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REAGAN, PICKLE AND PEPPER: THE BENEFIT REDUCTION VERSUS VOLUNTARY APPROACH TO ENCOURAGING LATER RETIREMENT

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ABSTRACT

The degree to which benefit reduction and voluntary approaches to encouraging later retirement maximize four different and often conflicting policy objectives is assessed as are costs and benefits of these approaches to healthy and unhealthy older workers, minorities and women. While both approaches encourage later retirement, there are clear differences in the approaches in terms of meeting the goal of financing Social Security versus adequacy and social equity.

Economic problems between 1977 and 1983 resulted in a significant short-term financing problem in Social Security's Old Age Survivors Insurance Trust Fund. These economic problems combined with a projected long-term deficit also helped create the conditions under which consideration of proposals to raise the normal age of retirement became politically feasible. Several years of political debate over alternative retirement age policy proposals culminated with the enactment of the 1983 Amendments to the Social Security Act. These Amendments include a provision which will encourage later retirement through benefit reductions resulting from gradually raising the age of eligibility for full

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retirement, spouse and widow(er)s benefits to 67 over a 27 year period, beginning in 2000. The Amendments also contain two provisions providing voluntary incentives to later retirement through changes beginning in 1990 which will liberalize the Social Security earnings test and increase the value of delaying retirement past the normal retirement age.

When this paper was initially written in 1981, proposals that would encourage later retirement had been put forth by the President, Congressman Pickle and Congressman Pepper. Those based on a benefit reduction approach (the Reagan and Pickle proposals) would have provided incentive for continued employment by, reducing Social Security protections or benefits. Those based on voluntary approach (the Pepper proposals) would encourage later retirement by use of incentives that increase the value of Social Security and other pensions for later retirement, and by emphasizing the goal of expanding employment opportunities for older workers.

Proposals consonant with the benefit reduction approach were given the greatest attention because they produce large savings for Social Security. They were also most controversial because many argue that they compromise other equally essential retirement policy goals—adequacy and social equity; and also would produce disproportionate savings from the more economically vunerable.

This paper analyzes the Reagan, Pickle and Pepper proposals of 1981. While these proposals are outdated, the analysis remains relevant for two reasons. First, elements of each of these proposals are similar to the retirement age policy changes enacted under the 1983 amendments. Second, the phasing in of the new normal retirement age does not begin until 2000. It seems quite possible that the debate over whether and how to raise the retirement age could be re-opened before 2000.

ORGANIZATION AND SUMMARY OF PAPER

This paper has two objectives. First, it assesses the degree to which benefit reduction and voluntary approaches maximize four different and often conflicting retirement policy objectives: 1) providing work incentive for older workers, 2) income adequacy, 3) social equity—the similar treatment of persons in similar circumstances, and 4) meeting the financial commitments of the Social Security system. Particular attention is paid to the work incentive objective.

Second, this paper identifies the costs and benefits of these approaches to four groups of older persons: 1) healthy older workers, 2) unhealthy older workers,* 3) women and 4) minorities. This is accomplished within the context of the analysis identifying trade-offs among the approaches in terms of meeting policy objectives.

Before analyzing the three retirement age proposals advanced in 1981, several points need to be made about their categorization as part of either the "benefit reduction" approach or "voluntary" approach. While, as the reader will discern, the author has a preference for proposals that encourage work without also reducing benefits scheduled under current law, the terminology is simply a means of categorizing two fundamentally different ways of encouraging later retirement. Second, not everyone is in agreement over what they consider a benefit reduction to be. For example, some would argue that raising the normal retirement age under Social Security is not a benefit reduction, but merely an adjustment for increases in longevity that have occurred since 1940; or similarly, that small reductions in benefits promised under current law are not benefit reductions, but merely slow the growth of benefits. While these are not entirely unarguable points of view, the facts are that either type of change would reduce benefits relative to what is scheduled under current law; and therefore—in the author's opinion— are most appropriately classified under the benefit reduction approach. Third, it is clear that in many policy areas—including retirement policy—the use of the "stick" ("benefit reduction" approach) to meet policy objectives is often more appropriate than the "carrot" (the "voluntary" approach). In fact, the 1983 Amendments include changes in retirement age policy that draw from both these approaches—the phased-in gradual increase in retirement age to 69 representative of the benefit reduction approach and eventual liberalization the in earnings test and delayed retirement credit representative of the voluntary approach.

