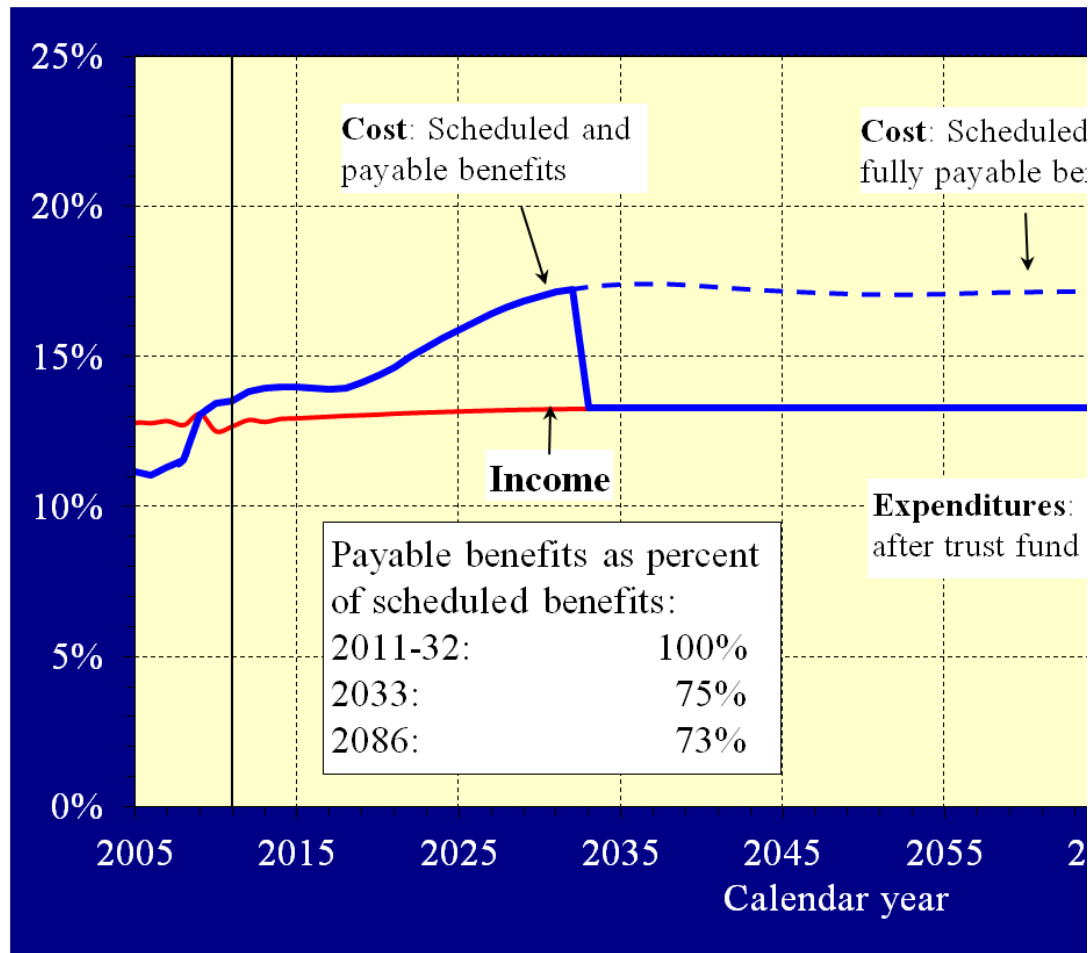


But the *permanent* drop in birth rates after 1965 is the main cause of increased cost compared to GDP or Payroll

While the *aged* dependency ratio (65+ / 20-64) will double, the *total* dependency ratio (<20&65+ / 20-64) rises 20 percent



