

Increasing the Early Retirement Age Under Social Security: Health, Work, and Financial Resources

By Michael V. Leonesio, Denton R. Vaughan, and Bernard Wixon

Summary

Policies that would reduce or eliminate Social Security benefits for early retirees could have adverse consequences for older workers in poor health. This *Brief* documents the health and financial status of people aged 62–64 who receive reduced Social Security benefits as retired workers, spouses, and widowed spouses. Although most of these early retirees do not have a serious health condition, almost half report some type of health problem. About 25 percent are estimated to have health problems that substantially impair their ability to work. When compared to other early retirees, those who have severe health problems have lower lifetime earnings, are more reliant on Social Security benefits, have fewer financial assets, and are less likely to have health insurance. About 12 percent of early retirees are estimated to meet the strict disability criteria for receiving Social Security Disability Insurance (DI) or Supplemental Security Income (SSI). Many of them do not receive DI because they lack sufficient work histories to qualify. Another larger subgroup does not meet the test of low income and limited financial assets for means-tested SSI disability benefits. About as many 62–64 year olds classified as severely disabled receive early retirement benefits as receive disability benefits from DI or SSI. The evidence suggests that Social Security early retirement benefits serve as a substantial, albeit unofficial, disability program for some early retirees.

Proposals to promote long-range solvency of the Social Security program often call for increasing the ages at which retirement benefits become available. The full benefit age has traditionally been age 65 and is gradually rising to age 67.¹ Early retirement benefits remain available at age 62, but benefits claimed at that age will incur larger reductions as the full benefit age rises. Traditionally, benefits claimed at age 62

have been reduced by 20 percent. When the full benefit age reaches age 67, benefits claimed at age 62 will be reduced by 30 percent and those claimed at age 65 will be reduced by 13.3 percent. Proposals have been made to raise the full benefit age beyond 67 and further reduce early entitlement benefits, or to increase the early retirement age.

Michael V. Leonesio is an economist in the Office of Research, Evaluation, and Statistics of the Social Security Administration. **Denton R. Vaughan** is a consultant with the Household Economics Statistics Division of the Bureau of the Census. **Bernard Wixon** is the Senior Policy Advisor with the Ticket to Work and Work Incentive Advisory Panel. This brief is based on a paper presented at a symposium on Health, Disability and Retirement Age, sponsored by the National Academy of Social Insurance in September 2000 and was published in the Social Security Bulletin following the Symposium. Any views expressed in the *Brief* are the authors' and do not necessarily reflect the views of the Social Security Administration or the Census Bureau.

1 Under current law, Social Security's full benefit age is gradually increasing starting in 2000 for individuals who attained age 62 that year. The age increases by two months each year for people turning 62 in 2000–2005, remains at age 66 for the next 10 years, and resumes increasing by 2-month increments during 2017–2022 for individuals attaining age 62 during those years. Some proposals to increase the full benefit age would accelerate the already scheduled increase to age 67, while others would increase the full benefit age beyond 67, or index it to increases in longevity.

An important consideration in evaluating such proposals is the extent to which older workers may find continued employment difficult or impossible because of health problems. That concern raises several empirical questions. How many individuals who take early Social Security benefits have health problems that limit or prevent work? What other income and financial resources do early retirees have? Are those with health problems at greater risk of having limited income and financial assets? To what extent would early retirees with health problems qualify for disability benefits from Social Security Disability Insurance (DI) or Supplemental Security Income (SSI) if early retirement benefits were not available?

