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Raising the Ages of Eligibility for Medicare and Social Security

Raising the ages at which people can begin to collect Medicare and Social Security benefits would be one way to reduce long-term fiscal imbalances. The Congressional Budget Office (CBO) projects that, under current policies, federal outlays will significantly exceed federal revenues during the coming decade and beyond. Outlays for the government's two largest domestic programs, Social Security and Medicare, provide benefits primarily to the elderly. Those outlays are projected to increase rapidly because of the retirement of the baby-boom generation and growth in per capita spending for health care that is expected to continue to exceed growth in per capita gross domestic product (GDP) over the long term. Unless policymakers decrease spending from projected amounts, increase revenues well above their historical average as a share of GDP, or adopt some combination of those two approaches, federal debt will become unsustainable.

This issue brief analyzes the effects of raising the ages at which most people become eligible to collect benefits under those two programs.[1] Three categories of eligibility could be involved in such a change:

- The **Medicare eligibility age** (**MEA**), currently 65;
- The **early eligibility age** (**EEA**) under Social Security, at which participants may first claim retirement benefits, currently 62; and
- The **full retirement age** (**FRA**) under Social Security, at which participants are eligible to receive full benefits, currently 66 but scheduled to increase to 67 for people who were born after 1959.

Raising the MEA or the FRA would reduce federal spending on benefits and affect potential beneficiaries in various ways. For example, if the MEA rose to 67, annual federal spending on Medicare would be reduced by about 5 percent, CBO estimates, because most people would lose access to Medicare at ages 65 and 66. A small share of those people would end up without health insurance, CBO expects, but most would have insurance coverage through employers, other government health care programs, or other sources. Many of the people who lose access to Medicare would pay higher premiums for health insurance, pay more out of pocket for health care, or both. An increase in the FRA amounts to a benefit reduction; raising the FRA to 70, for example, would ultimately reduce Social Security outlays by about 13 percent, CBO estimates. Raising the EEA would have a much smaller effect on the federal budget in the long term: It would delay access to benefits for many people, but their monthly benefit amounts would be higher.

Raising the ages of eligibility for Medicare and Social Security also would induce people to work longer. A two-year rise in the EEA or a three-year rise in the FRA would boost both the size of the labor force and total output of the economy by slightly more than 1 percent, CBO estimates. Raising the MEA by two years would probably result in much smaller increases in the size of the labor force and total output.

Under a schedule of gradual increases in all three eligibility ages that is described below, CBO estimates that by 2035, outlays for Social Security and Medicare would fall by 0.4 percent of GDP and federal revenues would rise by around a half percent of GDP—leading to a reduction in the budget deficit of nearly 1 percent of GDP, not including the effects of lower interest outlays. CBO estimates that the outlay effects would grow to about 1 percent of

1. CBO has explored this issue in other publications, most recently in March 2011 in *Reducing the Deficit: Spending and Revenue Options;* see Mandatory Spending Options 18, 29, and 30.

GDP in 2060, when all retirement benefits would be based on the higher FRA, and the revenue effects would grow to about three-fourths of a percent of GDP in that year. Altogether, the federal budget deficit would be reduced by about 1¾ percent of GDP in 2060.

Ages of Eligibility

Medicare's eligibility age for the elderly has not changed since the program began in 1966. By contrast, the Social Security retirement age under the Old-Age and Survivors Insurance (OASI) program has been rising slowly since 2000, after having not changed during the previous 65 years of the program's existence. Medicare and Social Security's OASI program interact in different ways with Social Security's Disability Insurance (DI) program.

Medicare

Medicare provides health insurance to almost everyone who is 65 or older as well as to most people who receive DI benefits and to people who have end-stage renal disease or amyotrophic lateral sclerosis. Part A of Medicare, Hospital Insurance, primarily covers inpatient services provided by hospitals and pays for skilled nursing and hospice care. Part B of Medicare, Supplementary Medical Insurance, mainly covers outpatient services at hospitals and office services provided by physicians and other practitioners.[2] Anyone who participates in either Part A or Part B also is eligible for Part D, the prescription drug benefit. Most participants must pay monthly premiums for Part B and Part D but not for Part A.

Workers and their spouses have strong incentives to enroll in Medicare when they turn 65. People can delay enrolling in Part B, but if they do so and they do not have access to a group health insurance plan through their own employment or through a spouse's job, their premiums increase by 10 percent for each year they wait after turning 65. That penalty is designed to discourage people from waiting until they become ill to enroll in Part B and start paying premiums. Disabled workers also qualify for Medicare regardless of their age, in most cases 24 months after they become entitled to DI benefits.

2. Most enrollees in Medicare are in the traditional fee-for-service program, in which the federal government pays for covered services directly. However, enrollees are allowed instead to choose coverage for Part A and Part B benefits through a private health insurance plan under Medicare Advantage, Part C of the program.

Social Security

When Social Security was established in 1935, there was a single eligibility age: 65. In 1956, amendments to the law created an early eligibility age of 62 for women; men were given the same option in 1961. The Social Security Amendments of 1983 established a schedule for gradually raising the full retirement age from 65 to 67. The FRA for people born in 1938 is 65 years and 2 months. The age rises by two months per year of birth after that, reaching 66 for people born between 1943 and 1954, and then begins to rise again by two months per year for the group born in 1955, reaching 67 for those born in 1960 or later. The early eligibility age remains 62.

In general, someone who chooses to begin receiving retirement benefits at the FRA receives the primary insurance amount (PIA)—the full benefit amount as determined by an earnings-based formula.[3] Someone who claims benefits earlier receives benefits for a longer period but receives less per month. Specifically, the benefit is reduced by 6 ⅔ percent for each of the first three years of early claiming and by 5 percent for every year thereafter.[4] If a worker with an FRA of 66 claims at 62, therefore, the benefit is 75 percent of the PIA (three years of 6 ⅔ percent reductions plus one year of a 5 percent reduction). Thus, people born in 1945 who claimed benefits at age 62 are receiving 25 percent less each year than if they had waited until age 66 to begin claiming benefits (see Table 1).[5] In contrast, monthly benefits are more than the PIA for people who claim later than the FRA; that group receives what is known as the delayed retirement credit. For people born after 1942, the credit is 8 percent for each year of delay up to age 70. Thus, someone who was born in 1945 and claims benefits at age 70 in 2015 will receive 32 percent more each year than if he or she had claimed at the FRA of 66.

