



Working into Retirement: What Washington Can Do

By Romina Boccia | June 12, 2014

Seven out of 10 pre-retirees expect to work well into their retirement years, according to a new survey. Washington can adjust to this trend by changing policies that encourage Americans to retire early.

A recent Merrill Lynch and Age Wave [study](#) found that 72 percent of pre-retirees (those 50 years and older) envision working during retirement. The top reasons cited for working later into their lives are a desire to stay mentally active and to earn money.

Pre-retirees are onto something. Research shows that older Americans can reap significant financial and mental health benefits from staying active in the workforce past the "normal" retirement age, or the age at which they qualify for government benefits.

A 2010 [review of the literature](#) published in *Public Health Reviews* identified that five out of seven cross-sectional studies reported improved mental health from working beyond the government-established retirement age. Another three longitudinal studies found those who did paid or volunteer work during retirement scored significantly lower for depression.

The additional income from paid work also pays dividends throughout retirement. A 2006 [study](#) by Barbara Butrica, Karen Smith and C. Eugene Steuerle of the Urban Institute found that just one additional year of work can improve retirees' income by 9 percent; working an additional five years boosts retirement income by 56 percent.

Americans working longer than currently expected also affects the nation's economy and the federal budget.

The aging of the population and the expected drop in the labor force is one of the main reasons the Congressional Budget Office [projects](#) slower than average economic growth from 2017 on, compared to the past several decades. If more Americans end up working longer than currently expected, this would improve the fiscal picture and economic growth.

Washington can help by changing decades-old entitlement structures that encourage Americans to [retire early](#). Americans are living longer than ever before, and they are also spending more time in retirement. Since Social Security's inception, [life expectancy](#) at age 65 has increased by about seven years. Yet Social Security's retirement age is increasing by only two years, and its early retirement age is staying put.

Social Security and Medicare are both running out of funding. When the trust funds are tapped out, beneficiaries could face large, automatic benefit cuts. Congress should reform these programs now to provide predictability to pre-retirees to help them better plan for their retirement.

A range of prudent reforms are available. Lawmakers should phase in increases to both the early- and full-retirement ages, then index both to increases in life expectancy. Medicare's eligibility age also should be increased in conjunction with the Social Security retirement age.

Other reforms to encourage work among older Americans include [eliminating the payroll tax](#) for workers who reach the full retirement age and have accumulated 35 years of Social Security earnings. Because the additional taxes paid produce almost no additional benefits for these workers, they act as an incentive to retire and draw Social Security benefits instead. The Social Security [earnings test](#), which is broadly confused for a tax, also discourages work among those already receiving Social Security checks.

Bolder, more effective reforms would focus entitlement benefits on the most vulnerable populations while empowering all Americans to provide for more of their own retirement needs through personal retirement accounts and healthcare premium support.

Changing Social Security to a flat benefit that provides real insurance from poverty in retirement while enabling greater personal savings with auto-enrollment retirement accounts would ease the future tax burden on American workers, reduce their reliance on government and increase Americans' ownership over their retirement savings. Similarly, Medicare premium support would expand seniors' control over their healthcare dollars, expanding seniors' options while [saving them and taxpayers money](#).

Outdated entitlement structures in Medicare and Social Security limit Americans' choices, strain the federal budget and harm economic growth. Congress should reform these programs now and enable Americans to better plan for their own retirement.

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