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As the debate over Social Security privatization continues in the media and the U.S. Congress, raising the retirement age has once again received fresh attention. Certainly today, people generally live longer than in the past and thus rely on Social Security benefits for longer. Proponents of raising the Social Security retirement age argue that workers should work longer before becoming eligible for full Social Security benefits.

Social Security is a form of retirement savings for individuals, but the savings aspect of the program has always been combined with a significant social insurance role. Social Security also protects from poverty those workers who can no longer work due to age or disability. While some workers are able to rely on other forms of retirement income, for many, Social Security is the primary or only income source in retirement. Evidence reviewed in this paper suggests that a higher retirement age could disproportionately affect those people who already depend the most on Social Security for retirement income, e.g. lower income workers, minorities and women. These workers tend to be in worse health than their counterparts at older ages, tend to have lower life expectancies and tend to have less retirement wealth outside of Social Security. Specifically, the data suggests:

- Longevity and health status at or near the current retirement age are two separate issues. Specifically, while gains in life expectancy have accelerated, health improvements for those near the current retirement age appear to have slowed.
- While the majority of older workers are in good health at or near the current retirement age, there is a substantial minority who are not. Moreover, women, minorities, blue collar, and lower wage workers tend to be in worse health than their counterparts.
- Working longer before receiving full Social Security benefits is a benefit cut that would impact African-Americans, blue collar workers, and low income workers more than their counterparts.
- It is also important to consider whether employers are willing to hire more older workers when the retirement age is raised. Labor market trends do not necessarily support the view that there is a hiring boom for older workers.
- Groups that would be disproportionately affected by a higher retirement age tend to have lower retirement savings outside of Social Security than their counterparts.

The popular discussion of proposals to raise the retirement age tends to rely almost exclusively on the growing (median) longevity of the population and give far too little consideration to the distributional implications of the proposal. Nor does the current discussion sufficiently consider the implications for the social insurance aspects of the Social Security program. Thoughtful reform will address all of these issues.

Background

Proposals to raise the retirement age focus primarily on increasing the age at which retirees can receive full Social Security benefits, or the Normal Retirement Age (NRA). For much of the past decades, this age was set at 65. The Social Security reforms enacted in 1983 specified that the retirement age would go up, starting with people born in 1938, i.e. turning 62 in 2000. Over time, the NRA is scheduled to rise to 67 by 2025 (figure 1).

At the same time, though, workers can still receive Social Security benefits as early as 62, Social Security's Earliest Eligibility Age (EEA). People retiring at or after the EEA, but before the NRA see a permanent reduction in their benefits of 6 2/3 percent for each year that they retire before the NRA.

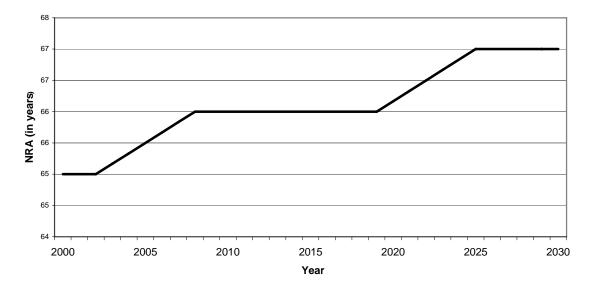


Figure 1: Normal Retirement Age

Note: Source is SSA, 2005 Social Security Trustees Report, Washington, D.C.: Social Security Administration.

Recently, several proposals have emerged to increase the NRA beyond what is already law. For instance, Sen. Grassley (R-IA) suggested an increase of the NRA to age 69 in a discussion with other Republican members of the Senate Finance Committee in early June (Espo, 2005). Sen. Hagel (R-NE) has sponsored legislation to raise the NRA from 67 to 68 in 2023 (Simon, 2005), as well as to index benefits to overall longevity

improvements.¹ Another option found in the 1994-96 Social Security Advisory Council Report would slowly raise the NRA by one month every two years so that the NRA would reach age 68 in 2035 for workers born in 1973. It would go to 70 by 2083 (Gebhardtsbauer, 2005). Also, rather than raising the retirement age beyond its scheduled level of 67, it is also possible to accelerate the increase to 67 (Gebhardtsbauer, 2005).