3. See Congressional Budget Office, *Social Security Policy Options* (July 2010), pp. 8–9.

4. The reductions are based on the month of claiming: A benefit is reduced by 5/9 of 1 percent for each of the first 36 months before the FRA. If the number of months exceeds 36, the benefit is further reduced by 5/12 of 1 percent per month.

5. A table of benefits as a share of PIA for all birth and claiming years is available online. See Social Security Administration, "Social Security Benefits: Effect of Early or Delayed Retirement on Retirement Benefits," www.ssa.gov/oact/ProgData/ar_drc.html.

Table 1.

Social Security Benefits, by Age at Which Benefits Are Claimed

(Percentage of primary insurance amount)

Birth Year	62	65	66	67	70
1937	80.0	100.0	106.5	113.0	132.5
1943–1954	75.0	93.3	100.0	108.0	132.0
1960 or Later	70.0	86.6	93.3	100.0	124.0

Source: Congressional Budget Office.

Note: Benefit amounts are lower than the primary insurance amount for workers who claim benefits before the full retirement age (FRA); benefits of workers who wait until after reaching the FRA are increased by the delayed retirement credit (DRC). For people born in 1937, the FRA is 65 and the DRC is 6.5 percent. For people born between 1943 and 1954, the FRA is 66 and the DRC is 8 percent. For people born in 1960 or later, the FRA is 67 and the DRC is 8 percent.

Those adjustments are roughly actuarially fair, so for people who attain average life expectancy, the total economic value of benefits over a lifetime is approximately the same regardless of when benefits are claimed. Eventually, however, as average life expectancy increases, the higher benefits associated with later claiming will more than offset the effects of fewer years of receipt for beneficiaries with an average lifespan; lifetime benefits will be higher for people who claim later.

The gradual increase in the FRA under current law is generating a reduction in lifetime benefits relative to what people would receive without the increase: For any given claiming age, a later FRA translates into lower monthly benefits (see Figure 1). Because of the three different rates of benefit adjustment, the effective reduction varies slightly according to claiming age. For example, the increase from age 66 to age 67 will result in a reduction in monthly benefits of between 6.1 percent (for people who claim benefits at 70) and 7.7 percent (for people who claim benefits at 64). For people who claim benefits at other ages, the reduction falls between those two values.

The rise in the FRA also is increasing the number of people affected by the Social Security earnings test, which reduces the amount paid to beneficiaries who are younger than the FRA and have substantial earnings, thereby reinforcing the stated purpose of Social Security as insurance against loss of earnings. The earnings test affects beneficiaries who are younger than the FRA and earn more than a certain amount—$14,160 for most people in 2011.[6] An amount equal to half of their earnings above that threshold is withheld from current benefits, but beneficiaries are compensated with higher payments after they reach the FRA. Typically, the increase in later benefits fully offsets the reduction in benefits at earlier ages. Despite that compensation, for people who have not reached the FRA but have already begun to receive benefits, the earnings test has been observed to reduce the incentive to work.[7]

Unlike retirees, who receive reduced benefits if they claim before reaching the FRA, eligible workers can begin to receive full DI benefits regardless of their age at the time they become disabled. Monthly DI benefits are equal to the worker's PIA, with no direct adjustment for the age at which benefits are claimed. Thus, someone with an FRA of 67 who qualifies for DI benefits at age 62 would receive a benefit that is 43 percent higher than that going to a retiree who claims Social Security benefits at the same age.

Despite the ongoing rise in the FRA, the purchasing power of average Social Security benefits has grown for each successive group of retirees and will continue to grow in the future, CBO projects. The PIA is indexed to growth in average earnings in the economy, and, in general, earnings grow more quickly than inflation. The rise in the FRA to 67 will reduce the so-called replacement rate—the ratio of benefits to earnings—but CBO still projects that average benefits as calculated under current law (known as scheduled benefits) will increase in real (inflation-adjusted) terms. In particular, CBO estimates that scheduled benefits will average $16,000 for retired workers born in the 1940s and $17,000 for retired workers born in the 1960s (all in 2010 dollars).[8]

6. For a detailed explanation of the earnings test, see Social Security Administration, "Automatic Determinations: Exempt Amounts Under the Earnings Test," www.ssa.gov/oact/cola/rtea.html.