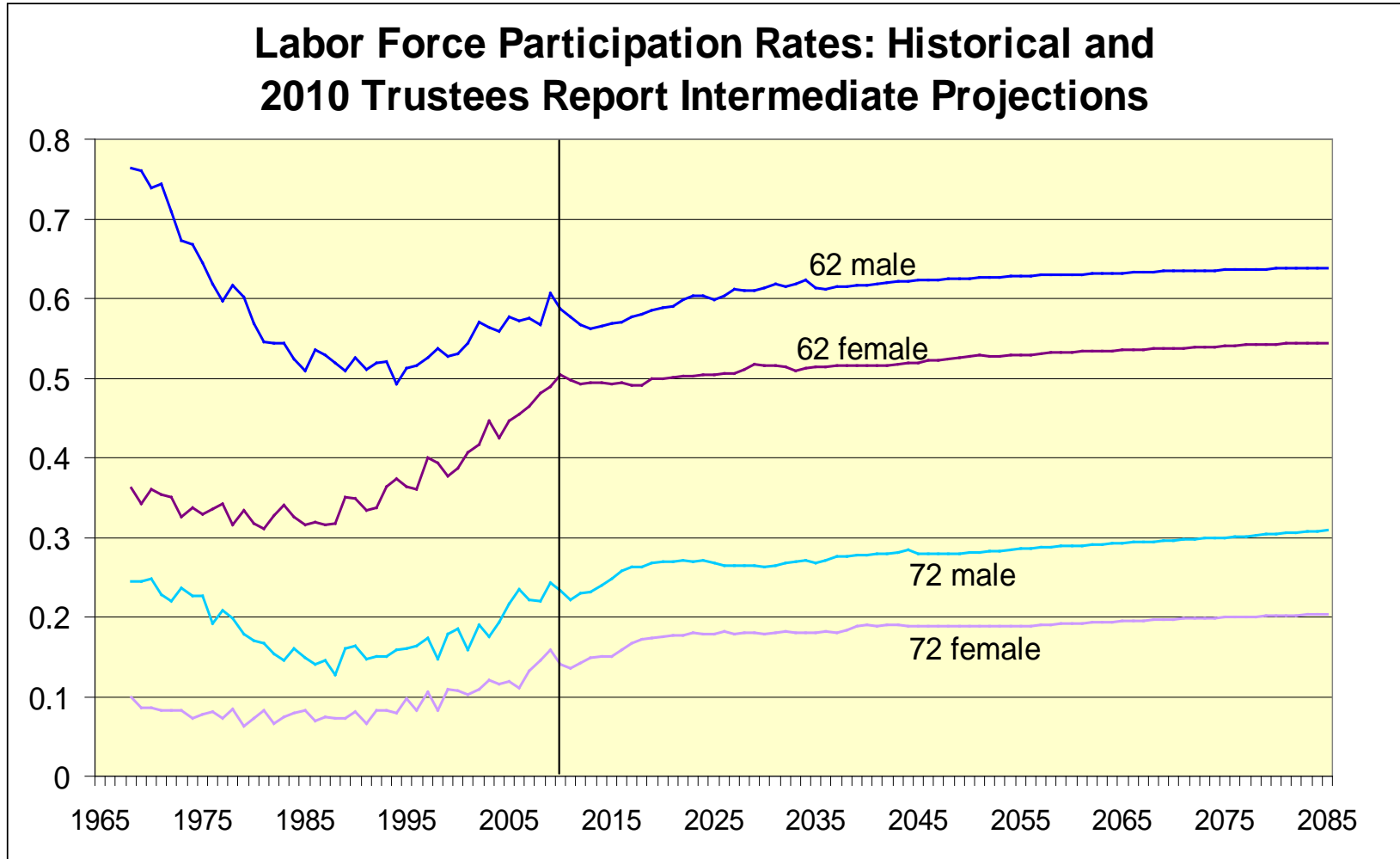
For Social Security, the demographics raise the cost as percent of the Taxable Payroll



Will living longer result in working longer?

- Increased life expectancy at ages over 45
 - Implies better average health at each age
 - Thus greater *ability* to work longer
 - Increased need to save for longer retirement
 - Thus greater *need* to work longer
- Our Projections: As life expectancy rises, we look at age in base year with the same LE, and assume almost half the higher labor force participation rate from that younger age