Two of the proposals (Pickle and Reagan) can be classified primarily under the benefit reduction approach. Enactment of the

* The term "unhealthy older workers" refers to workers with health problems who do not meet Social Security or SSI eligibility standards, yet whose health problems are sufficiently severe as to constrain their ability to continue or find employment. The severity of these health conditions ranges from those, that by themselves, would have a modest impact on the ability to work to those that virtually preclude work.

Pickle Bill of 1981 would have encouraged later retirement by gradually increasing the normal age of retirement to 68 in the Social Security program. Enactment of the proposal advanced in 1981 but later withdrawn by the Reagan Administration would have encouraged later retirement by reducing the value of Social Security benefits, expecially for persons retiring before age 65. The third proposal--the Pepper Older Worker Employment Incentives Act--is consistent with the voluntary approach. Enactment would have encouraged later retirement by increasing the value (relative to current law)* of Social Security benefits for postponed retirement and by the elimination of age discrimination and other barriers to the employment of older workers.

The paper begins with a brief review of the factors that have converged to make retirement age policy a national issue. Then, the three proposals are described. The major portion of the paper analyzes the impact of benefit reduction and voluntary approaches on the four policy objectives. The analysis is restricted primarily to non-private pension provisions and policies.

The basic argument developed in this paper is that later retirement can be encouraged quite adequately by either voluntary or "benefit reduction" approaches. The choice of approaches ultimately reflects the importance placed on the goal of reducing financial deficits in the Social Security system versus the goals of the adequate and socially equitable treatment of program participants. The benefit reduction approach does produce much more Social Security savings, but at the cost of significant reductions in benefits for groups that often experience limited employment opportunities--older women, minorities and older workers with health problems. The voluntary approach can encourage later retirement, but to create significant shifts in labor market activity through the use of voluntary incentives would probably require large increases in Social Security and general revenue expenditures at a time in which Social Security's financing was the central concern, it was not surprising that retirement age policy changes reflected the primacy of the financing goals.

* It should be noted that the proposed increase in the delayed retirement credit in the Pepper Bill is not sufficient to make the value of retirement between ages of 65 and 70 actuarially neutral. So while increasing the value of retirement after 65, the disincentive to work after 65 would still exist, though it would be smaller.

THE EMERGENCE OF THE RETIREMENT AGE ISSUE

Since the end of World War Two, increased early retirement has been one of the dominant trends in the economy. As reduced early retirement benefits became available under the Social Security program for workers retiring between the ages 62 and 64, growing numbers of men and women have accepted these benefits. In 1977 for example, 68 percent of retiring male workers and 78 percent of retiring female workers accepted reduced early retirement benefits. Labor force participation rates of men also reflect this trend. Between 1947 and 1980, labor force participation among men aged 55 to 64 dropped by about 19 percent, from 89.6 to 72.3 percent. The growing separation from the labor force of men aged 65 and over is even more dramatic. Labor force participation of this group is less than half of what it was in 1947--having declined from 45.8 percent to 19.1 percent. Reflecting the trend of married women entering the labor force, the labor force participation of women aged 55 to 64 has increased between 1947 and 1980 from 24.3 to 41.5 percent. This increase, while dramatic, is slightly smaller than the increased involvement of younger female cohorts, suggesting the possibility that the trend toward increased labor force participation among women may be somewhat offset in the older cohorts by the early retirement trend. In fact, among women aged 65 and over, labor force participation has remained fairly stable during these years, at about nine percent.