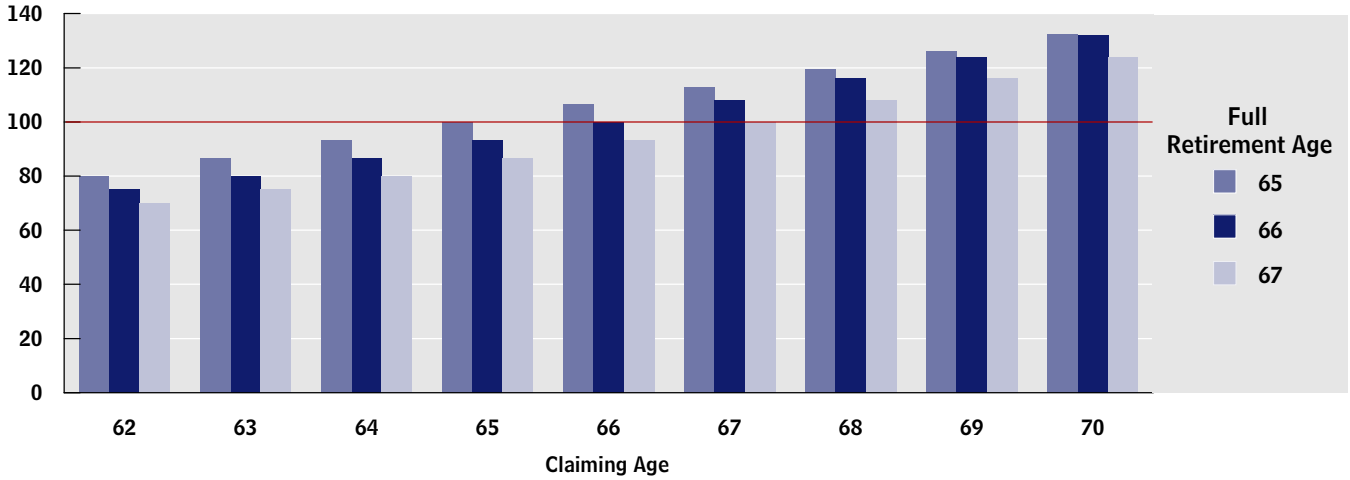
7. See Jae Song and Joyce Manchester, "New Evidence on Earnings and Benefit Claims Following Changes in the Retirement Earnings Test in 2000," *Journal of Public Economics*, vol. 91, no. 3–4 (April 2007), pp. 669–700.

8. See Congressional Budget Office, *CBO's 2011 Long-Term Projections for Social Security: Additional Information* (August 2011), Exhibit 9, p. 15.

Figure 1.

Social Security Benefits, by Age at Which Benefits Are Claimed

(Percentage of primary insurance amount)



Source: Congressional Budget Office.

Note: Benefit amounts are lower than the primary insurance amount for workers who claim benefits before the full retirement age (FRA); benefits of workers who wait until after reaching the FRA are increased by the delayed retirement credit (DRC). For people born in 1937, the FRA is 65 and the DRC is 6.5 percent. For people born between 1943 and 1954, the FRA is 66 and the DRC is 8 percent. For people born in 1960 or later, the FRA is 67 and the DRC is 8 percent.

Demographic Changes

Proposals to raise the ages of eligibility for Medicare and Social Security generally reflect concern about the effects on the federal budget of demographic trends that will make supporting retirees more challenging in decades to come. The aging of the population—which stems both from increases in life expectancy and from past declines in fertility—accounts for about half of the growth (relative to GDP) in spending on Medicare and other major federal health care programs projected for the next 25 years and essentially all of the growth (relative to GDP) projected for Social Security outlays.[9] If life expectancy increases and retirement ages do not rise, people pay taxes for a shorter portion of their lives and are retired—and collecting Medicare and Social Security benefits—for a longer portion.[10] In 1940, people turning 65 could expect to live another 14 years, on average (see Figure 2), so the average person working until 65 could expect to spend about 23 percent of adulthood in retirement. Today, people can expect to live for another 20 years after turning 65, and the average person working until 65 can expect to spend about 30 percent of adulthood in retirement.[11] Put differently, the expected time in retirement for someone who stops working this year at age 65 is more than 40 percent longer (20 years rather than 14 years) than it was in 1940. (Women tend to live longer than men. Today, as in 1940, 65-year old women can expect to live two years longer than men.)

The increase in life expectancy reflects improvements in the average health of the population, especially among

9. See Congressional Budget Office, *CBO's 2011 Long-Term Budget Outlook* (June 2011), Box 1-1, pp. 10–11.

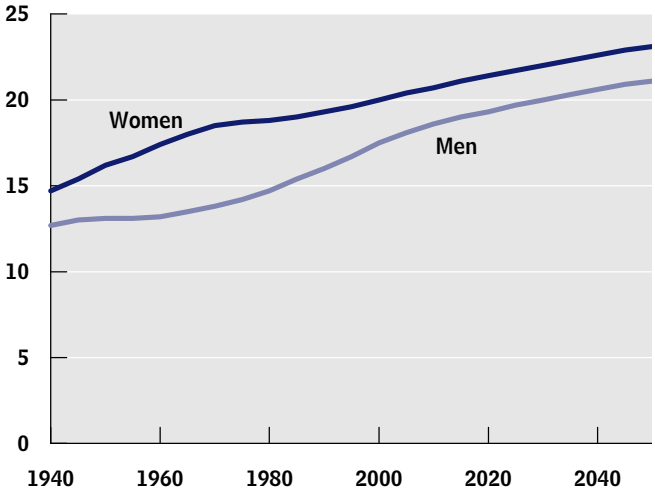
10. The average age of retirement declined, on balance, over the course of the 20th century, although it has risen somewhat in the past few decades. See Alicia Munnell, *What Is the Average Retirement Age?* Issue Brief 11-11 (Chestnut Hill, Mass.: Center for Retirement Research at Boston College, August 2011), *http://crr.bc.edu/images/stories/Briefs/IB_11-11.pdf*.

11. Social Security Administration, *The 2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (May 13, 2011), Table V.A4, www.ssa.gov/oact/tr/2011/tr2011.pdf. CBO bases its long-term demographic projections on that report.

Figure 2.

Life Expectancy at Age 65, 1940 to 2050

(Years)



Source: Social Security Administration, *Trustees' Annual Report* (May 13, 2011), Table V.A4, www.ssa.gov/oact/TR/2011/lr5a4.html.

Note: Values are calculated for 65-year-olds in the year shown, using actual death rates through 2007 and estimated and projected rates for later years. This is known as the cohort life expectancy.

the elderly, and those improvements also allow many people to work longer.[12] Disability rates among middle-aged people have declined as well, although less so than among the elderly. In addition, because fewer jobs are physically demanding, many people who have mild physical disabilities can stay in the workforce longer than they might have in the past.[13]

In the absence of a rise in fertility or immigration rates, a corollary of increasing life expectancy is a decline in the ratio of workers to retirees. (That decline will be particularly steep in coming decades as the baby-boom generation enters retirement, but the longer-term trend is driven by projected growth in life expectancy.) In 1950, there were 7 people of working age—20 to 64—for every person 65 or older. That ratio is currently below 5 and will fall below 3 by 2030, CBO projects. If the fertility rate increased, the ratio could stabilize or rise. However, CBO expects that the fertility rate will remain stable, as it has in recent decades.