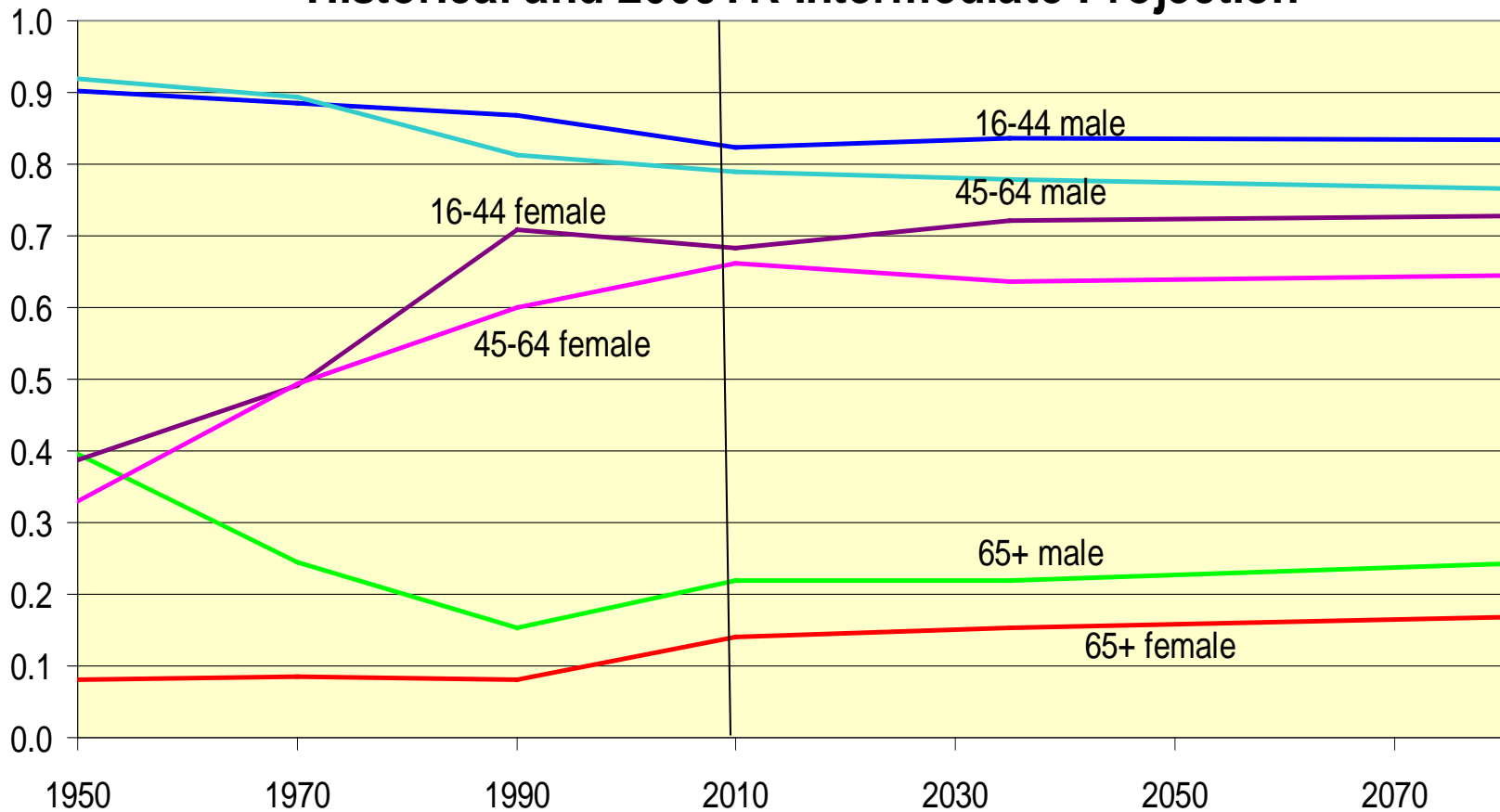
Increases in labor force participation that started around 1990 are projected to continue



Longer Perspective on Labor Force Participation Trends: Closing the Gap between Men and Women

2010 Senate Finance Hearing

Labor Force Participation Rates Age-Gender Adjusted: Historical and 2009TR Intermediate Projection



Extraordinary increases in work alone are needed to affect OASDI Actuarial Status substantially