This *Brief* addresses some of these questions by examining the health and economic status of Americans aged 62-64 in the early 1990s. Others have found that most early retirees are in good health, but a minority are in poor health and have modest financial resources (Burkhauser et al., 1996;

Smith, 1999; Department of Health and Human Services, 1986; Packard, 1986; Packard and Reno, 1989). This study draws on a unique data set to address the questions. The 1990 Survey of Income and Program Participation (SIPP) has in-depth measures of health, disability, and functional limitations as well as detailed data on income and financial resources for a 32-month reference period spanning 1990–92. In addition, information about work records, benefits, and disability claims experience from Social Security administrative records has been linked to the survey data.² The resulting restricted-access data file of 1,090 individuals age 62–64 is used for the analysis.³ The study also uses a statistical model to simulate which individuals appear to meet the Social Security definition of disability—an exacting medical, functional, and vocational standard meant to identify conditions that preclude “any substantial gainful activity” (Dwyer et al., 2003; Hu et al., 2001; and Lahiri et al., 1995).⁴

Table 1
Health Status of Persons Aged 62–64

Health or Disability Status	Number (in thousands)	Percent Distribution
Total	6,371	100
No health problems	3,224	51
One or more health problems	3,147	49
Not severely disabled	1,413	22
Severely disabled	1,734	27
Simulated SSA disabled	1,050	16

Source: Authors’ tabulations based on the 1990 SIPP linked to Social Security administrative records.

- 2 Data matching for this project occurred under the aegis of Memorandums on the Exchange of Statistical Information and Service between the U.S. Bureau of the Census and the Social Security Administration. All research involving the development and analysis of the matched data set at the Social Security Administration was conducted by Social Security employees or on-site contractors acting as special sworn agents of the Bureau of the Census.
- 3 The resulting sample size limits our ability to analyze the characteristics and behavior of some population subgroups. Most of the reported results are statistically significant at the 0.90 significance level or better. See Leonesio, Vaughan, and Wixon (2000) for sampling error information.
- 4 Estimates of individuals who meet the Social Security test of disability are based on a statistical model of the first two levels (initial and reconsideration) of the disability determination process. The model captures the relationship between survey information (including demographic characteristics and self-reports of health) and SSA’s judgments about medical eligibility as reported in Dwyer et al., 2003, Hu et al., 2001, and Lahiri et al., 1995. Those who receive disability benefits under DI or SSI are automatically considered medically eligible, even though about 200,000 are not estimated as eligible by the statistical model.

Table 2
Health Status and Beneficiary Status Of Persons Aged 62–64
[in percents]

Health or Disability Status	Total	OASI	DI and/or SSI	Neither
Total	100	49	11	40
No health problems	100	50	NA	50
One or more health problems	100	47	22	31
Not severely disabled	100	56	1	42
Severely disabled	100	39	40	21
Simulated SSA disabled	100	35	48	17

Note: NA = not applicable.

Health Status of 62 to 64 Year Olds

Americans aged 62–64 are almost evenly divided between people reporting no health problems and those reporting one or more problems (Table 1). Those with health problems include anyone who reported either health-related work limitations or any of the following characteristics: fair or poor health; a recent hospital stay; using a wheelchair; using a cane for six months or longer; a developmental, mental, or emotional disability; difficulty with a functional activity; difficulty with an activity of daily living; difficulty with an instrumental activity of daily living; or difficulty with housework.

Those with health problems include 27 percent who are classified as severely disabled and 22 percent with less serious conditions (McNeil, 1993). Respondents are classified as severely disabled if they report that their conditions prevented them from working or they were unable to perform one or more basic functional tasks, activities of daily living, or instrumental activities of daily living.

Individuals who are simulated to meet the Social Security test of disability account for 16 percent of persons 62–64 years of age. They are not mutually exclusive with other categories; that is, they are also counted in the survey-based categories.

Beneficiary Status

At ages 62 to 64 individuals may qualify for Social Security benefits as retired workers, spouses, and widowed spouses. As a group they are classified here as Old-Age and Survivors Insurance (OASI) beneficiaries. They are also called early retirees because they took actuarially reduced benefits before the full benefit age. Social Security Disability Insurance benefits are available to those who meet the strict test of disability in the Social Security program and have sufficient past and recent work to be insured.⁵ DI benefits are not reduced for early receipt. Individuals who meet the disability test but lack insured status are eligible for means-tested SSI benefits if they have very limited income and financial assets. Financial assets of more than \$2,000 cause an individual to be ineligible for SSI.