The average amount of benefits that can be supported by a given tax rate on earnings depends on the ratio of workers to retirees. Workers pay Social Security payroll taxes, and Social Security benefits are received primarily by retirees. In general, the fewer workers per retiree, the higher the tax rate needed to support a given average monthly benefit. CBO projects that, under current law, Social Security's revenues will be insufficient to fund scheduled benefits. Therefore, the federal government will need to raise taxes, reduce scheduled benefits (through further increases in the ages of eligibility or by some other means), or both.[14] Medicare Part A is financed using a similar structure, and it too faces a long-term shortfall that will require increases in taxes, reductions in scheduled payments, or both. Other parts of Medicare are fully funded under law by drawing on general revenues, but the aging of the population and the expected rapid growth in health care costs will significantly increase their burden on the overall federal budget.

Effects of Increasing the Medicare Eligibility Age

If the Medicare eligibility age was raised above 65, fewer people would be eligible for Medicare, and federal outlays for the program would decline relative to those projected under current law. CBO expects that most people affected by the change would obtain health insurance from other sources, primarily employers or other government programs, although some would have no health insurance. Federal spending on those other programs would increase, partially offsetting the Medicare savings. Many of the people who would otherwise have enrolled in Medicare would face higher premiums for health insurance, higher out-of-pocket costs for health care, or both.

12. Linda G. Martin, Robert F. Schoeni, and Patricia M. Andreski, "Trends in Health of Older Adults in the United States: Past, Present, Future," *Demography,* vol. 47, suppl. (2010), pp. S17–S40.

13. John A. Turner, *Promoting Work: Implications of Raising Social Security's Early Retirement Age*, WOB 12 (Chestnut Hill, Mass.: Center for Retirement Research at Boston College, August 2007), http://crr.bc.edu/briefs/promoting_work_implications_of_raising_social_securitys_early_retirement_age.html.

14. This brief uses the term *scheduled benefits* to refer to benefits under current law. For a discussion of some options for increasing Social Security revenues or reducing scheduled Social Security outlays, see Congressional Budget Office, *Social Security Policy Options*.

How People Would Respond

CBO anticipates that most people affected by an increase in the Medicare eligibility age would shift to other forms of health insurance but that there also would be a slight increase in the number of uninsured people. As an example, CBO has estimated the effects of increasing the MEA by two months every year, beginning in 2014 for people who were born in 1949, until the MEA reached 67 in 2027 for people born in 1960.[15] Of the 5.4 million people who would be affected by the higher MEA in 2021, about 5 percent would become uninsured, and approximately half of the group would obtain insurance from their or their spouses' employers or former employers. The remainder (about 2.3 million people in 2021) would, in roughly equal parts, receive coverage through Medicaid, receive coverage through Medicare because they would qualify for DI benefits, or purchase insurance either through the health insurance exchanges that will become available in 2014 under the terms of the Patient Protection and Affordable Care Act (PPACA; Public Law 111-148, as amended by the Health Care Education and Reconciliation Act of 2010, P.L. 111-152) or in the nongroup market.

This analysis is based on the assumption that the many provisions of PPACA that do not apply to people age 65 or older would be changed to refer to the new MEA. In particular, CBO assumed that people who became ineligible for Medicare under the new age limits could purchase health insurance through the exchanges, and, depending on their income, might qualify for federal subsidies. CBO also assumed that people with the lowest income would qualify for Medicaid benefits. Without those changes to the recently enacted health care laws, CBO anticipates many more people would become uninsured if the MEA was raised.

A rise in the MEA would encourage some people to work longer to maintain access to employment-based health insurance or to earn more to cover higher anticipated health care costs, but CBO expects that this effect would be small. Although some people currently work later in life than they otherwise would in order to keep their employment-based health insurance until they become eligible for Medicare, that need will diminish in 2014 with the opening of the health insurance exchanges.[16]

Raising the MEA would reduce outlays for Social Security retirement benefits in the short term by inducing some people to wait to claim benefits—some people apply for Social Security and Medicare at the same time—and by encouraging some workers to delay retirement so they can maintain access to employment-based health insurance. However, because delayed claiming results in monthly benefits that are higher by an amount that is roughly actuarially fair, the long-term effect on Social Security benefits would be minimal.

Budgetary Effects

CBO estimates that raising the Medicare eligibility age according to the schedule described above would reduce federal Medicare outlays, net of premiums and other offsetting receipts, by $148 billion from 2012 through 2021.[17] (That estimate does not include the effect of changes in people's decisions regarding work and retirement, discussed below.) By 2035, Medicare's net spending would be about 5 percent below what it otherwise would be—4.7 percent of GDP rather than 5.0 percent under current law. A rise in the MEA would cut by a larger percentage the number of years during which the average person would receive Medicare benefits, but the reduction in outlays would be less than proportionate because the youngest beneficiaries tend to be the healthiest and thus to require the least costly health care.

Some people who would have been covered by Medicare under current law would be enrolled instead in Medicaid, would receive subsidies through the new insurance exchanges, or would receive additional benefits as federal retirees. A later MEA would boost federal spending for Medicaid in two ways. First, some people who were not eligible for Medicare would participate in Medicaid after

15. For additional discussion, see *Reducing the Deficit*, Mandatory Spending Option 18, pp. 45–46. This brief updates CBO's previous estimates.

16. For additional discussion, see Tricia Neuman and others, *Raising the Age of Medicare Eligibility: A Fresh Look Following Implementation of Health Reform* (Washington, D.C.: Henry J. Kaiser Family Foundation Program on Medicare Policy, July 2011), www.kff.org/medicare/upload/8169.pdf.