What explains the trend toward early retirement? There are two somewhat conflicting answers to this question. The first explanation suggests that the growing availability of early retirement benefits in Social Security and private pensions has encouraged workers to leave work before age 65. This is presently the dominant explanation and one of the implicit assumptions of approaches that would encourage later retirement through benefit reductions. The second perspective suggests that chronic unemployment in the American economy is a more fundamental explanation. This line of reasoning suggests that the early retirement option has been made widely available to older American workers as a means both of encouraging the retirement of older workers capable of continued employment and to ameliorate the unemployment of others. This perspective suggests that encouragement of later retirement cannot be accomplished simply through the use of employment incentives. As will be discussed in the conclusion, the ultimate outcome of current retirement age debate will be greatly influenced by the extent to which one of these perspectives predominates.

The emergence of current concern over retirement age policy is clearly linked to issues of cost. At a time in which the older population is growing and living longer, serious questions have been asked about whether the Country can afford to have retirement policies setting the normal retirement age at 65 and allowing--and in some cases--encouraging retirement well before 65. In fact, Congress has recently given its answer by changing the Social Security law to gradually phase in a new normal retirement age of 67 between 2000 and 2027. Another issue concerns whether the economy can afford the loss of capable and productive workers through early retirement.

Presently, 11.2 percent of the population is aged 65 and over. As the post-World War II babies reach retirement age, the aged are expected to grow as a percent of population to as much as 18.3 percent of the population by 2030 (Special Committee on Aging, 1980). The growth of the aged population is somewhat offset by decline in the under 18 population. Still Social Security seems likely to place a larger burden on the future working population. Also, assuming the continuance of present retirement patterns, labor shortages may materialize, especially during the period in which the war babies retire--though such shortages are far from certain.

The older population is also living longer. When the Social Security system paid out its first benefits--1940--life expectancy at age 65 was about 13 years. Today, it is 16.3 years, an increase of over 3 years. An Actuarial Note published by the Social Security Administration presents measures of the ratio of retirement expectancy to total work experience for the population. Using this ratio as a standard, the findings suggest that "retirement age in 1980 equivalent to age 65 retirement in 1940 is more that 69 years." By 2000, the equivalent age would be more that 71 and by 2025, more than 72 (Social Security Administration, June 1981). Assuming that age 65 continues as the normal retirement age, this lenghtening of retirement relative to work results in an added burden on the future working population, which some argue will be substantially offset by the assumed growth of the economy. Others would also point out that as the economy grows (as it has since 1940), it is quite appropriate to choose--as the United States has--to increase the average number of years in retirement relative to the average number of years worked.

The combined trends of early retirement, a growing aged population, a shrinking working-age population and increasing life expectancies are the primary forces that drove the long-term financial deficits of the Social Security system, that were projected prior to the enactment of the 1983 Amendments to the Social Security Act. The short-run problems projected before enactment of these amendments were primarily the result of the failure of the economy to operate as expected. Generally, between 1977 and 1983, inflation has been considerably higher than expected and wage increases (relative to inflation) lower. This resulted in higher than expected costs (because benefits increase to adjust for inflation) and smaller revenues (because payroll tax revenues increase with the growth of wages). The situation was aggravated by high rates of unemployment which also reduce the system's revenues. Fortunately, with the enactment of the 1983 Amendments, Social Security's cash programs are now in actuarial balance.

The retirement age issue emerged in a conservative political context. Congress having felt that it disposed with the distasteful issue of Social Security financing in 1977, was not pleased by the need to deal with it again. A major thrust of Congress since 1981 and the Reagan Administration has been to control the growth of social programs, of which Social Security is by far the largest. Consequently, as budget deficits deepened, it was increasingly tempting to view Social Security as a source of both present and future budget reductions. Approaches to encouraging later retirement through benefit reductions and voluntary incentives have emerged from and were acted upon within this context.

THREE APPROACHES

As mentioned, the Pickle and Reagan Administration proposals represented the "benefit reduction" approach to encouraging later retirement while the Pepper Bill represented the voluntary approach. Independent of the fact that they are not presently under active consideration—they are worthy of analysis. The analytic issues identified in this analysis will—in all likelihood— remain relevant to future retirement age debates. Also, the analysis is applicable to the retirement age changes made by the 1983 Amendments to the Social Security Act. This analysis begins by identifying the major aspects of these proposals that have implications for a retirement age policy.

