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Statement for the Record

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"Choosing to Work During Retirement and the Impact on Social Security"

By

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My name is Dallas Salisbury and I am the President and Chief Executive Officer of the non-partisan and nonprofit Employee Benefit Research Institute (EBRI). Established in 1978, EBRI is committed exclusively to data dissemination, policy research, and education on financial security and employee benefits. EBRI does not lobby or advocate specific policy recommendations; the mission is to provide objective and reliable research and information. All of our research is available on the Internet at www.ebri.org and our savings and financial education material is at www.choosetosave.org

Results over time from the Retirement Confidence Survey® (RCS) suggest that Americans' expectations of their likely retirement age have also changed over time. As documented in the *EBRI Issue Brief* no. 340, March 2010 "The 2010 Retirement Confidence Survey: Confidence Stabilizing but Preparations Continue to Erode," the RCS found that almost one-quarter (24 percent) of workers reported they have postponed their expected age of retirement. Among reasons cited are: poor economy (29 percent); change in employment (22 percent); and inadequate finances (16 percent).[1] Moreover, while worker responses to a question asking the age at which they expect to retire have shown little change between 2009 and 2010, the age at which workers say they plan to retire has crept upward incrementally over time. In particular, the percentage of workers who expect to retire after age 65 has increased over time, from 11 percent in 1991 to 14 percent in 1995, 19 percent in 2000, 24 percent in 2005, and 33 percent in the 2010 RCS.[2] However, the retirement age reported by retirees has changed even more slowly. In 1991, 19 percent of retirees said they retired at age 65 or later. This percentage has fluctuated over time and now stands at 32 percent (Figure 30 on page 28 of *Issue Brief* no. 340).

The RCS also finds that differences exist between workers' expected age of retirement and retirees' actual age of retirement. Just 9 percent of workers say they plan to retire before age 60, compared with 31 percent of retirees who report they retired that early. Nineteen percent of workers plan to retire at age 60–64, although 30 percent of retirees retired at these ages. On the other hand, 24 percent of workers (compared with 8 percent of retirees) plan to wait at least until age 70 to retire, and 9 percent indicate they will never retire.[3]

One reason for the difference between workers' expectations and retirees' experience of retirement age is that many Americans find themselves retiring unexpectedly. The RCS has consistently found that a large percentage of retirees leave the work force earlier than planned (41 percent in 2010).[4] Many retirees who retired earlier than planned cite negative reasons for leaving the work force before they expected, including health problems or disability (54 percent), changes at their company, such as downsizing or closure (26 percent), and having to care for a spouse or another family member (19 percent). Others say changes in the skills required for their job (16 percent) or other work-related reasons (11 percent) played a role. Some retirees mention positive reasons for retiring early, such as being able to afford an early retirement (24 percent) or wanting to do something else (14 percent), but just 5 percent offer only positive reasons.

[1] Page 27.
[2] Figure 29 on page 28.
[3] Figure 31 on page 29.
[4] Figure 32 on page 30.

The *EBRI Notes* article, "Social Security Reform: How Different Options Might Affect Future Funding," September 2009, vol. 30, no. 9, lists a few of the proposals on how the normal retirement age could be raised, and shows the resulting improvement in the actuarial balance of OASDI by doing so. The improvements range from 0.10 percent for increasing the normal retirement age to 67 now, instead of waiting until 2017, to 0.62 percent for increasing the normal retirement age now to 67 and then by one month every two years until reaching age 70.[5]

Meanwhile, the results listed in *EBRI Issue Brief* no. 319, July 2008, "EBRI 2008 Recent Retirees Survey: Report of Findings," found that respondents typically retired for one of four reasons: retirement becomes affordable, lack of job satisfaction, a desire for more personal or family time, and/or their own health status. One of the major findings from the survey is that employers have a narrow window of up to two years in which they may be able to intervene to change retiring workers' decisions by offering them incentives to remain with the company. In fact, many retirees report they would have been open to an approach from their employer asking them to stay longer with the company. Sixty-one percent say they would have viewed the experience positively. Just 10 percent indicate they would have reacted negatively to an approach asking them to delay their retirement.