An increase in the NRA constitutes a benefit cut for all retiree beneficiaries of Social Security. Those workers wanting to retire with full benefits will have to wait longer to do so and thus will receive benefits for a shorter period of time. Workers wanting to retire before the NRA can still do so, but they will receive fewer benefits than before the increase in the retirement age. This reduction of benefits is permanent.

To see what the already scheduled increase in the NRA means in terms of retirement income, the Social Security Administration calculates the replacement rate at age 65. That is, it relates the expected retirement income from Social Security benefits to the preretirement of workers with different lifetime earnings, assuming that they retire at age 65. As the NRA is increased and workers continue to retire at age 65, the value of their retirement benefits relative to their pre-retirement income will decline (figure 2). For instance, for low lifetime earners the replacement rate upon retirement age 65 is expected to fall from 57 percent to 49 percent over the coming 20 years.

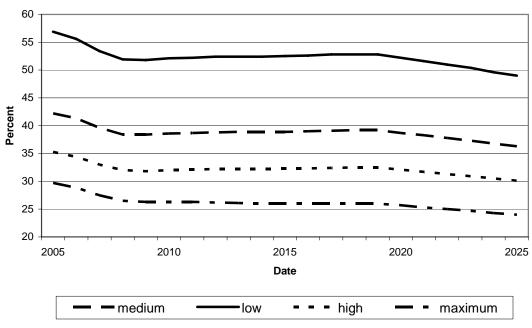


Figure 2: Social Security Replacement Rates for Different Lifetime Earnings with Retirement at 65

Source is the Social Security Administration, 2005, 2005 Social Security Trustees Report, Washington, D.C.: SSA.

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¹ On an actuarial basis, longevity indexation is the same as raising the NRA in line with longevity improvements.

With a higher NRA, Social Security's long-term finances will improve. If the increase of the NRA is accelerated, it would reduce the expected Social Security shortfall by 7 percent according to estimates by the American Academy of Actuaries (Gebhardtsbauer, 2005). If the NRA is raised along the lines considered by the 1994-96 Social Security Advisory Council, Social Security's projected shortfall would be reduced by 36 percent (Gebhardtsbauer, 2005).

Living Longer and Working Longer Are Two Separate Issues

It is often argued that people should expect to work longer because of greater life expectancies. However, the ability to work beyond age 62 or 67 is a function of people's health at that age, which may not necessarily be connected to the extension of their lives.

Bad health, which may prevent older workers from working longer, affects a substantial minority of workers (table 1). This is exactly the group for which Social Security as a social insurance program exists. One essential purpose of the program is to replace workers' income when they are no longer able to earn a living.

The size of this minority varies with demographic characteristics. More than one-third of African-Americans between the ages of 65 and 74 and more than 30 percent of African-Americans between the ages of 55 and 64 reported fair or poor health. In comparison, less than one-fifth of whites between the ages of 55 and 64 and 21 percent of whites between the ages of 65 and 74 reported fair or poor health (table 1).

Interestingly, the share of the population at or near the current NRA that reports health problems is similar to the share of retirees who have functional limitations (Leonesio et al., 2003). About 25 percent of early retirees reported some functional limitations in the early 1990s. Given that reported health status changed little in the subsequent decade, it is likely that the share of early retirees with functional limitations has also remained relatively steady.

Arguments in favor of a higher retirement age, though, focus more on changes than on the level. Importantly, changes in life expectancy and health improvements for people at or near the current NRA do show separate trends (table 1). While improvements in life expectancies either kept pace or accelerated for all groups from the 1980s to the 1990s, improvements in the health status of those 55 to 64 years old tended to slow.

The health status of older workers shows different trends than the relevant data on life expectancy. For the purpose of considering how much time people will likely spend in retirement, the most relevant data are the life expectancies at age 65 and not the life expectancy at birth. Life expectancy at age 65 either grew at the same rate or grew faster for all groups in the 1990s than in the 1980s. The sharpest acceleration in life expectancy at age 65 came for African-American men, who saw their life expectancy actually decline slightly in the 1980s and then grow at a remarkable annual average of 0.9 percent per year in the 1990s.