THE PICKLE BILL

As a part of a comprehensive legislative package concerned with Social Security financing (HR 3207), Congressman J. J. Pickle proposed in 1981 gradually increasing the normal eligibility age for retirement benefits to age 68, beginning with 1990. By 2000, age 68 would be the normal age of retirement within Social Security. Age 62 would be maintained as the earliest age of eligibility for early retirement benefits, but the value of early retirement benefits would be significantly reduced. Under present law, retirement benefits are reduced 5/9ths of one percent for each month of retirement before age 65—resulting in the actuarially fair treatment of persons retiring between ages 62 and 65. Under the Pickle Bill, benefits would be reduced 1/2 of a percent for each month of retirement before age 68. At the earliest age of retirement--62--retirees presently receive 80 percent of the normal retirement benefit (80 percent of the primary insurance amount - PIA). Under the Pickle Bill, their benefits would be reduced to 64 percent. Other sections of the Pickle Bill proposed the elimination of the earnings test for persons over 68 and the repeal of the delayed retirement credit as of 1983.* The bill is not presently before Congress.

The Pickle retirement age proposal is quite similar to those of several recent national study groups—the 1979 Advisory Council on Social Security, the President's Commission on Pension Policy, the 1981 National Commission on Social Security. These proposals differed slightly in that they tended to suggest a later and lengthier phase-in period and also suggested a gradual increase in the early retirement age to 65. Because of the similarity between the Pickle Bill and these other proposals, much of the analysis of the Pickle proposal pertains to these other proposals as well. The analysis also applies to the change in retirement age recently enacted by Congress. Under the new law, the normal retirement age will ultimately be increased to 67 by 2027. Persons retiring at age 62 in 2022 and later will receive an early retirement benefit

* If the earnings test is repealed, there is little reason to maintain the delayed retirement credit since retirement after age 68 would neither be penalized nor rewarded. If the goal is actuarial neutrality — to avoid favoring persons retiring after age 68, the delayed retirement credit would have to be repealed.

with a 30% actuarial reduction (instead of 20% as is the case through 1999). Widows and spouse eligibility ages are also affected.*

THE REAGAN ADMINISTRATION PROPOSAL

The Social Security financing package proposed by the President in May 1981 contained six proposals which would encourage later retirement primarily through benefit reductions. First, effective in 1982, the Administration proposed to more than double the reduction for early retirement by reducing the retirement benefits by 1.25 percent for each month of retirement between the ages of 62 and 65 as a means of producing savings and discouraging early retirement. Under this proposal workers retiring at age 62 would receive 55 percent of the normal retirement benefit.** Second, the elimination of dependent's benefits for the children of early retirees was proposed.

Third, the removal of all non-medical factors from the disability determination decision in Social Security and SSI for older workers was proposed. Under present law, age, education and previous employment are taken into account when determining disability for older workers.

Fourth, a change in the computation points for the average indexed monthly earning (AIME) from age 62 to 65 was proposed. This would discourage early retirement because it would result in the calculation of a smaller PIA for workers out of the labor force before age 65. This would also encourage continued work beyond age 65 because it would result in a reduction of benefits for most normal age retirees.

* Congressman Pickle was also sponsor of the retirement age provision that was enacted into law in the 1983 Amendments. The major differences between the 1981 Pickle proposal and the new are: Under the new law the age of eligibility for full retirement, spouse and widow(er)s benefits is 67, instead of 68; the phase-in date begins later and the phase-in is longer; the retirement proposal in the new law saves less money than the 1981 Pickle proposal.

** Persons retiring at age 65 receive a benefit equivalent to 100% of the primary insurance amount (unless their right to a spouse benefit is larger).

Fifth, the Administration proposed to reduce Social Security benefits by approximately 10 percent to be phased in between 1982 and 1987 through a technical revision of the benefit formula. Rather than increasing the bend points in social security benefit formula by 100 percent of wage increases, the Administration proposed a 50 percent increase between 1982 and 1987.* Again, this might serve to encourage later retirement. Finally, to encourage employment beyond age 65, the Administration proposed elimination of the earnings test by 1985 (Select Committee on Aging, 1981a). Unlike the other five proposals, the elimination of the earnings test is consistent with the voluntary approach to encouraging later retirement.

