

Boehner, Others Say Fix Social Security By Raising Retirement Age

(Dow Jones) The time has come for the nation to face some facts and, according to Republican Rep. John Boehner, the House minority leader, that means fixing Social Security by hiking the normal retirement age to 70 for future retirees, from the current 67.

Boehner wants to increase the retirement age to 70 for people who have at least 20 years until retirement, plus tie cost-of-living increases to wages rather than the consumer price index, and limit payments so they only go to people who need them, according to published reports. The current Social Security "normal retirement age" for those born in 1960 or later is 67.

"We need to look at the American people and explain to them that we're broke," Boehner was quoted as saying recently in The Pittsburgh Tribune-Review. "If you have substantial non-Social Security income while you're retired, why are we paying you at a time when we're broke? We just need to be honest with people."

"Boehner is taking a gutsy, and in my view, absolutely correct stance," said Olivia S. Mitchell, a professor at the Wharton School, executive director of the Pension Research Council and director of the Boettner Center for Pensions and Retirement Research.

"As Americans live longer and fewer young workers are around to tax so the government can pay retiree benefits, the system is becoming increasingly unaffordable," she said. "Revenues fell below benefit costs this year with the economic crisis, as more people retired early and fewer workers were paying in benefits. So the Social Security system urgently needs reform."

Alicia H. Munnell, director of the Boston College's Center for Retirement Research and a professor at that school's Carroll School of Management, though more circumspect, also favors the notion of raising the normal retirement age.

"It merits consideration," she said. "Because retiring later is the best way to achieve a secure retirement. It all makes sense to work longer."

Working longer has many benefits: It increases the amount of money people can save for retirement, reduces the amount of money people need for retirement, and helps save Social Security, Munnell said.

But while Boehner's remedy might be gutsy, it still falls short of what could be and should be done, according to Mitchell and Munnell. Here are their ideas for other ways to help fix the Social Security shortfall.

Index Retirement Age To Life Expectancy

"I wouldn't stop at age 70," Mitchell said. "I'd suggest we do what Sweden and other countries have already done, which is to index the retirement age thereafter to future changes in life expectancy."

Social Security reform is all the rage in Europe right now, Mitchell added. France recently announced plans to raise the retirement age from 60 to 62 in 2018 as part of an effort to get the country's spiraling public finances under control. Similar discussions are going on in Germany and Spain. "People are grumbling—and striking—all over Europe on this," Mitchell said. "Yet some progress is being made, which is encouraging."

According to Munnell, indexing the normal retirement age to life expectancy is a good idea, but it only solves some of the problem. It won't make people work longer.

She noted that in the 1930s, when Social Security set 65 as the normal retirement age, life expectancy for those aged 65 was 77. Today, life expectancy for those aged 65 is 82.

Increase Early Retirement Age

If he really wants to fix Social Security, Boehner should propose increasing the "early retirement age" or ERA, too, Mitchell said. Right now, people in the U.S. can and do claim benefits at 62, the current early retirement age, and get a reduced benefit.

"Boehner's plan to raise the NRA to 70 without boosting the ERA would mean that early retirement benefits would be lowered by 45%," she said. "This could be an unexpectedly big hit to many retirees, which could be fixed by boosting both the ERA and the NRA in tandem, since Americans tend to take their benefits at the ERA."

Disability Benefits System Must Be Flexible

Munnell agreed that increasing the NRA and ERA make sense, but it must be done in ways that protect those who truly need Social Security before the normal retirement age. Raising both will hurt those who have a short life expectancy, such as some minorities, and the 20% or so of people who claim Social Security early for health reasons.

Right now, people who claim benefits early tend to be either in poor health or to have a good pension. "If we raise the early retirement age, we need to have a disability benefits system with relaxed criteria," Munnell said. "It needs to be flexible."

Mitchell said the U.S. has a disability benefits system for people who are severely disabled and cannot work. "So I believe that it makes sense to move the entire set of retirement ages up for those who are able to keep on going—move the early age to 65 and then have it creep up to 67, for instance," she said.

Working Longer

There are those who say older workers won't be employable past age 65.

"But this is all, as an economist says, 'endogenous,'" said Mitchell. "That is, if you know that your work life will last till age 70, you'll be likely to continue to invest in your skills later in life, which will help make you more employable. And the fact that jobs today are much less

physically demanding than they were 30 years ago helps make a longer work life feasible."

Then again, if you really don't want to keep working till 70, Mitchell said you could save so as to "buy your own early retirement."

Index Cost-Of-Living Adjustment To Wages

Boehner also expressed a desire to index Social Security's cost-of-living adjustments to wages instead of the consumer price index. According to Mitchell that would be extremely effective in reducing the Social Security shortfall. "In fact, that is so effective that there would be room to boost low-earners' benefits and payments to those whose spouses have died," she said.

But Munnell isn't as fond of that idea. "Social Security benefits are low as they are," she said. "We don't want even lower replacement rates."

What Is The Solution?

Raising the normal retirement age to 70 without changing the early retirement age does help fix Social Security a little bit. In fact, if done with reasonable alacrity, Mitchell said it would reduce one-third of the Social Security shortfall. And indexing the NRA to longevity will help about another 18%.

"So this is all a good start, but by no means a full solution, as the Senate Aging Committee recently noted," she said.

According to Munnell, fixing Social Security is really quite simple. It's a matter of putting more money into Social Security and taking less out.

"There's no silver bullet," she said. "It's really the politics" that gets in the way of fixing what she described as child's play.

Given how fragile the rest of the retirement security system is right now, she said Americans are not only ready for reform, but are willing to pay for it as well.

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