At the same time, the rate of change in the share of the population at or near the current NRA that considered themselves in poor or fair health tended to show slower improvements in the 1990s than in the 1980s. For the population as a whole, the rate of improvement among those between the ages of 55 and 64 declined from 0.8 percentage points per year to only 0.2 percentage points annually (table 1). A very sharp slowdown occurred among African-Americans, who saw their rate of health improvements decline from 2.2 percentage points per year to just 0.1 percentage points.

One aspect of the comparison between longevity and health at ages 55 to 74 deserves particular attention. Women tend to live longer than men. Their life expectancy at age 65 was 19.5 years in 2002, compared to 16.6 years for men (table 1). Yet women tend to be in worse health by the time they are at or near the NRA than men: 23.1 percent of women between the ages of 55 and 64 and 26.7 percent of women between the ages of 65 and 74 considered themselves in poor or fair health, compared to 18.9 percent and 24.1 percent for men, respectively. Moreover, women typically saw either smaller improvements or larger deterioration in their health status than men.

Table 1: Levels and Changes in Self-Reported Health Status, 1982 to 2002

	Level in 2002	Average change (%)	
		1982-1990	1990-2000
Total	18.6	-0.8	-0.2
 Share of pop. 55-64 in poor/fair health (%) 	10.0	-0.8	-0.2
 Share of pop. 65-74 in poor/fair health (%) 	22.3	-0.2	-0.3
Life expectancy at 65 (years)	18.2	0.3	0.4
Share of pop. 55-64 in poor/fair health (%)	18.9	-1.0	-0.3
 Share of pop. 65-74 in poor/fair health (%) 	24.1	-1.2	0.2
Life expectancy at 65 (years)	16.6	0.5	0.8
Women			
 Share of pop. 55-64 in poor/fair health (%) 	23.1	0.2	-0.4
 Share of pop. 65-74 in poor/fair health (%) 	26.7	-0.3	1.3
 Life expectancy at 65 (years) 	19.5	0.1	0.2
 African-American Share of pop. 55-64 in poor/fair health 	30.8	-1.2	-0.4
(%)Share of pop. 65-74 in poor/fair health	37.6	-2.2	-0.1
(%) • Life expectancy at 65 (years) Whites	16.6	0.0	0.5
 Share of pop. 55-64 in poor/fair health (%) 	17.0	-0.8	-0.2

 Share of pop. 65-74 in poor/fair health (%) 	20.8	-1.0	-0.3
Life expectancy at 65 (years)	18.2	0.3	0.3
African-American men			
 Share of pop. 55-64 in poor/fair health (%) 	29.1	-1.2	-0.2
 Share of pop. 65-74 in poor/fair health (%) 	35.4	-2.2	-0.4
 Life expectancy at 65 (years) 	14.6	-0.1	0.9
African-American women			
 Share of pop. 55-64 in poor/fair health (%) 	32.1	-1.2	-0.6
 Share of pop. 65-74 in poor/fair health (%) 	39.3	-2.2	0.2
Life expectancy at 65 (years)	18.0	0.0	0.1
White men			
 Share of pop. 55-64 in poor/fair health (%) 	16.9	-0.7	-0.3
 Share of pop. 65-74 in poor/fair health (%) 	22.2	-1.1	-0.3
Life expectancy at 65 (years)	16.6	0.6	0.7
White women			
 Share of pop. 55-64 in poor/fair health (%) 	17.1	-0.9	-0.2
 Share of pop. 65-74 in poor/fair health (%) 	19.6	-0.9	-0.4
Life expectancy at 65 (years)	19.5	0.1	0.1

Notes: Average changes are only reported for the past two complete business cycles since reported health status varies with the business cycle. Author's calculations based on data from the National Center for Health Statistics, Tables on Trends in Health and Aging, Hyattsville, MD: NCHS and National Center for Health Statistics, Life Tables for the United States, Hyattsville, MD: NCHS.

Another way to consider the issue of people's ability to work longer is to look at occupational health data, specifically on the incidence of illnesses and injuries that lead to days away from work or to restricted work. As discussed further below, occupation is an important determination of people's longevity and their health status. Incidences of onthe-job illnesses and injuries can serve as a proxy for the demands of particular occupations.