17. The estimates in this section reflect small updates to CBO's economic and technical assumptions since the March 2011 publication of *Reducing the Deficit*. The estimate for 2035 also differs because the March estimate reflected gross Medicare outlays.

2014. Second, people over 65 who would have been enrolled in both programs—and for whom Medicaid would have paid their Medicare premiums—would instead have Medicaid as their primary source of coverage until they reached the new MEA.[18] Subsidies for insurance coverage purchased through insurance exchanges also would increase because some people whose eligibility for Medicare was delayed would receive those subsidies instead. CBO estimates that the effects of changes in federal spending on Medicaid, exchanges, federal retirees, and Social Security retirement would be to offset about one-quarter of the Medicare savings, reducing net federal savings to $113 billion over the next decade. That estimate does not account for a possible slight increase in the number of people who apply for DI benefits because CBO has not quantified such an effect. (State government outlays for Medicaid, which is partly state funded, also would increase, but the change is likely to be small compared with overall growth in state outlays for Medicaid.)

Effects on Medicare Beneficiaries

Shifts in the sources of health insurance (and loss of insurance for some people) would affect the health care people receive and what they pay for it. Some people would end up without health insurance. People without health insurance are likely to receive lower quality care and pay more than insured people do. Many, but not all, people who end up with a different source of insurance would pay higher premiums than they would for Medicare and spend more out of pocket. The quality of health care could differ as well, in various ways. For example, people with private health insurance might have better access to physicians than they would under Medicare. Some people on Medicaid could have more difficulty obtaining services, but others could have access to health care with lower out-of-pocket costs than they would have under Medicare.

The provisions of PPACA would make not having health insurance through Medicare or an employer less onerous than it would be otherwise. Virtually everyone affected would have access to health insurance, either through Medicaid or through exchanges. Although in many cases the premiums in the exchanges would be higher than they are for Medicare, the insurance would be priced without regard to health status and with limited adjustments for age.

Effects of Increasing the Early Eligibility Age for Social Security

Currently, more than half of nondisabled beneficiaries who receive Social Security benefits based on their own work history (rather than as spouses or survivors of workers) claim benefits at 62, and almost 60 percent claim before 64. Therefore, if the early eligibility age for Social Security was increased from age 62 to age 64, many people would be forced to claim benefits later than they otherwise would. They would receive larger benefits each month for fewer months overall. Currently, those two factors would approximately balance for a person with an average life expectancy, and such a person would receive roughly the same total benefits over a lifetime. For simplicity in exposition, this section discusses the effects of raising the EEA while leaving the FRA alone, even though most proposals that call for raising the EEA also would raise the FRA; such proposals are discussed later.

How People Would Respond

Many people who would otherwise stop working before age 62 do not have enough income or savings to retire without receiving Social Security benefits, so they work until they become eligible for those benefits at age 62.[19] Other people retire at the current EEA apparently because of a perception that 62 is the "correct" retirement age; raising the EEA could alter that societal norm. Still others retire, for various reasons, at an age between the current EEA and a later EEA that might be imposed. Therefore, raising the EEA would cause many people who might currently claim benefits sometime between the ages of 62 and 64 to work longer, thus increasing the size of the labor force and boosting federal revenues from income and payroll taxes.

Raising the EEA also would affect the work patterns of some people who, under current law, choose to stop working before the EEA. Some of those people would decide that their assets were sufficient or they had enough

18. Some dual Medicare and Medicaid enrollees currently qualify for full Medicaid benefits; others qualify only for assistance with certain types of Medicare cost sharing.

19. Eric R. Kingson and Maria T. Brown, *Are Age-62/63 Retired Worker Beneficiaries At Risk?* Working Paper 2009-13 (Boston: Center for Retirement Research at Boston College, August 2009), http://crr.bc.edu/images/stories/Working_Papers/wp_2009-13.pdf.

non-Social Security income to retire at the same age as under current law, especially because they would recoup the extra money later on in retirement as the rise in the EEA resulted in higher monthly Social Security benefits. However, other people in that group would decide that they could not live without benefits for the longer period and would respond to the change in the EEA by staying in the workforce longer.

A rise in the EEA would affect applications for DI benefits in three ways: First, because some people learn about their possible eligibility for DI benefits only as they apply for Social Security retiree benefits—the DI application rate doubles in the months immediately before people turn 62—a later EEA would lead to a delay in some applications until just before the new age took effect. That factor would cause a temporary decline in applications. Second, some people who would have claimed retirement benefits at 62 would decide to apply for DI benefits either at 62 or at an earlier age, thus increasing the number of DI applicants and beneficiaries. Although applying for DI benefits can be difficult—in part because applicants cannot have had substantial earnings during a five-month waiting period before benefits begin—the greater incentive resulting from a rise in the EEA would cause more people to do so. Finally, the number of people who have acute health conditions or who experience medical events that lead to disability—such as heart attack or stroke—before reaching the EEA would be higher as the EEA rose, simply because there would be more years in which such illnesses could occur.

Budgetary Effects

The budgetary effects of a rise in the EEA in the short term would be different from those over a longer period. Federal outlays would decline in the short term because people would have to wait until they were older to apply for Social Security benefits. Over time, higher subsequent monthly benefits would offset an increasing share of the savings from delayed eligibility. Eventually, as average life expectancy increased, the higher benefits associated with later claiming would more than offset the savings for the beneficiary with an average lifespan, so lifetime benefits would increase. Federal outlays would therefore increase as well, unless the reduction for claiming benefits early was increased as life expectancy grew.

A rise in the EEA also could affect other federal spending—for Supplemental Security Income, Medicaid, the Supplemental Nutrition Assistance Program, and unemployment benefits, for example. The loss of income from Social Security benefits would result in higher spending on such programs, but the gain in income of people who chose to work longer would result in lower spending. The net effect could be positive or negative, depending on the extent to which low-income people increased the amount that they worked, but would probably be small.