Of the 6.4 million people aged 62–64 in the early 1990s, 11 percent receive Social Security or SSI based on disability; 49 percent receive OASI early retirement benefits; and 40 percent receive neither Social Security nor SSI (Table 2). Those with health problems are more likely than others to receive some type of benefit. For example, while 50 percent of those who were free of health problems received benefits, about 79 percent of those classified as severely disabled are beneficiaries, as are 83 percent of those simulated to meet the Social Security disability criteria.

⁵ To be insured for disability benefits, a 62–64 year old needed to have worked at least 40 calendar quarters (or 10 years) and have worked at least 20 of the last 40 calendar quarters (five of the last 10 years) in jobs covered by Social Security.

As expected, receipt of disability benefits is clearly related to severity of health problems. Somewhat less expected is the extent to which receipt of early retirement benefits is related to health problems. In fact, about as many severely disabled 62–64 year olds receive early retirement benefits (39 percent) as receive disability benefits (40 percent). Among those simulated to meet the disability program criteria, about one in three (35 percent) received actuarially reduced OASI benefits. Thus, early retirement benefits appear to serve as an unofficial disability benefit program for many 62–64 year olds with significant health problems.

Demographic and Health Status of Early Retirees

To what extent are early retirees with health problems overrepresented among demographic subgroups that are often found to be economically disadvantaged? When compared to those in good health, early retirees with more severe disabilities are more likely to be Black or Hispanic, to be formerly married (that is, widowed, divorced, or separated), to live alone, and to have less than a high school education (Table 3).

Women are a clear majority (60 percent) of all OASI beneficiaries who receive reduced benefits as workers, spouses, or widowed spouses. Women represent 63 percent of those with a severe disability

and a large majority of those who are estimated to meet the Social Security definition of disability (79 percent). Why are the early beneficiaries who meet the Social Security disability criteria disproportionately female? Work experience is part of the answer.

Health and Work

Early retirees with severe disabilities are much more likely than those without health problems to have been without a job for the past 13 years. They also have lower lifetime earnings. Their median lifetime earnings are only about 60 percent as large as those of early retirees without serious health problems (Table 4). The work histories of early retirees who are estimated to meet the Social Security test of disability are even more limited. Fifty-one percent had not worked in the last 13 years. Median lifetime earnings are only about one fourth as high as for those without severe disabilities. This is consistent with the finding that that group is disproportionately female. In general, women are less likely to be insured for disability benefits (SSA, 1991 and 2002). For the cohort of 62–64 year olds in 1990, disability insured rates were 50 and 80 percent for women and men, respectively. The gap has narrowed, but still remains. By 2002, the disability insured rates of people in their early 60s were 64 percent for women and 81 percent for men.

Table 3
OASI Beneficiaries Aged 62–64:
Selected Demographic Characteristics, by Health Status
 [in percents unless otherwise indicated]

Characteristic	Total	No Health Problems	With One or More Health Problems			
			All	Not Severely Disabled	Severely Disabled	Simulated SSA Disabled
Number (in thousands)	3,102	1,626	1,476	793	682	369
Black or Hispanic	10	7	13	10	15	12
Widowed, divorced, separated	29	26	31	31	31	53
Living alone	22	20	24	26	22	41
Schooling < 12 years	31	25	37	30	45	53
Female	60	63	58	53	63	79

Table 4
Lifetime Work, Earnings, and Occupations of OASI Beneficiaries Aged 62–64, by Health Status
 [in percents unless otherwise indicated]

Characteristic	No Health Problems	With One or More Health Problems			
		All	Not Severely Disabled	Severely Disabled	Simulated SSA Disabled
Total Number (in thousands)	1,626	1,476	793	682	369
Blue-collar ^a	37	55	50	62	49 ^b
Did not hold a job or own a business in the past 13 years	19	24	20	30	51
Median annual lifetime indexed earnings	\$9,318	\$8,685	\$9,660	\$5,837	\$2,332

a Occupational category statistics are for those respondents who held a job or owned a business during the 13 years before mid-1990.
 b Estimates based on fewer than 50 sample cases.