The combined incidence rate of illnesses and injuries declined slowly from the 1970s to the 1980s and in a more pronounced fashion in the 1990s (table 2). However, a breakdown of trends by industry indicates that the pace of improvements may not last. For instance, the combined incidence rate was generally higher in the private service sector in the 1990s than in the 1980s and 1970s. It also grew in the finance, insurance, and real estate sector, albeit at comparatively low rates (table 2). Further, the combined incidence rate in the retail sector was higher in the 1990s than in the 1970s. All of these sectors employed a stable or larger share of the private sector at the end of the 1990s than in the 1970s. The share of service sector employees out of all private sector employees

² Due to shifts in work practices, it is best to consider both incidence rates in combination.

grew from 66 percent in 1976 to 78 percent in 2000. Over the same period the share of private sector employees in finance, insurance, and real estate rose from 6 percent to 7 percent and the share of retail employees remained stable at 14 percent. If the trend towards worsening occupational health in a growing share of the private sector continues, it could raise doubts about the pace of health improvements for those at the current NRA.

Table 2
Trends in Occupational Health

Years	1976 to 1979	1980 to 1990	1991 to 2000
Private industry			
 Cases involving days away fror work (per 100 employees) 	n 3.7	3.4	2.4
 Cases involving restricted work 		0.4	1.0
activity only (per 100 employeeCombined	s) 3.9	3.8	3.5
Agriculture, forestry and fishing			
 Cases involving days away fror work (per 100 employees) 	n 5.1	5.5	3.5
 Cases involving restricted work activity only (per 100 employee 		0.3	0.9
Combined	5.2	5.8	4.4
Mining			
 Cases involving days away fror work (per 100 employees) 	n 6.0	4.8	3.0
 Cases involving restricted work activity only (per 100 employee 		0.3	0.6
Combined	6.3	5.2	3.6
Construction			
 Cases involving days away fror work (per 100 employees) 	n 6.0	6.3	4.2
 Cases involving restricted work activity only (per 100 employee 		0.3	0.7
Combined	6.2	6.6	4.9
Manufacturing			
 Cases involving days away fror work (per 100 employees) 	n 4.8	4.2	2.8
 Cases involving restricted work activity only (per 100 employee 		0.9	2.3
Combined	5.3	5.1	5.1
Transportation and public utilities			
 Cases involving days away fror work (per 100 employees) 	n 5.1	4.6	3.8
 Cases involving restricted work activity only (per 100 employee 		0.5	1.2
Combined	5.5	5.1	5.0
Wholesale and retail trade			
 Cases involving days away fror work (per 100 employees) 	n 3.0	3.1	2.3
Cases involving restricted work activity only (per 100 employee)		0.2	0.8

Years	1976 to 1979	1980 to 1990	1991 to 2000
Combined	3.1	3.3	3.1
Wholesale trade			
 Cases involving days away from work (per 100 employees) 	3.6	3.4	2.5
 Cases involving restricted work activity only (per 100 employees) 	0.1	0.3	1.0
Combined "	3.8	3.6	3.5
Retail trade			
 Cases involving days away from work (per 100 employees) 	2.7	3.0	2.2
 Cases involving restricted work activity only (per 100 employees) 	0.1	0.2	0.7
• Combined	2.8	3.2	3.0
Finance, insurance, real estate			
 Cases involving days away from work (per 100 employees) 	0.8	0.8	0.8
 Cases involving restricted work activity only (per 100 employees) 	0.0	0.1	0.2
• Combined	0.8	0.9	1.0
Services			
 Cases involving days away from work (per 100 employees) 	2.2	2.4	1.9
 Cases involving restricted work activity only (per 100 employees) 	0.1	0.2	0.7
• Combined	2.3	2.5	2.6

Notes: Author's calculations based on Bureau of Labor Statistics, Injuries, Illnesses, and Fatalities, Washington, D.C.: BLS.