CBO recently estimated the effects of raising the EEA from 62 to 64 by two months per year. Under that policy, the EEA would increase to 62 and 2 months for people born in 1950 (who will turn 62 in 2012) and would reach 64 for people born in 1961 or later.[20] Federal outlays would be reduced by nearly $144 billion through 2021, slightly more than 1 percent of projected Social Security spending. (Those figures exclude the effect of the higher EEA on people's work decisions, discussed below.) Outlays would continue to be slightly lower than under current law until about 2035 and would be slightly higher thereafter.

Effects on Social Security Beneficiaries

The early eligibility age for Social Security does not depend on an individual's earnings under current law and under most proposals for changing that age. However, if the age increased, people with lower earnings would tend to experience a greater percentage reduction in living standards than would people with higher earnings. That difference would arise in part because, relative to people with higher earnings, people with lower earnings tend to have fewer assets, to have shorter lifespans, to have less in retirement savings and private pension benefits, and to be less likely to have health insurance through former employers.[21]

Raising the EEA would impose a hardship for some people in the years leading up to that age, especially if they are without other sources of income. Some people could stay out of poverty by continuing to work, although that

20. See Congressional Budget Office, *Reducing the Deficit*, Mandatory Spending Option 29, p. 62.

21. Congressional Budget Office, *Growing Disparities in Life Expectancy,* Issue Brief (April 2008).

would be more difficult for people with physically demanding jobs. Other people could stay out of poverty by saving more, especially if the change was announced well ahead of implementation, although that would also be difficult for some people. People who currently claim Social Security benefits at age 62 or 63 but could not work because of health limitations and have no other sources of income would be at particular risk of poverty. Several researchers have reported that, depending on how income and health are measured, between 5 percent and 20 percent of people who currently claim Social Security benefits at age 62 or 63 would become poor if the EEA increased.[22]

In particular, if the EEA was raised, the consequences of losing a job—because of an economic downturn or for another reason—would become greater for people between age 62 and the new EEA. Although older workers are less likely than are younger workers to lose their jobs (because they tend to have greater seniority), when older workers do lose their jobs they often have more difficulty than younger workers do at finding work. Reemployment rates for men age 62 or older are about half those for men between 25 and 34, and more older men leave the labor force after they lose their jobs.[23]

Existing government programs, including Social Security DI, Supplemental Security Income, and the Supplemental Nutrition Assistance Program, would provide a safety net for some people who would have financial difficulty until reaching the EEA. One approach to moderating the effects of a later EEA would be to broaden the eligibility standards of those other programs for people age 62 or older. Another approach would be to create a new program to support older workers who had experienced a loss of income even if they did not meet the medical criteria of the DI program.[24] Such support for older workers might include wage subsidies, health insurance subsidies, extended unemployment benefits, and employment counseling. Providing that support would require additional federal outlays.

At the same time, raising the EEA would help some people who are older than the new EEA. A rise in the EEA essentially would require people to accept higher benefits beginning at a later age. Those higher benefits would be likely to reduce poverty rates among people receiving the benefits.

Increasing the EEA would tend to lower lifetime benefits for people with lower earnings, because those people tend to have shorter lives, and raise lifetime benefits for people with higher earnings, because they tend to have longer lives. For example, someone who claims Social Security at 62 and lives until age 68 receives six years of retirement benefits; a two-year increase in the EEA would reduce the number of years of benefits by a third, a difference that would be only partially offset by higher benefits during those years.

Effects of Increasing the Full Retirement Age for Social Security

Raising the FRA for Social Security would reduce federal outlays and lower income for retirees. People would respond by looking for ways to increase income from other sources; some would work more, and some would apply for DI benefits. (This section discusses the effects of raising the FRA with no change in the EEA; the effects of raising both the FRA and the EEA are discussed later.)

How People Would Respond

On average, people would work longer to offset the lost income. Moreover, the additional work would probably be greater than would occur under an equivalent benefit reduction with the same FRA as under current law

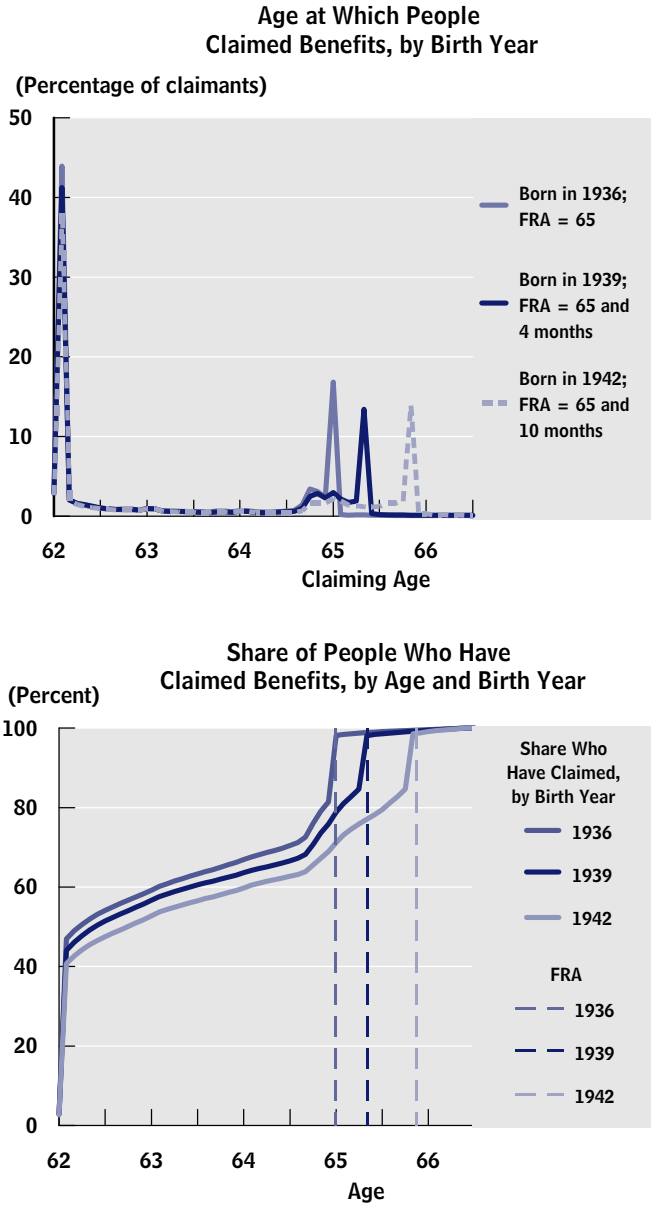
22. See Kingson and Brown, *Are Age-62/63 Retired Worker Beneficiaries At Risk?*; Xiaoyan Li, Michael Hurd, and David S. Loughran, *The Characteristics of Social Security Beneficiaries Who Claim Benefits at the Early Entitlement Age*, Publication 2008-19 (Washington D.C.: AARP, Public Policy Institute, November 2008), http://assets.aarp.org/rgcenter/econ/2008_19_beneficiaries.pdf; and Alicia H. Munnell and others, *Should We Raise Social Security's Earliest Eligibility Age?* Issue Brief 18 (Boston: Center for Retirement Research at Boston College, June 2004), http://crr.bc.edu/images/stories/Briefs/ib_18.pdf.