Long-Range OASDI Financial Effects for Hypothetical Future Work Scenarios

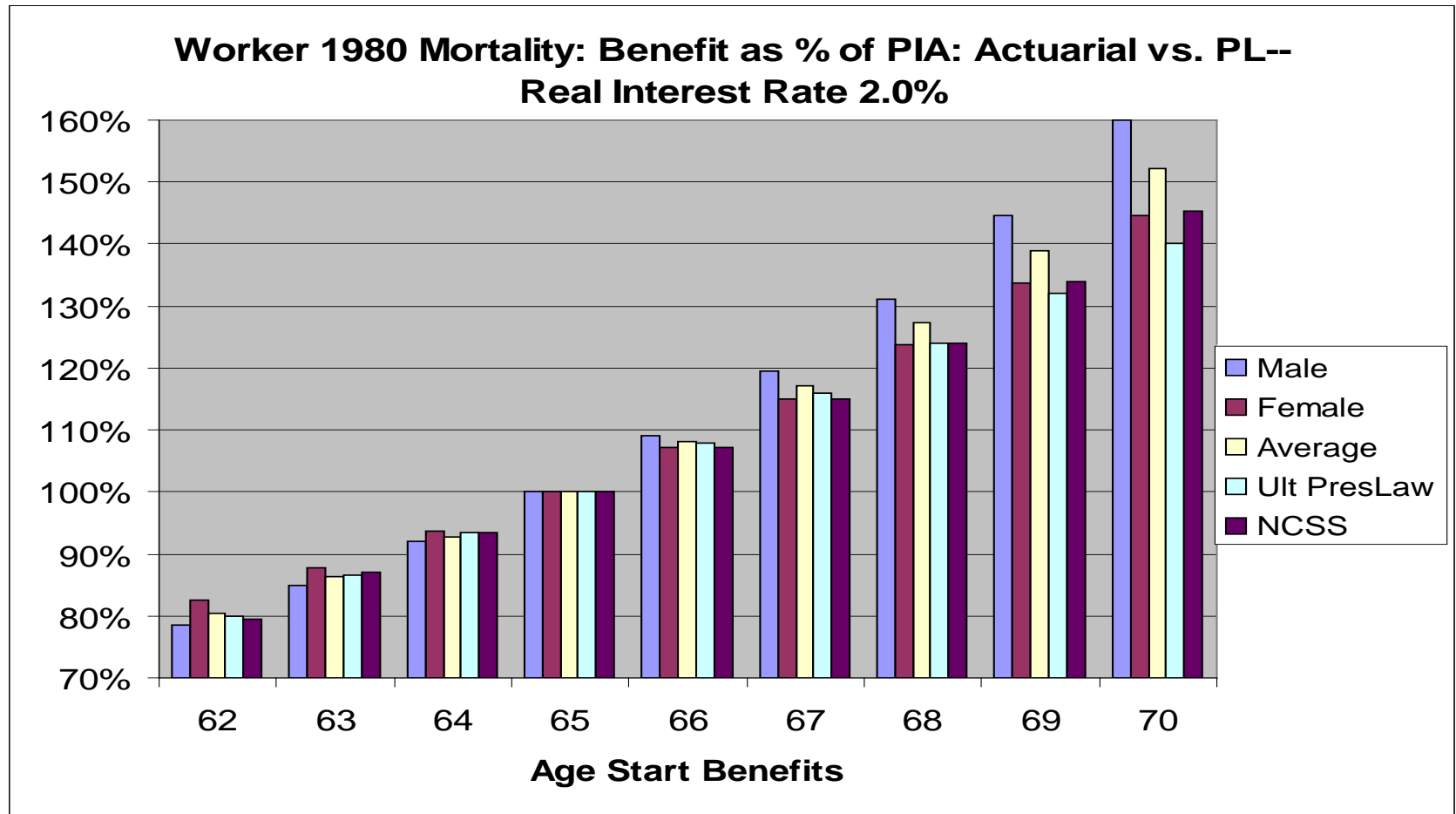
	<u>Projected Change in OASDI ---</u>		
	<u>Change in</u> Employment <u>at all ages</u>	<u>Actuarial</u> <u>balance</u>	<u>75th year</u> <u>annual</u> <u>balance</u>
		<i>(percent of taxable payroll)</i>	
Scenario 1: 10 percent increase in projected level of work at ages 62 and over starting 2011	1.3%	0.09	0.09
Scenario 2: Work for men and women at ages 45 and over at same rates as for men in 1950, Unadjusted	16.5%	0.98	0.54
Scenario 3: Work for men and women at ages 45 and over at same rates as for men in 1950, Adjusted for available disability benefits, and aging over 65	13.5%	0.78	0.33
Under current law and policy (2012TR)	na	-2.67	-4.50