Another way to consider improvements in the health of those at or near the current NRA is to look at the share of people between the ages of 65 and 74 with functional limitations. Functional limitations in daily routines mean that people need assistance with activities such as clothing, bathing, shopping and so on. For the population as a whole, this share has remained surprisingly steady at around 3.4 percent since the early 1980s (figure 2).

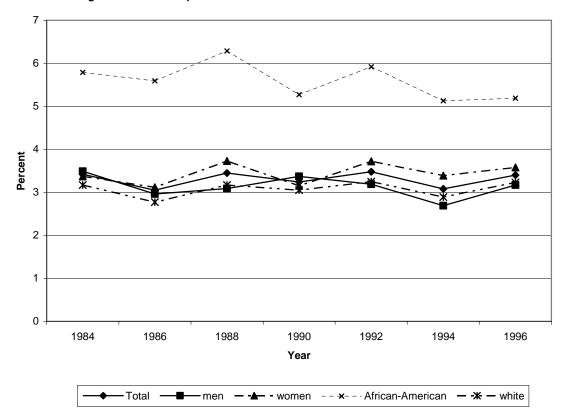


Figure 2: Share of Population between 65 and 74 with Functional Limitations

Notes: People are considered to have functional limitations if they answered "yes" to the following question: "Because of any impairment or health problem, does he/she need the help of other persons with his/her personal care needs, such as eating, bathing, dressing, or getting around his home?" Source is National Center for Health Statistics, Tables on Trends in Health and Aging, Hyattsville, MD: NCHS

In the debate over a higher retirement age, it is important to consider the relevant data on people's ability to work longer. The ability to work longer and longevity beyond a certain point are not necessarily related. In fact, while changes in longevity have often accelerated in recent years, particularly for men, all data on health status show that improvements have slowed or possibly come to a halt.

Higher Retirement Age Reduces Length of Retirement with Full Benefits

If the retirement age is raised by a fixed amount, such as one, two or three years, the length of receipt of full benefits will be shortened. However, the length of time during which workers can expect full benefits varies depending on their life expectancy. A retirement period that is shortened by one year, assuming that workers indeed retire at the NRA, will have a disproportionately larger effect on workers who have below average life expectancies than for those who have above average life expectancies. In 2002, the average life expectancy at age 65 was 18.2 years. However, for men and African-Americans, the average life expectancy was only 16.6 years, compared to 19.5 years for women and 18.2 years for whites (table 3). Blue collar men and women, for example, have much shorter estimated life expectancies than white collar men and women. The difference for men is 1.7 years and for women it is 1.1 years. The differences are even larger by income. Low-income men have an estimated life expectancy that is 3.3 years shorter than that of high income men, and low income women have a life expectancy that is 1.3 years shorter than that of high income women.

To understand what this means in terms of retirement, consider the following. White women have been able to enjoy more than 15 years of retirement with full benefits, i.e. retirement at age 65, since 1949. African-American men won't reach this threshold until probably 2008. Even white men have been able to have 15 years on average in retirement upon retiring at age 65 since 1989 – 40 years later than women (table 3). That is, many groups are still catching up to others who have had longer periods of retirement for decades.

Table 3: Demographic Differences in Life Expectancy at Age 65

	Life	Ann	ual averag	e growth i	n life	Yea	r in whicl	h life
	expectancy . at 65		_	ctancy		has	tancy at a exceede exceed	d/will
		1900- 2002	1940- 1960	1960- 1980	1980- 2002	15	17	19
Total Men Women African- American Whites African-	18.2 16.6 19.5 16.6 18.2 14.6	0.6% 0.5% 0.7% 0.5% 0.6% 0.4%	0.6% 0.4% 0.8% 0.3% 0.6% 0.3%	0.7% 0.5% 0.8% 0.5% 0.7% 0.2%	0.4% 0.7% 0.3% 0.3% 0.4% 0.4%	1970 1989 1949 1979 1967 2008	1989 2005 1972 2008 1987 2038	2012 2021 1996 2040 2012 2064
American men African- American women	18.0	0.6%	0.4%	0.6%	0.2%	1958	1979	2026
White men White women	16.6 19.5	0.5% 0.7%	0.4% 0.8%	0.5% 0.8%	0.7% 0.2%	1989 1949	2006 1972	2022 1993

³ It should be noted that high and low income mortality rates are determined from the estimated annuity amounts of pension beneficiaries, which serve as proxies for life time earnings (SOA, 2000).