The past occupations of early OASI beneficiaries who had worked in the last 13 years differ between healthy and impaired early beneficiaries. Those with health problems are less likely to have been in white-collar occupations (defined as managerial, professional, technical, sales, or administrative occupations) and more likely to have worked in blue-collar jobs (defined as service, production, craft, and repair occupations, or working as operators, fabricators, or laborers).

Income and Financial Status

Social Security is often a major share of family income among those receiving early OASI benefits. Those with more significant disabilities are more reliant on benefits. For example, early retirees who get half or more of their family income from Social Security account for 32 percent of those in good health and 58 percent of the Simulated SSA Disabled early retirees. Consistent with their greater reliance on Social Security is the finding that the more severely disabled are much less likely to have other types of income—such as earnings from their own or another family member’s work or income from property, such as interest income, dividends, or rental income. The median total family income of early retirees with severe disabilities is about half that of healthy early retirees.

The poverty rates across health categories reflect the strong relationship between health and family income. The poverty rate for early OASI beneficiaries in good health (4 percent) is much lower than for early beneficiaries with health problems. In fact, those in the most severely impaired groups are four to six times more likely to be poor (16 percent and 25 percent). Thus, for a substantial minority of early beneficiaries, impaired health is associated with precarious financial circumstances.

Financial asset holdings can be an important buffer against economic hardship for early retirees. These assets include interest-earning accounts at financial institutions, money market funds, government securities, stocks and bonds, IRA and Keogh accounts, business equity, and mortgages held for sale of real estate. These resources may yield income flows and can be drawn down if needed to meet unusual expenses or to offset reductions in income.

The size of median financial assets varies greatly by disability severity—even more than does median family income. The median assets of those with no health problems (\$32,600) is roughly four times the median for those with severe disabilities (\$8,523) and 40 times the median holdings of those estimated to meet the Social Security test of disability (\$800). Such limited assets may reflect the cumulative long-term effects of impairments on work and asset accumulation.

Health insurance is an important aspect of financial security for early beneficiaries, particularly since Medicare coverage does not begin until age 65. At older ages, spending for both preventive health care and treatment for chronic conditions can be substantial. Del Bene and Vaughan (1992) find that older persons in poor health are likely to have less comprehensive health insurance coverage and fewer economic resources for meeting acute health care needs than their more healthy contemporaries. This study has similar findings. Early retirees with health problems are more likely than healthy early retirees to be without health insurance coverage altogether. About one in eight healthy early retirees is uninsured, while about one in four of those with the most severe health problems lacks any type of health coverage (Table 5).

If Early Retirement Benefits Were Not Available

Raising the earliest entitlement age could adversely affect individuals aged 62–64 who are in poor health. If OASI benefits were not available at ages 62–64, one would expect that some health-impaired workers would seek benefits from Disability Insurance or Supplemental Security Income. To what extent might individuals become

eligible for these benefits? Would increases in benefits paid under the two disability programs appreciably offset any OASI savings if those benefits were not available at ages 62–64?

This study finds that 25 percent of early beneficiaries have health problems that substantially impair their ability to work. They comprise those who are simulated to meet the Social Security test of disability and others who were classified as having a severe disability based on reported inability to perform various activities, tasks, or functions (Table 6). Of those, how many would be eligible for disability benefits from Social Security disability insurance or Supplemental Security Income if early retirement benefits were not available?

