

SCHWARTZ CENTER
FOR ECONOMIC
POLICY ANALYSIS

POLICY NOTE

THE INEQUITABLE EFFECTS OF RAISING THE RETIREMENT AGE ON BLACKS AND LOW-WAGE WORKERS

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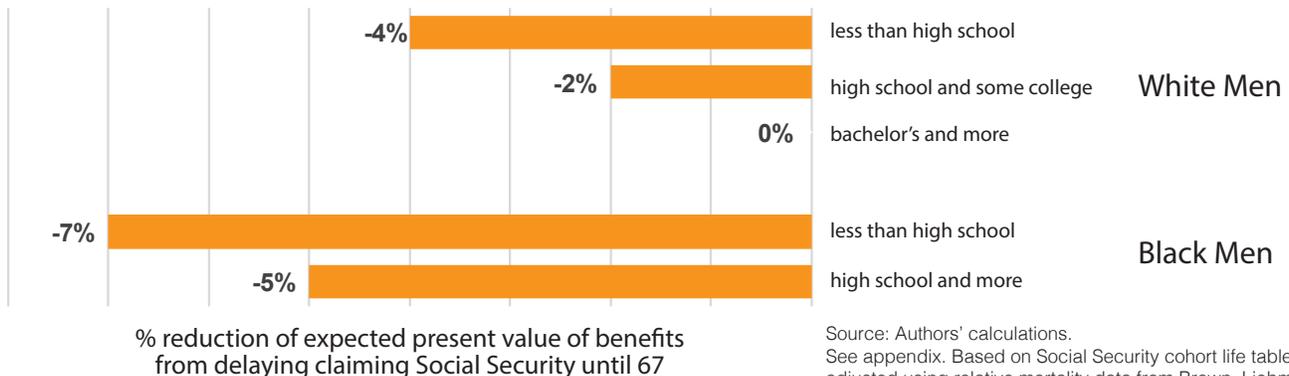
ELEVATOR PITCH

Raising Social Security's Full Retirement Age leaves all workers with two bad choices: working longer or living on reduced monthly benefits. Telling workers to work longer further penalizes Blacks and low-wage workers because they are unlikely to live long enough to recoup payments foregone as a result of delayed claiming. Instead of cutting Social Security benefits, we need to give all workers a real choice of when to retire by strengthening Social Security and creating Guaranteed Retirement Accounts.

KEY FINDINGS

- Increasing Social Security's so-called Full Retirement Age to 67 reduces benefits by approximately 13% for all workers. An increase to age 70 would reduce benefits by a further 20%.
- Unless workers delay retirement, old-age poverty and near poverty will become the norm for Blacks and workers with less than a high school education.
- Delayed retirement will further reduce the total lifetime Social Security benefits of Blacks and workers with less than a high school education.
- Because black men's life expectancy is relatively short, they are penalized the most when they delay claiming. Delay from 62 to 67 reduces lifetime Social Security benefits for black men by 5 – 7%, typically around \$9,000.

Table 1: Raising the Retirement Age Disproportionately Affects Blacks and Those with Less Education



Source: Authors' calculations. See appendix. Based on Social Security cohort life tables adjusted using relative mortality data from Brown, Liebman, Pollet (2002). We use a three percent real interest rate.

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RAISING THE RETIREMENT AGE HURTS ALL WORKERS

Social Security retired worker benefits can be claimed from age 62 to 70. Benefits are reduced for workers who claim before their Full Retirement Age (FRA), which is currently between 65 and

66 and increasing to 67 for those born in 1960 or later, and increased for those who delay. Increases in the FRA reduce benefits at all claim ages for everyone – low and high earners alike.

DELAYING RETIREMENT HURTS BLACKS AND LOW-WAGE WORKERS

Benefit cuts are more serious for workers with low lifetime earnings. Minorities are more likely to have low incomes and more likely to have insufficient income to live on if they retire at customary ages. Some policy analysts recommend that low earners work longer to supplement their inadequate benefits, and the debate has focused on whether they can do so.¹ Little attention has been paid to the effect of delayed claiming on the total amount of benefits they can expect to receive over their lifetime. Blacks and men with lower levels of educational

attainment have higher than average mortality rates and delayed claiming further reduces the expected present value of their lifetime benefits. High mortality claimants are unlikely to live long enough to make up for lost benefits.