Scenario estimates based on 2009 TR Intermediate Assumptions

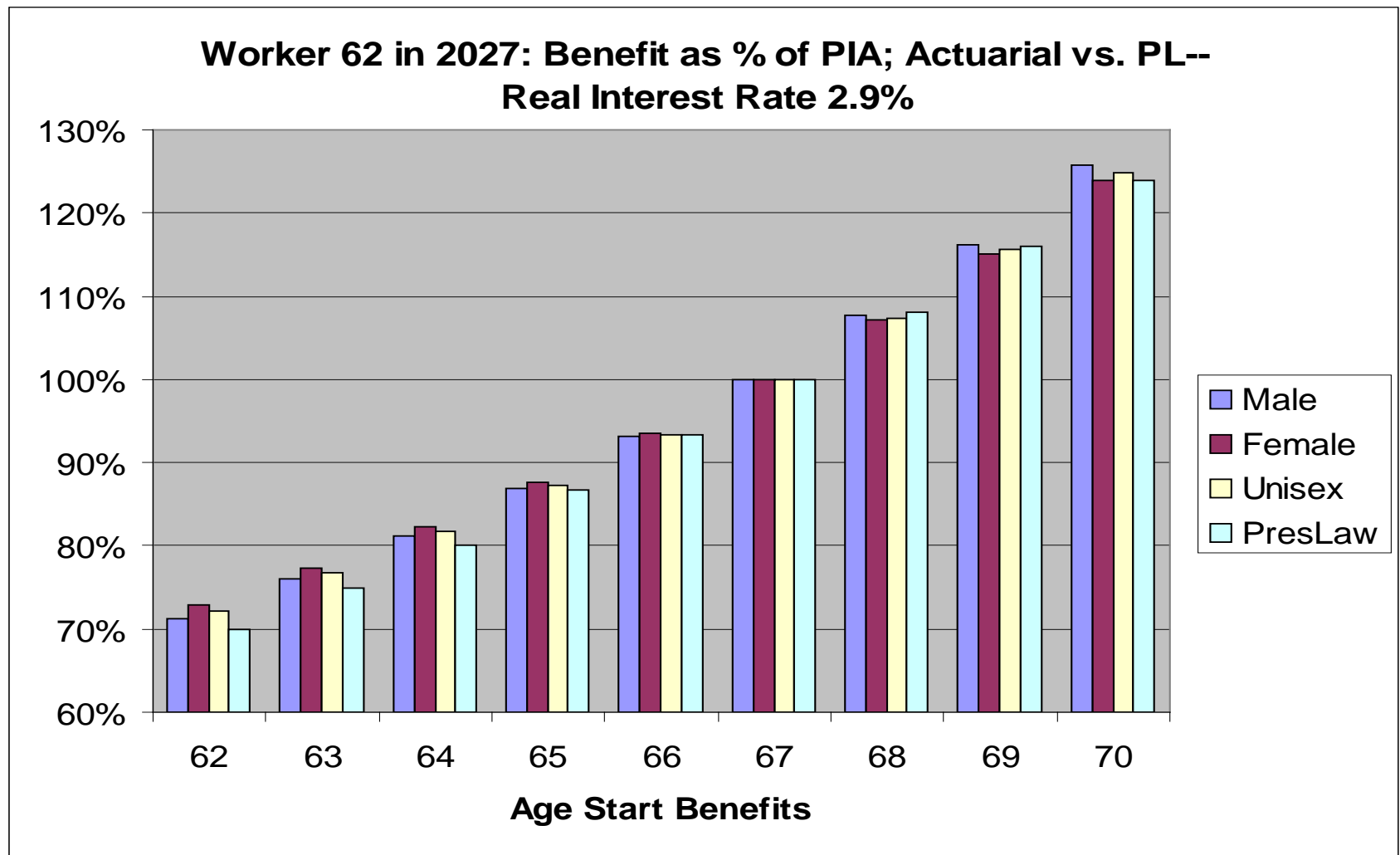
Then how can working longer improve Social Security Actuarial Status?

- Working longer **PLUS** later benefit start means that increased normal retirement age (NRA) can help actuarial status *without* cutting monthly benefit levels
- Neither increased NRA nor working longer, ALONE, accomplishes these objectives
- **The key is supply of jobs appropriate for older workers, not just supply of labor**