Simulations done for the study find that of the 25 percent with significant impediments to work, about 5 percent of early retirees would be eligible for SSI disability benefits if OASI benefits were not available. Of that group, it is estimated that somewhat fewer—4 percent of early retirees—might actually participate in the SSI program. This is based on the finding that about 80 percent of 62–64 year old individuals represented in the data who meet the eligibility criteria for SSI actually apply and participate in the program.

Table 5
Financial Status of OASI Beneficiaries Aged 62–64
[in percents unless otherwise indicated]

Characteristic	No Health Problems	With One or More Health Problems			
		All	Not Severely Disabled	Severely Disabled	Simulated SSA Disabled
Total Number (in thousands)	1,626	1,476	793	682	369
Family Income Measures					
Social Security is half or more of family income	32	39	35	44	58
No property income	11	25	19	31	37
No earned income	55	59	57	61	76
Median total family income	\$10,399	\$7,689	\$8,141	\$7,528	\$5,241
Poverty rate	4	12	8	16	25
Median financial assets	\$37,652	\$14,128	\$18,099	\$8,523	\$800
Without Health Insurance	13	20	17	23	24

Table 6
OASI Beneficiaries Aged 62–64:
Potential Eligibility for Disability Benefits from DI or SSI if OASI Benefits Were Not Available

Characteristic	Number	Percent
(a) Total 62-64 year olds receiving OASI benefits	3,102	100
(b) Not a significant work limitation	2,322	75
(c) Significant work limitation: Meet Social Security disability test or classified as having severe disability	780	25
(d) Would be eligible for SSI based on disability and means test *	155	5
(e) Would participate in SSI (80% of eligible in (d) above)	125	4
(f) Eligible, but not claiming SSI	30	1
(f) Could get DI based on disability and insured status*	92	3
(g) Not eligible for DI or SSI—subtotal	533	17
(h) Meet disability test, but not SSI means test or DI insured	122	4
(i) Don't meet program disability test	411	13

* Persons eligible for both DI and SSI are classified in the SSI category.

Another 3 percent of the individuals receiving reduced early retirement benefits appear to be eligible for DI benefits but had not claimed them. They are insured for disability benefits and are simulated to meet the disability test of the program. They could receive somewhat higher benefits as disabled workers than they received in reduced retirement benefits. When applicants file for benefits at Social Security field offices, claims representatives routinely compare potential benefits if it appears that the applicant might be eligible under more than one program. The beneficiary is awarded the higher benefit to which he or she is entitled. In practice, early retirees with serious health problems often file for both disability and retirement benefits. The reduced retirement benefit is payable immediately and, if DI benefits are allowed later, the benefit type is changed to Disability Insurance. This feature of program administration may explain why so few individuals receiving early retirement benefits appear to be eligible for DI. Those who appear to be eligible may have experienced a worsening of their health problems after they originally applied.⁶

If early OASI benefits were not available, the remaining 17 percent of early retirees with significant impediments to work would be eligible for neither DI nor SSI benefits. They are estimated to be either ineligible under the program disability test (13 percent) or, if disabled, to lack DI insured status and be ineligible under the SSI means test (4 percent).

In summary, this study shows that Social Security's early retirement program serves as an unofficial disability program for a substantial minority of early retirees (25 percent). Although they are reported to have disabilities that limit work, most of them are ineligible for benefits under DI or SSI. These results suggest that raising the early entitlement age would have only a modest impact on enrollment in Social Security's disability programs. Yet they also imply that—without changes in eligibility criteria—the disability programs will not serve as a safety net for many early beneficiaries with a significant work limitation if the early entitlement age is raised.

⁶ It is also possible that some of these cases have been misclassified by our statistical model of disability determination.

