

## *Talking Points*

*Kenneth S. Apfel*  
*Commissioner of Social Security*

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**I**t's been said that the notion of retirement was a 20<sup>th</sup> century invention ... that for centuries the common practice was simply that you worked 'til you died. Thank heaven, times have changed.

Medical, demographic, economic and political changes of the past century altered the social landscape. First, greatly increased longevity...and life expectancy continues to rise.

And second, income growth has enabled more resources to be available for later in life. And it's very clear that even more will be needed in the 21<sup>st</sup> century. Third, and perhaps most importantly, the Great Depression showed that in an Industrial Age economy, governmental measures can help address what FDR called the vicissitudes and uncertainties of modern life.

Bismarck and Franklin Roosevelt changed the way we think about retirement. And for several decades, the notion of age 65 and retirement have been inextricably bound together, even though growing proportions of the labor force, at least until the mid 1980s, retired earlier and earlier.

As you all know, back in 1983, Congress increased the retirement age as part of solvency strategy.

- Normal Retirement Age for full benefits goes to 67 by 2022. And benefits for those retiring before NRA are further reduced.
- I believe that the proposal in 1983 passed for several reasons:

- 1) Expected to produce BIG savings (.71 percent of taxable payroll) in long-range trust fund estimates.
- 2) It addressed a root cause for the trust fund deficit: the shift in life expectancy.
- 3) There were relatively fewer physically demanding jobs—like mining—in the economy.

Now, 17 years later, those retirement age increases are starting to take effect. And there is a lot of talk of even further increases in the years ahead. But questions need to be asked. Do increases in life expectancy mean increases in working lives and in work?

- Are there people too unhealthy to easily continue work in early 60's, yet not be unhealthy enough to meet the strict standards for disability benefits?
- A 1998 GAO report says 22-31 percent of men aged 62 to 67 report a disability that limits work.
- How many could extend their working lives to cope with the retirement age increase? How many should be told to?
- How many have lower resources in assets, savings and pension benefits to make up the difference? How many would face a financial hardship? How many are waitresses and carpenters who are just plain worn out? It's easier to envision and maybe even relish a longer work life if you're an investment banker or an academic or a government bureaucrat than it is for the foundry worker.
- These concerns were at least raised during the 1983 debate to increase the retirement age.
- Then-Senator Bill Bradley proposed an amendment to offer a new disability-retirement benefit for elderly individuals who are unable to work in their current occupation because of poor health.
- His proposal, which was not enacted, would have eliminated the actuarial reduction in benefits for those between the ages of 62 and 66, and I quote, "whose health is 'too' good to qualify for the regular disability insurance program, but too poor to allow them to keep working in the occupation for which they are trained."
- I remember those words, because I wrote them for Bill Bradley in 1983, when I served as his young legislative assistant for health and social policy.

This is not to say that enactment of a disability-retirement benefit is necessarily appropriate or desirable. But now, nearly two decades later, as the normal retirement age

begins to rise, I've slowed down some and I have even more concerns. I believe we have a responsibility to look anew at policies to accommodate individuals adversely effected.

But that said, at the same time, we need to understand fully the implications of all policy changes. Improving benefits for some workers in their early 60s will substantially reduce the savings that are generated from a retirement age increase or a reduction in retirement benefits.

And changes could create a whole new set of incentives. Look to the experience in Europe, where large numbers of individuals leave the workforce thru early retirement.

- For example, over 50% of the male population aged 55-65 years in United Kingdom, the Netherlands, Italy, France, and Belgium are out of the labor force.
- In U.S., comparable figure is 37%.
- In Belgium, only about 25% of males are working at age 60, and virtually none at 65.
- European experience, I believe, presents a cautionary tale for U.S.

Basically, we have a tension between two worthwhile policy goals: First, retirement policy must reflect the demographic reality of longer lives.

And secondly, our income security policies should help older workers who cannot easily extend careers because of limitations.

This dilemma forms the background for many of the issues that will be discussed today, such as:

- How many people will be affected by the scheduled increase in the retirement age, and in what manner?
- How have changes in worker's circumstances, medical technology, and laws such as the Americans with Disabilities Act and the Work Incentives Improvement Act, affected retirement age issues?
- What options are there to help those who are adversely affected by the retirement age increase? And what are the implications for the individuals and their families and for the Trust Funds and overall economy ?
- And, in general, how do you balance the two conflicting goals I talked about?
- To what extent is early retirement a safety net for worker with significant impairments?

These questions have new importance, not only because the retirement age is increasing, but also because the Social Security long-range solvency issue is among the top public concerns—as it should be. To resolve the long-range solvency issue, it seems to me, certainly takes addressing trust fund adequacy, but also takes addressing issues of benefit adequacy. One such adequacy issue that has appropriately received serious attention is that of benefits for single older women, with one in five still living in poverty. How will solvency steps affect these women? What should we do about adequacy?

And a second adequacy issue that hasn't yet received much attention is this one. It is my belief that we'll need answers to both of these issues before we will see long-term reforms enacted into law.

Policymakers in Washington need better information in grappling with these questions, and look to those of you at this conference for important research and study. As I mentioned earlier, this is also an issue that I have had a personal interest in for many years. I know the difficulties involved, and I also know the very real value that new information and insights can have. Let's advance our thinking on this issue for the sake of future generations. Thank you.