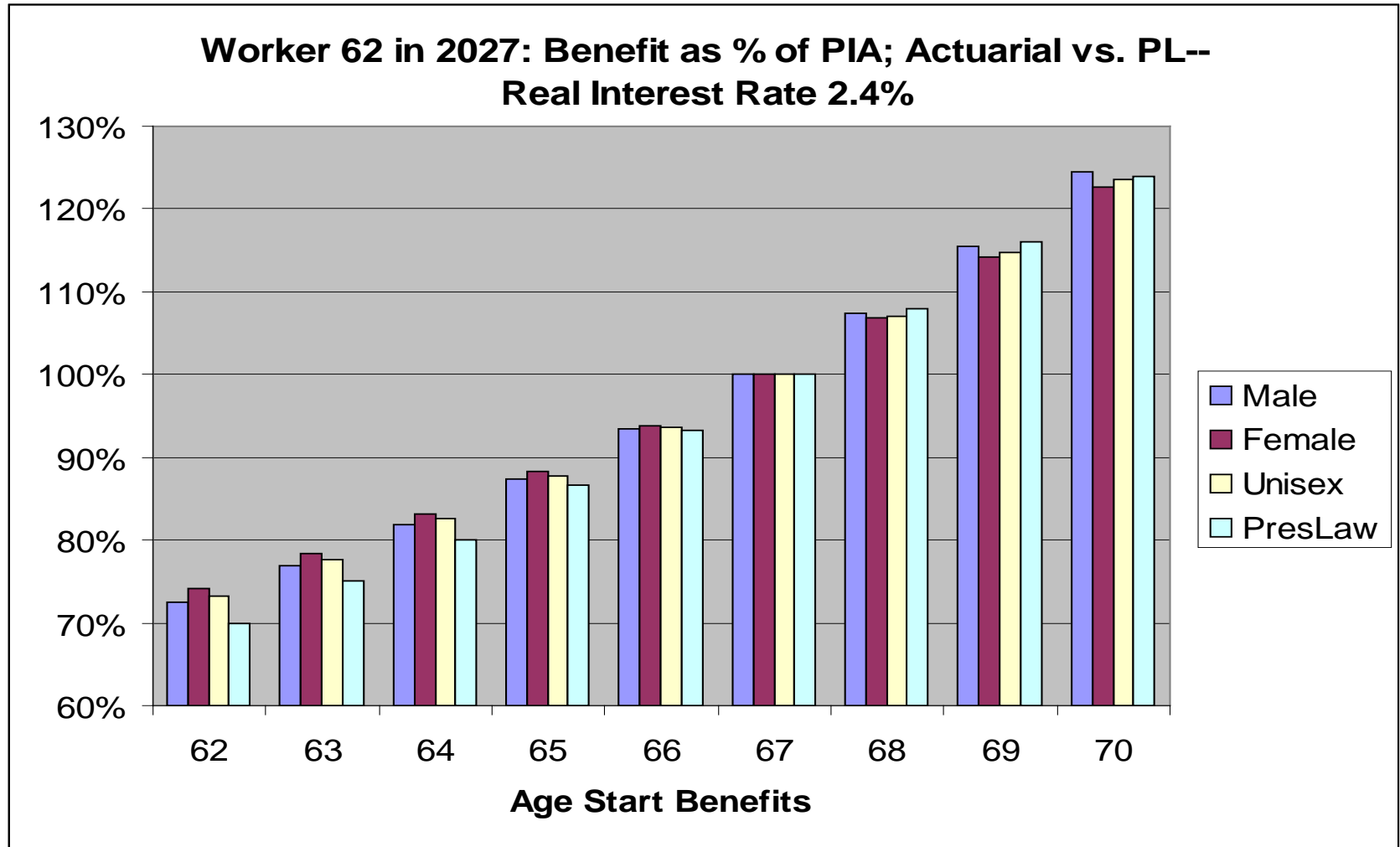
Question: Are Social Security early and delayed retirement factors fair? It all depends on the mortality and interest rate. Consider basis for the 1983 Amendments back in 1980.