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Blue collar men	15.5	-	-	-	-	-	-	-
Blue collar	18.8	-	-	-	-	-	-	-
women								
White collar men	17.2	-	-	-	-	-	-	-
White collar	19.9	-	-	-	-	-	-	-
women								
High income	18.4	-	-	-	-	-	-	-
men								
High income	20.4	-	-	-	-	-	-	-
women								
Low income men	15.1	-	-	-	-	-	-	-
Low income	19.1	-	-	-	-	-	-	-
women								

Notes: All life expectancy by race and gender are based on 2002 data. Data for blue collar/white collar and by income are based on author's calculations from data for 2000. Sources are National Center for Health Statistics, Life Tables for the United States, Hyattsville, MD: NCHS; and Society of Actuaries, The RP-2000 Mortality Tables, Washington, D.C.: SOA. It is assumed that life expectancy increases after 2002 at the rate of growth from 1980 to 2002 for the respective demographic group.

Importantly, it seems that some of the gaps in life expectancy are remaining constant or are only slowly closing. Clearly, men have had faster growth in their life expectancy at age 65 than women since 1980, after seeing slower increases in the preceding 40 years. However, the life expectancy of African-Americans has risen more slowly than that of whites for more than 100 years (table 3). An increase in the NRA by a fixed amount would treat all people the same in the sense that everybody would have to wait for an extra year or two before receiving full retirement benefits. However, this would offset larger past gains in longevity for whites than for African-Americans.

If workers were to wait to retire until reaching the new increased NRA, there would be a number of competing effects on the value of their lifetime benefits. Workers could expect benefits for one less year of retirement. There is also a chance that a worker would die between the old NRA and the new NRA, assumed to equal 2 percent in this example. These cuts are offset by the fact that retirement benefits will increase with average wages during the one-year delay – equal to 1.1 percent per year (SSA, 2005). As a result, workers will end up with fewer benefits over the course of their expected lifetime. For instance, if the NRA is raised to 68 in 2035 instead of the 67 under current law, the average benefit cut amounts to 6.7 percent. The cuts range from a low of 6.3 percent for high-income women to a high of 7.6 percent for African-American men (table 4).

Table 4
Relative Benefit Cuts Resulting from an Increase in the Normal Retirement
Age by Demographic Characteristic

		Retirement age	
	68 in 2035	69 in 2045	70 in 2055
Total	6.7%	13.2%	18.9%
Men	6.4%	11.8%	16.7%
Women	6.7%	12.8%	18.9%
African-American	7.3%	13.9%	19.9%
Whites	6.6%	12.5%	18.0%
African-American men	7.6%	14.4%	21.1%
African-American	7.1%	13.9%	19.9%
women			
White men	6.4%	12.0%	16.7%
White women	6.7%	13.2%	18.9%
Blue collar men	7.6%	14.4%	20.5%
Blue collar women	6.6%	12.8%	18.4%
White collar men	6.9%	13.5%	19.4%
White collar women	6.4%	12.3%	17.6%
High income men	6.7%	12.8%	18.4%
High income women	6.3%	12.0%	17.3%
Low income men	7.6%	14.9%	21.1%
Low income women	6.6%	12.5%	18.0%

Note: Benefit cuts are expressed as reductions in net present value for an individual delaying retirement. It is assumed that the future expectancy for each demographic group rises at the rate of growth for the period from 1980 to 2002.

Will There Be Jobs for Older Workers?

When facing a reduction in retirement benefits, workers can either work longer or save more to compensate for the loss of retirement income. Employment opportunities for older workers are determined by the state of the labor market. The labor market, like any other market, is not just a function of supply, but also of demand. It is thus not enough to ask whether older workers will be in sufficiently improved health to work longer. It is also important to consider whether employers will be willing to hire older workers at increasing rates.

