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WHY DO THEY KEEP TALKING ABOUT RAISING THE RETIREMENT AGE?



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Congress is interested in upping the retirement age. The proposal is part of an effort to stabilize the program's trust fund.

While Social Security is a safety net for older Americans, raising the retirement age will have ramifications for all workers. Circumstances certainly have changed since Social Security was created to help people recover from the Great Depression.

According to Centers for Disease Control and Prevention data, the average life expectancy at age 65 increased by 5½ years from 1950 to 2016. This would suggest the Social Security retirement age today should be 70-71 years (as opposed to 65 years when Social Security originally came out in 1937). Are you beginning to understand why there's all this talk about raising the retirement age?

"Much of this has to do with concerns around Social Security and the fact that people are living longer and are responsible for their own retirements," says Lawrence Sprung, founder of Milton Financial Group in Hauppauge, New York. "Pushing out the retirement age could help the long-term viability of Social Security and people's financial well-being."

Indeed, the Social Security retirement age has increased over the years. It started at age 65 for those born in 1937 and increased by two months per year for the next five years. For those born between 1943 and 1954, the retirement age remained steady at 66. It started climbing two months per year again for those born in 1955 until it froze at age 67 for those born in 1960 and later.

"Quite simply, the Social Security Administration's (SSA) trust fund is underfunded and fairly soon will not be able to meet its future retiree payment obligations," says Boston-based Robert Reilly, a member of the finance faculty at the Providence College School of Business and a financial advisor at PRW Wealth Management. "Last year, the SSA said that, without significant structural changes to the trust, by 2034, they project that only 78% of promised benefits will

be able to be paid. Analyzing demographics and debating the political and financial missteps that got us into this situation is of increasingly limited help as the 2034 deadline draws nearer. There appears to be an increasing sense of urgency to find a solution to this problem with a ticking clock."

The Social Security retirement age hasn't risen for those born since 1960. This places a burden on all retirement systems, not just Social Security.

"As life expectancy increases and a greater percentage of people's retirement income comes from their own life's savings and investing, the conversation about delaying retirement comes up more and more," says Chris Kampitsis, a financial planner at The SKG Team at Barnum Financial Group in Elmsford, New York. "People are needing to work longer to hit their retirement wealth objectives, and still, retirements are lasting longer than ever before."

To get a sense of the strain this is causing to both public and private retirement plans, consider a simple extrapolation of the past increases in Social Security retirement age. Assume the retirement age increases by two years roughly every thirty years. That would mean the nearly 90-year-old government benefit would have a retirement age of 71 today.

"The main reason why they keep talking about raising the retirement age is because of the increasing cost of retirement benefits," says Derek Miser, investment advisor and CEO at Miser Wealth Partners in Knoxville, Tennessee. "As people are living longer and healthier lives, they are collecting benefits for a longer period of time, which is becoming increasingly expensive for governments to sustain. Raising the retirement age would help to offset some of these costs and make the system more sustainable for the future."

That there is no single life expectancy number complicates matters as the situation changes from one demographic group to another.

"Life spans have increased and retirement ages have not, so periods of retirement have increased gradually over a long period of time," says Anna Rappaport, member of and volunteer at the Society of Actuaries in Chicago. "Other ways of thinking about retirement

ages are to think about them as a percentage of the total life span, and then with the changes taking place, ages would gradually increase. This is complicated because there is a huge difference in life spans by race, ethnicity, and by economic status. That's maybe six to eight years of life span. Also, labor market conditions are such that we really need to have people working longer. It is also probably better for healthy people to stay engaged and work on some basis for a longer period of time."

Congress has already raised one "retirement" age—the age at which you must take out your Required Minimum Distribution from your personal retirement account. Moving to the retirement age for Social Security and other retirement vehicles represents a logical next step.

"Raising the retirement age occurs in a few different contexts," says Clint McCalla, Senior Wealth Manager at LourdMurray in San Diego. "The first is in relation to the claiming of Social Security retirement benefits with the full retirement age for anyone born in 1960 or after being 67. Much has been written about the solvency of this program. Increasing the claiming age for younger beneficiaries has long been an option under consideration to address future funding issues. The second is in relation to retirement accounts such as 401(k)s and when individuals must begin taking funds out of these pre-tax accounts. Many people are continuing to work well beyond the age of 70, either through desire or necessity, so updating governing regulations is a prudent consideration, allowing people to avoid taxable retirement distributions that may not even be needed yet."

Should you be worried that Social Security won't be around when you retire? It all depends on your age. Ironically, both the oldest and the youngest Americans may have the least worries: the oldest because any changes are less likely to have a significant impact on them; the youngest because they're in the best position to save themselves out of relying on Social Security.

Those of you in the middle generations? Well, you have one thing going for you. You're all voters.

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