Like the Pickle approach, the Reagan approach to discouraging early retirement and encouraging later retirement relied primarily on negative rather than positive incentives. The major thrust of the proposals was to discourage early retirement by reducing the benefits of early retirees and to encourage work past age 65 by a general reduction in the level of benefits for all future retirees.

THE PEPPER OLDER WORKER INCENTIVES ACT OF 1981

The Pepper Bill (HR 3397) represents a different approach to encouraging later retirement. In contrast with the two other proposals, it relied on positive rather than primarily negative incentives. A fact sheet developed by the House Select Committee on Aging lists the five major work-encouraging elements of the Older Worker Employment Incentives Act of 1981 as:

* The Primary Insurance Amount (PIA)—perhaps best thought of as the monthly benefit received by a worker retiring at age 65—for a covered worker reaching age 62 in 1979 was equal to the sum of 90% of the first $180 of the Average Indexed Monthly Earnings, plus 32% of the next $905 of the AIME, plus 15% of the AIME in excess of $1085. The bend points refer to the dollar amounts at which the percentages changes, and are updated each year for changes in average wages. By 1981 these bend points were $211 and $1274, respectively. Indexing of the bend points by yearly changes in average wages helps assure that Social Security replaces a relatively constant proportion of prior earnings for successive cohorts of retirees. (The AIME is a measure of average monthly earnings over the worklife of an individual and is wage indexed to make dollars earned throughout a person's worklife roughly equivalent.)

1) The graduated increase in the delayed retirement credit. Workers retiring after 1981 are scheduled to have benefit increases of three percent per year for each year of delayed retirement between the ages of 65 to 70. Under the Pepper proposal the value of the delayed retirement credit would increase by one percent per year for each year of post- poned retirement between ages 65 and 70, averaging five percent a year for workers choosing to retire at age 70.

2) The liberation, but not elimination of the earnings tests. Persons earning less than $4000 above the earnings exemption ceiling would be subject to a smaller marginal tax on their benefits (25 percent up to the first $2000 and 33 percent for the next $2000). After that the current marginal tax of 50 percent would be applied. The earnings limit and bend points would be wage indexed.

3) Elimination of all forms of age discrimination in employment by closing loopholes and exemptions in the Age Discrimination in Employment Act.

4) The provision of tax credits up to $3000 in the first year and $1500 in the second to employers hiring low income workers aged 62 and over.

5) A provision to amend the Employment Retirement Income Security Act (ERISA) to require continued accrual of pension benefits for older workers after the normal age of retirement.

The voluntary approach embedded in the Pepper Bill is distinguished from coercive approaches by both the utilization of measures that increase the availability of employment for older workers, the substitution of positive for negative incentives to encourage later retirement and the reality that it would produce considerably smaller savings for Social Security. The Social Security Amendments of 1983 contain voluntary incentives for later retirement, liberalizing the earnings test (a 33% marginal tax rate beginning in 1990) and increasing the delayed retirement credit gradually, beginning in 1990, from 3 to 8 percent.

PROVIDING WORK INCENTIVES

The extent to which the coercive and voluntary approaches are likely to encourage later retirement are examined in this section. Then, specific impacts on healthy older workers, unhealthy older workers, women and minorities are identified.

GENERAL IMPACT

Both the Reagan Administration proposal and the 1981 Pickle Bill relied primarily on benefit reductions to encourage later retirement and assumed that older workers are or will in the future be willing and able to work longer. In terms of encouraging continued employment until age 65, it would seem that the Reagan proposal offers the strongest motivation. At the time the proposal was advanced, average benefits of $580.70 a month were expected for persons retiring at age 62 in 1985. In contrast, under the Administration proposal, the average benefit anticipated at age 62 was $348.30. After age 65, the Administration proposal would continue to offer incentives to work since, on average, there would be an approximately 23 percent reduction in Social Security benefit levels which would make retirement more costly. Under the Pickle Bill, persons retiring at age 62 after the year 2000 would receive a benefit that would be, on average, about 16 percent less than under current law and persons retiring at age 65 would receive about 18 percent less. By reducing the benefits of persons retiring before age 68 by six percent a year and by eliminating the scheduled increase to three percent a year in the delayed retirement credit, the Pickle Bill would, relative to current law, seem to create a strong financial incentive to work until age 68.