In fact, the share of older workers employed still remains below the share of younger workers employed. However, this still does not say much about labor demand. It is possible that the number of people between the ages of 55 and 64 is rising faster than the rate at which people in this age group can find a job. That seems exactly to be the case. Although the unemployment rate for older workers is lower than that for younger workers, the unemployment rate of people between the ages of 55 and 64 has been rising faster or falling slower than that of people between the ages of 25 and 54 (figure 3). That is, the rate at which older workers are out of a job and looking for employment is rising relative to that of younger workers. If the trend since 1980 continues, the unemployment rate for older workers will be greater than that of younger workers in 2023. Exactly at the

time higher retirement ages would go into effect, older workers could possibly experience greater labor market slack than younger workers. As the unemployment rate is an indicator of labor demand, the data suggest that labor demand for older workers relative to younger workers may actually be declining.

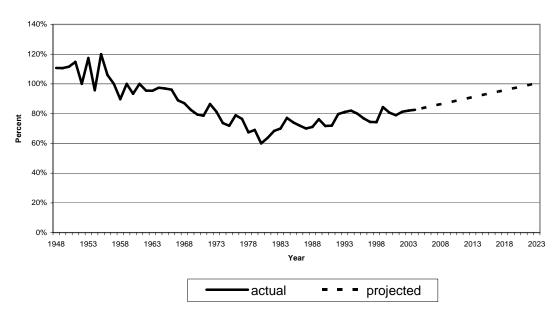


Figure 3: Ratio of Unemployment Rates for People 55 to 64 relative to People 25 to 54

Notes: Author's calculations based on data from the Bureau of Labor Statistics, Labor Force Statistics from the Current Employment Survey, Washington, D.C.: BLS.

Additionally, data on the long-term unemployed indicate that labor demand for older workers may even be weaker than labor demand for younger workers (Stettner and Allegretto, 2005). Americans over the age 45 are more likely than their younger counterparts to be among the ranks of those unemployed for 27 weeks or more. Furthermore, age discrimination charges exhibit a strong counter-cyclical pattern. That is, employers appear to disproportionately reduce demand for older workers in a recession (Gould, 2005). If labor demand for older workers was on the rise, there should be at least no differential treatment between older and younger workers. Although these data are far from conclusive, they do raise questions about the size of the additional labor demand for older workers in the case of an increase in the NRA.

Retirement Savings Outside of Social Security

As an alternative to working longer, workers could save more during their careers to compensate for the loss in retirement income from Social Security after an increase in the NRA. Saving longer as a response to a higher NRA should especially be expected because current research suggests that the effective retirement age would be unlikely to change much in response to a higher retirement age (Leonesio et al., 2005). This would pose only a small challenge for workers if the vast majority of workers already had sufficient retirement savings and adequate disposable income. The primary source of

retirement savings outside of Social Security is private pensions, such as defined contribution plans, e.g. 401(k)s and defined benefit plans. Although many workers have saved enough with Social Security and private pensions for a decent standard of living in retirement, the data show large holes in retirement savings for a substantial share of people.

To start with, a large share of workers in the private sector are not covered by an employer-sponsored pension plan. Typically, less than half of all private sector workers are covered by employer-sponsored pension plans. By 2003, the share of private sector workers with a pension had fallen to 46.7 percent from 50.3 percent in 2000 (table 5). Even among those nearing retirement between the ages of 55 and 64, 41.7 percent of full-time private sector workers were not covered by an employer-sponsored pension. Pension coverage is generally lower for women than for men, for minorities than for whites and for lower wage earners than for higher earners. That is, those groups who are more likely to experience bad health at or near the current NRA are also those who are less likely than their counterparts to have a pension when employed in the private sector.

