The Center for Retirement Research at Boston College was established in 1998 with a mission to explore everything that affects whether people have enough money to be comfortable once they stop working. That means researchers at the Center study the structure, embedded incentives and benefit levels for the major US retirement systems, including the social security programme (which provides a base of retirement income for everyone), private sector employer-sponsored plans, individual retirement accounts and pensions for government employees. Equally important to understanding the retirement landscape is the human factor involved in deciding how much to save versus consume, and the trade-off between work and leisure.

Over the years, the accumulating evidence clearly indicates that people are going to come up short. For example, our National Retirement Risk Index shows that more than half of today’s working households will not have enough to maintain their pre-retirement standard of living. That means the US is facing a big problem.

Identifying the problem is only the first step. The Center’s real goal is to fix the issue. This requires getting the message out to policy makers and the business community, and constructing politically realistic solutions. Not surprisingly, such an ambitious objective requires many tools. The first is basic research, published in academic journals, that establishes the credibility of our work. The second is a bi-weekly Issue in Brief series that keeps up a steady beat of analysis and proposals. The third is playful booklets aimed at individuals and their families. The fourth is weekly blog posts covering a range of topics. And the fifth is full-length books that lay out the pathway to reforms in different areas.

The solution to the impending US retirement crisis is conceptually simple. Americans need to work longer and save more. Working longer is a powerful tool because it increases monthly social security benefits, allows retirement accounts to grow and shrinks the retirement period.

The other half of the solution is to save more. Simply imploring people to put more aside has zero impact, because people only save through organised mechanisms. Therefore, the US needs to put more money into its social security system; improve employer-sponsored 401(k) plans by making them fully automatic and cheap; and introduce retirement schemes for the half of the private sector workforce that currently is not participating in any such scheme. Finally, people need to feel secure enough to tap the equity they have accumulated in their home – the major source of saving for most middle-income families – to help support their consumption in retirement.

We have actually seen some progress on the ‘work longer’ portion of the prescription. Our most recent research, using unpublished data from the Social Security Administration (SSA), shows that of eligible workers turning 62 years of age, the proportion claiming benefits at that age fell from 56.0 per cent in 1996 to 35.6 per cent in 2013 for men; the comparable decline for women was 62.8 per cent to 39.5 per cent (see ‘Trends in Social Security Claiming’, opposite).

Much of this decline was obscured in the annual data reported by SSA. Of all workers claiming benefits in a given year, these annual data show the percentage who are aged 62, 63, 64, etc. The problem is that when the size of the group turning 62 years of age is increasing, as it has over the last two decades, the data will show that 62-year-old claimants make up a larger portion of total new claimants in a given year even if a smaller percentage of 62-year-old workers claim immediately. Therefore, to accurately follow claiming behaviour over time, one must turn to cohort data as we did in our analysis.

More work is required to determine exactly why this delay in claiming has occurred. The Center’s research has identified a long list of potential factors. These include changing incentives in public and private
retirement plans, increased health and education of the workforce, and rapidly rising healthcare costs that encourage workers to wait until they are eligible for the government Medicare programme at 65 years of age.

The other encouraging development is state-level initiatives to set up schemes for workers whose employer does not offer a retirement plan. With no legislation in sight at the federal level, at least eight states are looking at ways to automatically cover their uncovered workers. None of them has yet introduced such a plan, but the state laboratories are a beehive of activity.

Despite these favorable developments, the US has a long way to go before American workers are ensured a secure retirement. Thus, the Center will be in business for a long time to come.

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TRENDS IN SOCIAL SECURITY CLAIMING

Over the past 25 years, the average retirement age for US workers has been rising, a trend that should align with the number of people first claiming social security benefits.

Today’s average retirement ages

62 FOR WOMEN

64 FOR MEN

According to Social Security’s Annual Statistical Supplement, the percentage of all initial claimants who are 62 years of age showed little change until recently.

The proportion of women claiming benefits at the age of 62 hovers around 60 per cent until 2005, dropping gradually to 48 per cent by 2013; the proportion of men claiming benefits at the age of 62 hovers around 55 per cent, dropping gradually to 42 per cent by 2013.

A better metric to capture claiming behaviour over time – when the population is ageing – is the percentage of workers turning 62 years of age who claim at this age. This measure, based on unpublished social security data, shows a steep decline in claiming at age 62 since the mid-1990s.

56 per cent to 36 per cent for men; 63 per cent to 40 per cent for women.

In short, while more than one-third of workers still claim right away, a growing number are waiting until their mid-60s or later.

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