This policy note argues that cutting Social Security benefits by increasing the FRA is inequitable because it places a disproportionate burden on these vulnerable groups. They must choose between poverty in old age and working longer.

BAD CHOICE #1: RETIRE AS PLANNED AND FACE POVERTY IN OLD AGE

The increase in the Full Retirement Age from 65 to 67 represents an across-the-board benefit cut of approximately 13% for all retirees. Younger workers will face even larger penalties for retiring early and a smaller increase for delaying claiming.² Benefit cuts will increase old-age poverty. Poverty is defined as an income of less than 200% of the Federal Poverty Level.

What are the effects of the increase in the Social Security FRA on elder poverty and near poverty? Comparing current elderly poverty rates with projected poverty rates if current retirees faced an FRA of 67 or 70,³ we find that poverty rates would have been higher for all groups. However, for Blacks and those with less education, old-age poverty and near poverty would have been the norm. Over half of Blacks with less than a high school education would have been either poor or near poor with an FRA of 67 or 70.

Table 2: An Increase in the FRA to 67 Increases Poverty and Near Poverty for All Education Groups

Educational Attainment	Poverty Rate		
	Current FRA	FRA Raised to 67	FRA Raised to 70
White Men			
Less than High School (N = 925)	35.1%	38.3%	45.0%
High School and Some College (N = 4914)	17.5%	19.4%	25.6%
Bachelor's and More (N = 3236)	7.8%	9.1%	12.6%
White Women			
Less than High School (N = 764)	35.2%	36.6%	43.1%
High School and Some College (N = 5594)	17.6%	19.7%	26.3%
Bachelor's and More (N = 2861)	8.2%	9.5%	12.5%
Black Men			
Less than High School (N = 298)	48.5%	50.1%	53.6%
High School Diploma and More ⁴ (N = 1073)	31.6%	32.6%	36.6%
Black Women			
Less than High School (N = 273)	52.9%	54.1%	56.9%
High School and More (N = 1275)	30.6%	31.4%	34.2%

Source: Authors' calculations.
Note: 2017 Current Population Survey, Annual Social and Economic Supplement, ASEC weights.

BAD CHOICE #2: WORK LONGER AND REDUCE LIFETIME BENEFITS

The other option available to near retirees at risk of poverty in retirement is to work longer. However, this may not be feasible for many Blacks and workers with low educational attainment because these groups face higher rates of disability and fewer employment opportunities. Also, black workers approaching retirement age are less likely than Whites to work in jobs where they are offered the opportunity to “downshift” to less physically-demanding work with the same employer.

Asking Blacks and workers with low educational attainment to respond to Social Security cuts by working longer is inequitable. Due to their higher mortality, the increased monthly benefit that comes from delaying retirement is insufficient to compensate for the loss of current benefits.⁵⁶

Although delay reduces lifetime benefits, Blacks and low-wage workers are generally better-off delaying claiming if they can. Rather, the concern documented in this policy note highlights that the terms on which they can do so are, for them, inequitable.

Social Security’s lifetime income provides valuable insurance against the risk of outliving one’s wealth. Delay enables workers to increase the amount of this insurance. Blacks and low-wage workers have fewer financial resources to fall back on and therefore value this protection, even though they face a lower risk of living unusually long.

Black men and white men with less than a high school education face substantial penalties. Delaying claiming from 62 until 67 reduces the expected present value of the Social Security benefits of black men with less than a high school education by 7 percent, and delay till 70 reduces benefits by 15 percent. With a high school education or more, Black men still face penalties of 5 percent and 12 percent if they delay until 67 or 70. White men with less than a high school education faces penalties of 4 and 11 percent if they delay till 67 or 70.

Definition: The expected present value represents the government’s lump-sum cost of providing anticipated lifetime benefits to a worker. It equals the sum of each month’s check, multiplied by the probability of surviving to receive it, and discounted by a rate of interest reflecting the time value of money.

Table 3: Delaying Claiming Reduces the Expected Present Value of Social Security for Blacks and Men		
Educational Attainment	% Change in Expected Present Value of Social Security	
	Delay Until 67	Delay Until 70
White Men		
Less than High School	-4%	-11%
High School and Some College	-2%	-7%
Bachelor’s and More	0%	-4%
White Women		
Less than High School	2%	-2%
High School and Some College	3%	0%
Bachelor’s and More	4%	2%
Black Men		
Less than High School	-7%	-15%
High School Diploma and More	-5%	-12%
Black Women		
Less than High School	-1%	-6%
High School Diploma and More	1%	-2%

Source: Authors’ calculations. See appendix. Based on Social Security cohort life tables adjusted using relative mortality data from Brown, Liebman, Pollet (2002). We use a three percent real interest rate.