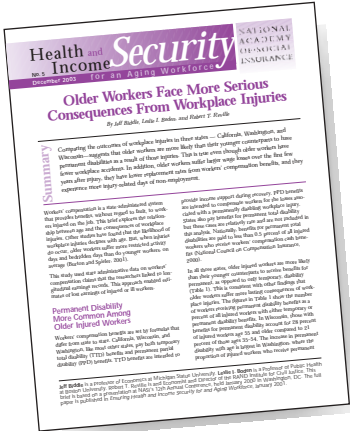
References

- Burkhauser, Richard V., Kenneth A. Couch, and John W. Phillips. 1996. "Who Takes Early Social Security Benefits? The Economic and Health Characteristics of Early Beneficiaries." *The Gerontologist*, 36(6): 789–99.
- Del Bene, Linda A., and Denton R. Vaughan. 1992. "Income, Assets and Health Insurance Coverage: Economic Resources for Meeting Acute Health Care Needs of the Aged." *Social Security Bulletin*, 55(2): 3–25.
- Department of Health and Human Services. 1986. "Increasing the Social Security Retirement Age: Older Workers in Physically Demanding Occupations or Ill Health (Report to Congress)." *Social Security Bulletin*, 49(10): 5–23.
- Dwyer, Debra, Jianting Hu, Denton R. Vaughan, and Bernard Wixon. 2003. "Counting the Disabled: Using Survey Self-Reports to Estimate Medical Eligibility for Social Security's Disability Programs." *Journal of Economic and Social Measurement*, 28 (2002/2003): 109–142.
- Hu, Jianting, Kajal Lahiri, Denton R. Vaughan, and Bernard Wixon. 2001. "A Structural Model of Social Security's Disability Determination Process." *The Review of Economics and Statistics*, 83(2): 348–61.
- Lahiri, Kajal, Denton R. Vaughan, and Bernard Wixon. 1995. "Modeling SSA's Sequential Disability Determination Process Using Matched SIPP Data." *Social Security Bulletin*, 58(4): 3–42.
- Leonesio, Michael V., Denton R. Vaughan, and Bernard Wixon. 2000. "Early Retirees Under Social Security: Health Status and Economic Resources." *Social Security Bulletin*, 63(4): 1–16.
- McNeil, John M. 1993. *Americans with Disabilities: 1991–92*, Current Population Reports, Series P-70, No. 33. U.S. Bureau of the Census. U.S. Government Printing Office, Washington, DC.
- Packard, Michael. 1985. "Health Status of New Retired-Worker Beneficiaries: Findings From the New Beneficiary Survey." *Social Security Bulletin*, 48(2): 5–16.
- Packard, Michael D., and Virginia P. Reno. 1989. "A Look at Very Early Retirees." *Social Security Bulletin*, 52(3): 16–29.
- Smith, Ralph. 1999. *Raising the Earliest Eligibility Age for Social Security Benefits*. CBO Paper, Congressional Budget Office, Washington, DC, January.
- Social Security Administration. 1991–1992, 2002. *Annual Statistical Supplement to the Social Security Bulletin*. U.S. Government Printing Office, Washington, DC.

Also of interest from the National Academy of Social Insurance...

No.5 Older Workers Face More Serious Consequences From Workplace Injuries

by Jeff Biddle, Leslie I. Boden, and Robert T. Reville
December 2003



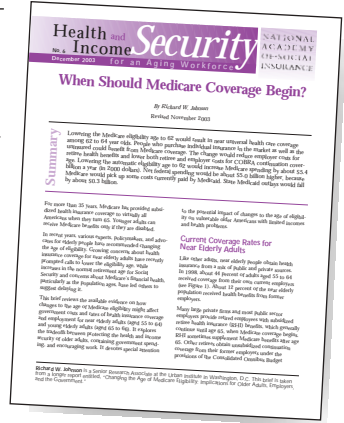
Comparing the outcomes of workplace injuries in three states—California, Washington, and Wisconsin—suggests that older workers are more likely than their younger counterparts to have permanent disabilities as a result of those injuries. This is true even though older workers have fewer workplace accidents. In addition, older workers

suffer larger wage losses over the first few years after injury, they have lower replacement rates from workers' compensation benefits, and they experience more injury-related days of non-employment.