23. Richard W. Johnson and Corina Mommaerts, *Age Differences in Job Loss, Job Search, and Reemployment,* Discussion Paper 11-01 (Washington, D.C.: Urban Institute Program on Retirement Policy, January 2011), www.urban.org/uploadedpdf/412284-Age-Differences.pdf.

24. See, for example, David Stapleton, *Employment Support for the Transition to Retirement: Can a New Program Help Older Workers Continue to Work and Protect Those Who Cannot?* Research Report 2009-05 (Washington, D.C.: AARP Public Policy Institute, April 2009), http://assets.aarp.org/rgcenter/econ/2009_05_transition.pdf.

Figure 3.

How Claiming Patterns for Retired-Worker Benefits Changed as the FRA Increased



Source: Congressional Budget Office based on data from Jae Song and Joyce Manchester, *Have People Delayed Claiming Retirement Benefits? Responses to Changes in Social Security Rules*, Congressional Budget Office Working Paper 2008-4 (May 2008).

Notes: Each panel uses monthly data to depict claiming patterns of the population between the ages of 62 and 66 and six months that is entitled to retired-worker benefits under Social Security. Both exclude people who received Disability Insurance benefits.

FRA = full retirement age.

because more people would be inclined to claim benefits later. One might not expect that claiming of Social Security benefits would be very different at the FRA than at other ages because benefits are always smaller for people who claim earlier and larger for people who claim later (up to age 70). However, as the FRA has risen, some people have responded by claiming at the new age, rather than at 65 (see Figure 3, top panel). Indeed, as the FRA has risen, the share of people who have claimed retired-worker benefits by each year of age from 62 to 66 has declined, suggesting delayed claiming even before the FRA (see Figure 3, bottom panel).[25]

A higher FRA would result in a small increase in the number of people applying for DI benefits. That increase would occur because DI benefits are not affected by an increase in the FRA. Therefore, as the FRA increases, DI benefits become more attractive relative to retirement benefits.[26]

Budgetary Effects

CBO has estimated the effects of one option for gradually increasing the FRA to age 70 by two months per year. Under that option, the FRA would rise to 66 years and two months for workers born in 1950 (who turn 62 in 2012), reach 67 for workers who were born in 1955 (who turn 62 in 2017 or later and whose current FRA is 66 years and two months), and climb to 70 for workers born in 1973 or later (who turn 62 in 2035 or later).[27] The result would be to shrink federal outlays by $120 billion through 2021. (Those figures do not include the effect on people's work decisions, discussed below.) By 2035, the option would reduce Social Security outlays by 4 percent relative to what would occur under current law—from 6.1 percent to 5.9 percent of GDP. The effect of the changes would continue to grow; by 2060, outlays would be reduced by 13 percent.

25. There is, however, still a small increase in claims at 65—the MEA—and shortly before 65, when many people contact the Social Security Administration to apply for Medicare.

26. By one estimate, the increase in the FRA from 65 to 67 would cause an additional 1 percent of the population between the ages of 45 and 64 to claim DI benefits. See Mark Duggan, Perry Singleton, and Jae Song, "Aching to Retire? The Rise in the Full Retirement Age and Its Impact on the Social Security Disability Rolls," *Journal of Public Economics,* vol. 91, no. 7–8 (August 2007), pp. 1327–1350. Currently, more than 8 percent of people in that age range receive DI benefits.

27. See Congressional Budget Office, *Reducing the Deficit*, Mandatory Spending Option 30, pp. 63–64.

Effects on Social Security Beneficiaries

A rise in the FRA would reduce benefits at any given age of claiming: Participants could delay claiming benefits by the amount of time that the FRA increased and receive the same monthly benefit as under current law for fewer months, delay claiming by fewer months than the increase in the FRA and get a somewhat lower monthly benefit for a somewhat shorter period than under current law, or claim at the same age that they would have under current law and accept a lower benefit for the same duration. Today, more than 80 percent of retirees claim before the FRA and receive reduced benefits, and the share of people who receive reduced benefits would rise if the FRA increased substantially.

The reduction in monthly benefits for some beneficiaries would lower average income and increase poverty rates in the future among the elderly. The increase in poverty would be more pronounced if the FRA changed without a commensurate rise in the EEA. If, for example, the FRA became 70 and the EEA stayed at 62, under existing rules for reducing benefits for early claims, people who claimed at 62 would receive only 55 percent of their primary insurance amount, compared with the 70 percent they would receive under current law.