POLICY RECOMMENDATION

Increases in the Full Retirement Age are equivalent to an across the board cut in benefits, placing low earners at elevated risk of poverty and near poverty unless they delay retirement. Previous studies have focused on whether health and employment opportunities will permit workers to extend their careers. This policy note highlights a less widely discussed issue – that it is inequitable to ask Blacks and men with lower levels of educational attainment to delay retirement because delay will often reduce the expected present value of their Social Security benefits, due to their higher-than-average mortality.

Protecting vulnerable near-retirees from downward mobility in retirement requires giving all American workers a better set of options than post-retirement poverty or delaying retirement on what are, for them, unfair terms. Policymakers should strengthen Social Security to increase the benefits of low lifetime earners. All workers should be provided with a Guaranteed Retirement Account (GRAs) through which they can accumulate retirement savings over their careers. GRAs are universal, portable, professionally-managed, retirement accounts funded through employer and employee contributions. GRAs would serve as a supplement to Social Security and fill the gap between Social Security benefits and personal savings that was once filled by defined benefit pensions.

ENDNOTES

1. Munnell & Sass, 2009.
2. Note that the Full Retirement Age as defined by the Social Security Administration does not provide maximum monthly benefits. Social Security provides its maximum benefit to those who can take advantage of its delayed retirement credit by retiring at 70.
3. This approach is preferable to an alternative of comparing current elder poverty with projected poverty of succeeding birth cohorts who will actually face an age-67 FRA, because it enables us to hold everything else constant. We further assume workers do not delay retirement in response to the cut in benefits.
4. The Social Security Administration uses only two categories of educational attainment for Black men and women rather than three due to small sample sizes.
5. It does not necessarily follow that all members of high mortality risk groups face high mortality risk.
6. Benefits may not necessarily be reduced if the additional years worked are at a higher salary than years being replaced in the calculation of the primary insurance amount.

REFERENCES

Brown, J., Liebman, J. B., & Pollet, J. (2002). Estimating life tables that reflect socioeconomic differences in mortality. In *The Distributional Aspects of Social Security and Social Security Reform* (pp. 447-458). University of Chicago Press.

Munnell, A. H., & Sass, S. A. (2009). *Working longer: The solution to the retirement income challenge*. Brookings Institution Press.

APPENDIX

Table 2 uses data from the 2017 Current Population Survey. To estimate the effects of raising the retirement age on old-age poverty and near-poverty, we reduced the Social Security income of households aged 65 and older in 2017 by an amount equivalent to the effect of facing a FRA of 67 or 70 rather than their actual FRA. For example, workers born in 1937 had an FRA of 65; we therefore lowered their Social Security income by 13.34%-- the amount by which benefits are reduced when the retirement age increases from 65 to 67 (and by 30.67% to measure the reduction from 65 to 70). After adjusting their Social Security benefits, we recalculate their total household income and compare it to poverty and near-poverty thresholds to determine the shares in poverty and near poverty.

Table 3 uses tables of relative mortality rates from Brown, Liebman, and Pollet (2002), along with the life table for the 1956 birth cohort published by the Social Security Administration. To calculate the amounts by which delayed

claiming reduces the expected present value of Social Security benefits of high-mortality groups, we first calculate annual survival probabilities by multiplying the gender, age, and cohort-specific SSA mortality rates by the gender, age, race, and education-specific relative mortality rates provided in Brown, Liebman, and Pollet (2002). We then calculate the expected present value (EPV) of lifetime benefits by claim age by multiplying benefits payable at each age by survival probabilities and discounting by a real interest rate of 3 percent a year. This interest rate is higher than the current interest rate on Treasury Inflation Protected Securities but is close to both historic norms and the long run projection in the 2017 Social Security Trustees Report. Table 2 reports the percentage change in the EPV of benefits of each socioeconomic group associated with delay from 62 to 67 and 62 to 70. The analysis excludes the effect of delay on spousal and survivor benefits and assumes that delay does not affect Average Indexed Monthly Earnings.

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