Table 5
Share of Private Sector Employees Participating in Employer-Sponsored Pension

Year	1994	2000	2003
All workers	46.1	50.3	46.7
Men	57.1	58.3	53.9
Women	54.4	56.1	54.3
25 to 34 year-olds	48.5	49.9	45.7
35 to 44 year-olds	58.6	58.0	54.4
45 to 54 year-olds	62.6	63.8	59.9
55 to 64 year-olds	58.7	60.3	58.3
White, non-Hispanic	-	-	59.3
Black, non-Hispanic	-	-	49.1
Hispanic	-	-	32.6
Top earnings quartile	74.1	75.5	72.5
Third earnings quartile	67.4	67.1	63.6
Second earnings quartile	53.4	55.5	51.7
Bottom earnings quartile	31.2	32.1	28.4

Note: All figures are in percent. Share for all workers include full-time and part-time workers. Demographic breakdowns are only for workers employed year-round, full-time. Race and ethnicity figures are based on redesigned survey and are only available for 2002 and 2003. Source is Purcell, P., 2004, Pension Sponsorship and Participation: Summary of Recent Trends, CRS Report RL30122, Washington, D.C.: Congressional Research Service.

Because people tend to switch jobs a number of times over their careers, many workers eventually are covered by an employer-sponsored pension in one or more of their jobs. However, by the time people near retirement, a substantial share of households still have no pension wealth accumulated outside of Social Security (table 6). In 2001, more than one-fifth of all households nearing retirement had no private pension wealth. The typical pension wealth was consequently fairly low, at \$48,000 in 2001. Not surprisingly, more

than one-fifth of households nearing retirement could expect to have retirement income – from all sources of retirement wealth, including Social Security – that was less than half of its pre-retirement income. Retirement income was generally lower for single women than for single men and for minorities than for whites.

Moreover, minorities saw smaller pension wealth gains than whites in the 1990s, and single men saw larger gains than single women (table 6). That is, where improvements in retirement income security occurred for those households who typically have below average retirement wealth, it was due to gains in Social Security and not in private pensions (Weller and Wolff, 2005). Given that Social Security and not private pensions played a crucial role in improving retirement income security during a period of extraordinary financial market and labor market strength, it is unclear that workers who are more likely to be in poor health than their counterparts, such as women or minorities, will be able to accumulate additional wealth faster if Social Security benefits are cut.

Table 6
Retirement Income Security

	1989	1998	2001
Chara of households with DC or DP nancion	71.0	74.4	77.0
Share of households with DC or DB pension	71.3	74.4	77.3
Median pension wealth, all households	54.0	55.5	48.0
Mean pension wealth, single men	68.0	121.7	116.7
Mean pension wealth, single women	67.3	76.1	68.9
Mean pension wealth, couples	127.7	176.4	162.6
Mean pension wealth, African-Americans or	50.1	81.7	68.0
Hispanics			
Mean pension wealth, whites	84.7	125.7	114.0
Share of households with less than 50 percent of			
current income in retirement			
Total	-	23.1	21.1
Single men	-	19.8	13.4
Single women	-	37.9	31.1
Married couples	-	17.4	19.3
African-Americans or Hispanics	-	41.5	29.0
Whites	-	17.8	19.2

Notes: All dollar figures are in thousands of 2001 dollars. Shares are in percent. Private pension wealth refers to the combined wealth in defined contribution (DC) plans and defined benefit (DB) plans. DB pension wealth is the net present value of expected annuity payments. Source is Weller, C., and Wolff, E., 2005, Retirement Income: The Crucial Role of Social Security, Washington, D.C.: Economic Policy Institute.

Conclusion

As options for Social Security are publicly discussed, the issue of raising the age for full eligibility of Social Security benefits – the Normal Retirement Age (NRA) – has emerged. A higher NRA is often justified on the basis of greater longevity. However, living longer and being able to work longer are two separate issues. The data suggest that improvements in the health status of those at or near the current NRA may have actually slowed in recent years. Even with improvements, some groups, such as women and African-Americans, are in far worse health at or near the time of the current NRA than others. Hence, a higher NRA would disproportionately affect these groups.

If the retirement age is raised, workers could, for instance, work longer. This would require that the demand for older workers rises. It is not clear from the data whether the labor demand for older workers will strengthen sufficiently to absorb the additional labor supply. Alternatively, workers could save more for retirement. However, those groups who are more likely to be in bad health have large holes in pension coverage and retirement wealth outside of Social Security.

As reform options for Social Security are discussed, it is crucial that the main social insurance function of Social Security – to protect those who no longer can work – is adequately addressed. Thoughtful policy reform should adequately address the concerns raised by the available data so that those who depend the most on the program are not bearing the largest burden.

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