The increase in the FRA would be particularly burdensome for people with low income, who tend to rely heavily on Social Security benefits, and especially for those who could neither qualify for DI nor adjust their work patterns. The benefit reductions could be offset for some lower-income beneficiaries through targeted increases in benefits. For example, retirees with low lifetime earnings could be made eligible to receive the larger of the traditional Social Security benefit or a separately calculated alternative benefit, or the traditional benefit could be increased for low-earning retirees.[28] Such changes would require additional federal outlays.

Effects of Simultaneously Raising the Ages of Eligibility for Medicare and Social Security

The arguments in favor of raising the MEA and FRA are similar: Life expectancy has increased and disability rates among older people have declined, and raising the ages of eligibility would reduce federal outlays and, because people would have more incentive to remain in the workforce longer, increase revenues. Some proposals would raise the EEA and FRA at the same time; others would simultaneously raise the MEA as well.

Increases could be combined in a variety of ways. For example, the gap between the EEA and the FRA could be held at five years, as it is under current law for people born in 1960 or later. Alternatively, the EEA could be raised faster than the FRA so that the gap would return to three years, as was the case for people who were born before 1938; doing so would ensure that no one experienced more than a 20 percent reduction in benefits for claiming benefits at the EEA rather than at the FRA.

It is difficult to project how behavioral responses to simultaneous increases in all three eligibility ages would differ from the sums of responses to raising each separately. Raising all ages at the same time would clearly encourage later retirement and result in a greater increase in the size of the labor force and total output than would raising a single age. However, CBO does not have a basis for predicting the sign or magnitude of the interaction effects if the ages were increased simultaneously. On the one hand, if the ages went up together, public awareness of the changes probably would be greater, especially if similar revisions occurred in state, local, and private-sector policy; as a result, societal norms and behavior might shift more sharply, and the effects might be reinforcing. On the other hand, the responses to changes in the various ages might be largely overlapping, so that changing all of them together would have less effect on behavior than would the sum of the individual effects. In the absence of evidence on the issue, CBO assumes that the effects of simultaneous increases in the eligibility ages would equal the sum of the effects of increasing each age separately.

Effects on Labor Supply

Raising the ages of eligibility for Medicare or Social Security would cause many people to work longer. Although people are not required to stop working in order to receive Medicare or Social Security benefits, the decisions to claim benefits and to stop working generally are linked. Therefore, policies that would raise the ages of eligibility would cause people to work longer, increasing the size of the labor force and total economic output and incomes. Increases in the eligibility ages also might cause

28. See Congressional Budget Office, *Social Security Policy Options*, Options 23–25, pp. 28–30.

people to save more, in anticipation of lower Social Security benefits and higher health insurance premiums and out-of-pocket health care costs.

CBO's estimates of the effects on labor supply of raising the eligibility ages are based on current patterns of work and benefit claims and on past changes in claiming and work patterns as the FRA was raised from 65 to 66. People who have claimed Social Security benefits are much less likely to work than are those who are not receiving benefits. If the EEA rose, many people would work longer to support themselves. If the FRA rose, the effect is less certain, but when that age went up in the past, participants claimed later and worked longer to offset part of the benefit reduction. Because the experience of changes in the eligibility ages is limited, CBO's estimates of the effects of such changes on work decisions are highly uncertain.

Raising the EEA by two years, to 64, or raising the FRA by three years, to 70, would induce workers to work an additional eight months, on average, CBO estimates. Per year of increase, changing the EEA would have a larger effect on work because it would eliminate benefits for many people. In contrast, an increase in the FRA would reduce the amount of benefits people receive but would not eliminate them for anyone. The effects on work would be larger for groups directly affected by the changes. For example, CBO estimates, increasing the EEA by two years would induce people who would have claimed at age 62 or 63 to work an additional 11 months, on average. Once the new EEA or FRA applied to all people close to retirement, the policy change would increase the size of the labor force by slightly more than 1 percent and increase GDP by slightly more than 1 percent, according to CBO's estimates.[29] (In the example discussed above for the increase in the FRA, the full increase in the labor force would not occur until about 2050. About two-thirds of that increase would take place by 2035.)

Raising the MEA to 67 would result in an additional month of work per worker, on average, and would increase the size of the labor force and GDP by about 0.1 percent, CBO estimates. If the health insurance exchanges established by PPACA were not available, people would have a larger incentive to delay retirement; under that scenario, an increase in the MEA would result in a larger increase in the labor force.

Greater output would result in higher federal revenues because more income would be subject to individual income taxes, payroll taxes, corporate income taxes, and other taxes. CBO expects that the increase in revenues would be roughly one-fourth as large as the increase in total output and income if different types of income increased by similar percentages; the exact increase in revenue would depend on the composition of the increase in income and on future tax rates. For example, if GDP was 1 percent larger than projected, federal revenues would generally be about a quarter of a percent of GDP higher.[30] (CBO's 10-year cost estimates assume that legislation does not affect aggregate economic output, so such estimates do not incorporate the effects of proposals on the size of the workforce.)

If all three ages of eligibility were increased according to the schedules described above, then the size of the labor force and GDP in 2035 would be about 2 percent larger than under current law, and federal revenues would be about half a percent of GDP higher. By 2060, the size of the labor force and GDP would be almost 3 percent larger than under current law, and federal revenues would be about three-fourths of a percent of GDP higher.

This brief was prepared by Noah Meyerson and Joyce Manchester of CBO's Long-Term Modeling Group. Useful comments were provided by Richard Johnson of the Urban Institute and Steven Sass of the Center for Retirement Research at Boston College. The assistance of external reviewers implies no responsibility for the final product, which rests solely with CBO. This brief and other CBO publications are available at the agency's Web site (www.cbo.gov).

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29. The labor force and GDP are projected to grow by the same percentage because, in these long-term projections, CBO assumes that national saving will adjust to keep the ratio of capital to labor roughly constant and thus to keep interest rates constant.

30. The increase in work also would affect Social Security benefits. The higher benefits that stemmed from greater earnings probably would be only about one-tenth of the increase in federal revenues.