No.6 When Should Medicare Coverage Begin?

by Richard W. Johnson
Revised November 2003

Lowering the Medicare eligibility age to 62 would result in near universal health care coverage among 62 to 64 year olds. People who purchase individual insurance in the market as well as the uninsured could benefit from Medicare coverage. The change would reduce employer costs for retiree health benefits and lower both retiree and employer costs for COBRA continuation coverage. Lowering the automatic eligibility age to 62 would increase Medicare spending by about \$5.4 billion a year (in 2000 dollars). Net federal spending would be about \$5.0 billion higher, because Medicare would pick up some costs currently paid by Medicaid. State Medicaid outlays would fall by about \$0.3 billion.



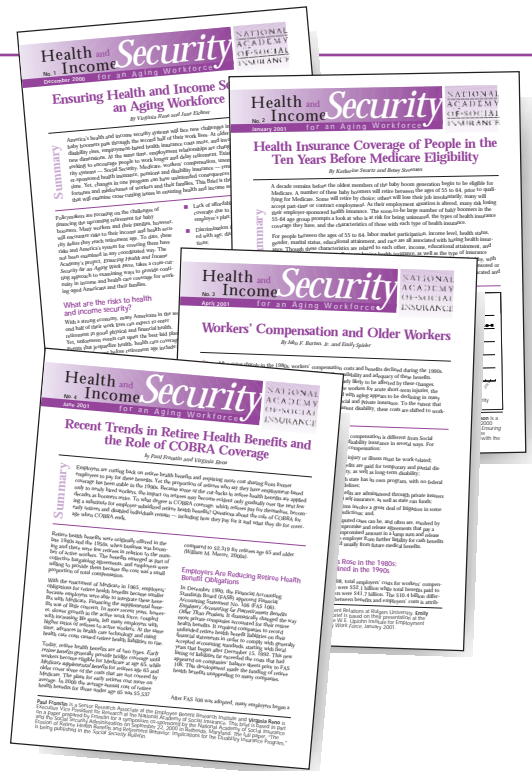
Other Health and Income Security Briefs...

No.1 Ensuring Health and Income Security for an Aging Workforce by Virginia Reno and June Eichner, December 2000

No.2 Health Insurance Coverage of People in the Ten Years Before Medicare Eligibility by Katherine Swartz and Betsey Stevenson, January 2001

No.3 Worker's Compensation and Older Workers by John F. Burton, Jr. and Emily Spieler, April 2001

No.4 Recent Trends in Retiree Health Benefits and the Role of COBRA Coverage by Paul Fronstin and Virginia Reno, June 2001



Health and Income Security

No. 7
December 2003 for an Aging Workforce

This *Brief* is seventh in a series on Health and Income Security for an Aging Workforce. The full text of Academy *Briefs* and information for ordering reports and briefs are available on our website, www.nasi.org, or by calling 202-452-8097.

The National Academy of Social Insurance is a nonprofit, nonpartisan organization made up of the nation's leading experts on social insurance. Its mission is to promote understanding and informed policymaking on social insurance and related programs through research, public education, training, and the open exchange of ideas.

Health and Income Security for an Aging Workforce is a project of the National Academy of Social Insurance. It examines challenges to the nation's system of health and income security as Baby Boomers pass through the second half of their work lives. The project takes a cross-cutting look at the people, the risks to health and income security they face between mid-career and retirement age, and the programs that protect them.

The project has received financial support from the W.E. Upjohn Institute for Employment Research, The Robert Wood Johnson Foundation, DaimlerChrysler Corporation, Ford Motor Company, the AFL-CIO and the Social Security Administration.

NATIONAL
ACADEMY
OF SOCIAL
INSURANCE

1776 Massachusetts Avenue, NW
Suite 615
Washington, DC 20036-1904
202/452-8097
202/452-8111 Fax
nasi@nasi.org
www.nasi.org

BUG

Health and Income Security
for an Aging Workforce No. 7