The survey also tested a total of 19 possible incentives that might encourage retiring workers to postpone retirement. Four of these appear especially likely to be successful:

1. Half of retirees (48 percent) indicate that feeling truly needed for an assignment would have been *extremely* or *very* effective in encouraging them to delay their retirement. Moreover, of those ranking this as one of the top two most effective incentives, 72 percent say it might have prompted them to stay at least two more years with the company.
2. Half of retirees with a defined benefit pension state receiving a full pension while working part time would have been effective in delaying their retirement (50 percent), and almost as many feel this way about receiving a partial pension while working part time (44 percent). Seven in 10 of those rating each among the top two most effective incentives report they would likely have stayed at least two more years if it had been offered to them (72 percent for full pension, 71 percent for partial pension). However, this would necessitate a change in federal law and several other compensation-related incentives may be almost as compelling.
3. Thirty-eight percent report that being able to work seasonally or on a contract basis would have been effective in encouraging them to delay retirement. Among those rating this as one of the top two incentives, more than three-quarters (77 percent) say it might have prompted them to stay two years or more with the company.

EBRI research has also looked at the degree to which added years of work would affect the probability of not running short of money. *EBRI Issue Brief* no. 297, September 2006, "Measuring Retirement Income Adequacy: Calculating Realistic Income Replacement Rates," found that the retirement replacement rates necessary for a specific probability of success in having enough money in retirement to pay for basic expenses and uninsured health care costs jump considerably if one takes Social Security at the earliest age of eligibility of 62. For a 50–50 chance of having enough money to cover these expenses in retirement, the minimum required replacement rate would be 64 percent; for a 75 percent chance of success, the minimum required

[5] Figure 4, page 17.

replacement rate is 97 percent; and for a 90 percent chance of success, the minimum required replacement rate is 149 percent. If, on the other hand retirement and initial receipt of Social Security benefits are delayed until age 68, he can decrease the figures to 43, 66, and 97 percent, respectively.[6] Working longer reduces the amount of savings, or non-earning income sources, a worker needs to have accumulated in order to have adequate income last throughout their retirement.

I wish to emphasize that working longer has been a long-term trend, not a new one. Labor force participation for those over 65 hit a low point in 1993 but has risen since, (see *EBRI Notes* article, "Labor Force Participation Rates: The Population Age 55 and Older, 2008," vol. 31, no. 2, February 2010) particularly for those 65 to 70, for whom it has risen from under 24% to over 34% over the past 17 years. As the number of workers who can expect retiree health benefits paid for by a former employer continues to decline (see *EBRI Notes* article, "Retiree Health Benefit Trends Among Medicare Eligible Population," vol. 31, no. 1, January 2010) and the proportion of workers with defined contribution retirement plans as opposed to traditional annuity only DB plans continues to grow, (see *EBRI Notes* article, "Retirement Plan Participation and Asset Allocation," vol. 30, no. 11, November 2009)[7], staying in the work force longer if medically able is likely to continue to increase.

In conclusion, I would emphasize that ongoing efforts to increase public attention on the need to save (see www.choosetosave.org), and the "risk" of not having enough money to cover even basic expenses as longevity increases (see *EBRI Issue Brief* no. 344, July 2010, "The EBRI Retirement Readiness Rating:™ Retirement Income Preparation and Future Prospects"), are likely to slowly move all Americans to re-think notions of retirement that became common in the period 1950 to 1984, but began to shift as employers like the Federal government reduced the generosity of defined benefit pensions like CSRS and moved to base pensions like FERS along with defined contribution programs like TSP that rely upon individual action. The private sector followed, and now state and local governments are beginning to consider the same transition in greater numbers. *EBRI's Databook on Employee Benefits*, "Chapter 4: Participation in Employee Benefits" provides data on the trends in participation rates in defined benefit and defined contribution plans in the private sector as well as state and local governments. My mother and father retired in 1978 at the height of the "old" retirement value proposition. Both lived to just short of 94 and enjoyed the best of what I believe will come to be viewed by history as the "golden age" in US history for "retirement." Working to older ages, if physically able, is here to stay and the numbers will do nothing but increase. And added increases in the age of Social Security eligibility for full benefits will serve to accelerate and reinforce that trend as the value of age 62 Social Security benefits continues to decline.

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[6] See page 15 for a summary of the impact of various retirement ages on replacement rates needed.
[7] See Figure 2 on page 15.