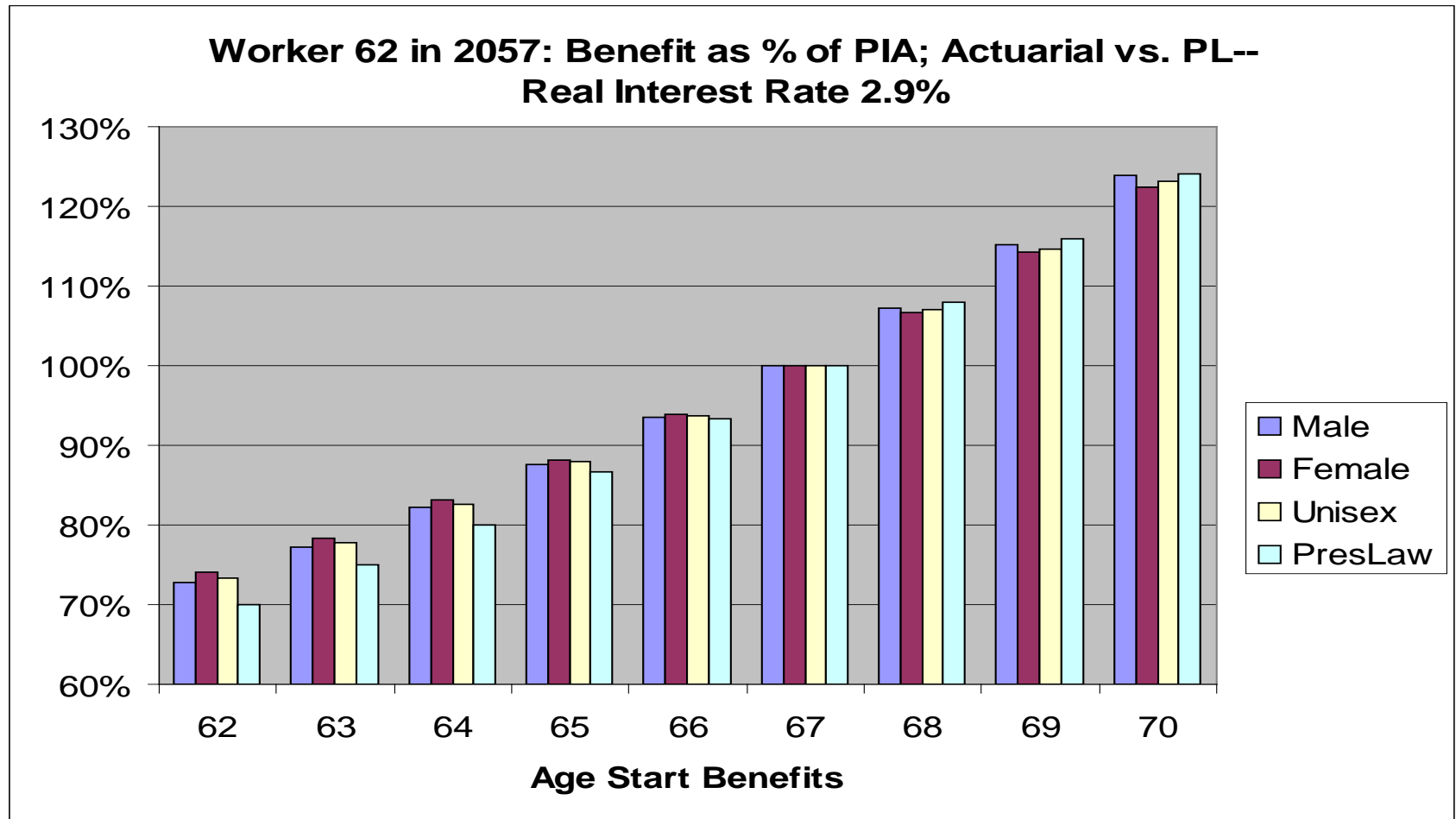
By 2027, the early retirement reduction will be too much. The DRC about right. But what is the appropriate discount interest rate?



A somewhat lower interest discount rate makes little difference.
“Personal” discount rates and investment expectations vary a lot.



By 2057, the early retirement reduction will clearly be too large. If retained, will it encourage delayed start of benefits? Or hurt those who cannot delay? Changes over time were not enacted in 1983



Changes needed in benefit factors?

- Scheduling adjustments to factors was thought be to too complex and uncertain back in 1983.
- It was understood that factors would be too large as mortality declined.
- But some, like the NCRP, have suggested larger factors to encourage delayed “claiming” and working longer
- Elimination of the retirement earnings test over NRA has meant earlier claiming of benefits, unclear on work effect
- Other “actuarial” issues to be dealt with:
 - “Withdrawal of claim” largely eliminated now
 - “Presumed filing for all benefits available” can be extended over NRA to avoid the “file and suspend” strategy for high earners

Conclusion----

- Increased availability of jobs appropriate for older workers can facilitate longer careers without lower monthly benefits, and savings for Social Security from increased NRA
- Reduction factors are too large now, but workers retire early anyway. Elimination of the earnings test arguably makes this worse.
- Congress to decide whether to update factors or leave them too high in order to discourage, or punish early start of benefits