Are benefit reduction approaches to encouraging later retirement likely to work? Certainly, economic theory would suggest that both the Pickle and Reagan approaches would encourage later retirement by altering the work-leisure choices of future older workers. Increasing the reduction for early retirement would mean that the price of leisure relative to work would become more expensive. Also, there is an income effect that would discourage retirement. By increasing the cost of leaving work—that is, by reducing retirement benefits—workers have less "income" available for the purchase of retirement leisure.

Empirical verification can also be found in the retirement decision literature. Robert Clark and David Barker's (1981) review of this literature finds that all retirement decision research supports "the hypothesis that pension eligibility and higher levels of pension wealth lead to earlier retirement" although the incentive offered by social security pensions is probably less than that offered by private and special public employees pensions.

While it is generally agreed that Social Security benefit reductions will create an incentive for continued labor force participation, the strength of this incentive is difficult to estimate. If it is true that most early retirees leave work voluntarily in response to public and private pension incentives, then it can be argued that a reversal of these incentives will also reverse the early retirement trend. In testimony supportive of the Reagan Administration proposal before the Select Committee on Aging, Rita Ricardo-Campbell—a Hoover Institution economist—pointed out that a recent Social Security Administration study by Julian Abbott shows "conclusively that more than 80 percent of men aged 62 to 64 years old are healthy enough to work" (Ricardo-Campbell, 1981). She refers to findings showing that 8 percent of white men and 13 percent of black men aged 60 to 64 in 1971 stated that health prevented them from working in 1969.* These data are used to suggest that it is the presence of the early retirement option, not problems of health or unemployment that explain the decline in labor force participation of older workers. Michael Boskin's findings based on a survey of five-thousand households are also supportive of this position. He finds the income effect of social security benefits to be the single most powerful inducement to retirement of workers ages 62 and over, and the best explanation of the declining labor force participation among men aged 55 and over (Subcommittee on Social Security, 1981).

There is, however, much data that suggests otherwise (Andrisani, 1977; Bixby, 1978; Kingson, 1981,1981a; Parnes & Nestel, 1975; Sheppard, 1977). Virginia Reno's analysis of data from the Survey of Newly Entitled Beneficiaries shows that among men aged 62 to 64 retiring in 1969, only 22 percent listed reasons suggesting their retirement was voluntary. In contrast, fully 54 percent listed health and another 20 percent employment problems as their reason (Reno, 1976). Analysis of the Social Security Administration's Retirement History Survey data shows that health was the main reason given for labor force withdrawal for nearly two-thirds of men aged 58 to 63 who were out of the labor force in 1969 (Schwab, 1976). While there is disagreement over the extent to which health is a cause of early retirement rather than an excuse, most analysis would agree that it is one of the major

* These findings can be interpreted differently. First, in 1969 these men were age 58 to 62 when health prevented them from working. The data do not show how many more men were prevented from working when they reached ages 62-64. Second, other findings from the study show that among men age 60 to 64 in 1971 health was reported as affecting the work of 35 percent of the whites and 42 percent of the blacks (Abbott, 1980).

variables (if not the major one) which influences the early retirement decision.

In reality, the retirement decisions of an individual is usually influenced by many factors--though one factor may be dominant. The early retirement decision is, therefore, probably best understood as influenced by health and income as well as other factors. A Department of Labor Study mandates by the 1978 Age Discrimination in Employment Act and recently released by the House Select Committee on Aging (1981b) suggests that a social security benefit reduction strategy will not greatly increase the labor force participation of older workers. Using a retirement decision model developed for the Department of Labor, projections of the impact of reducing Social Security benefits by ten and twenty percent on labor force participation of persons aged 60 to 70 in 1985, 1990 and 2000 show that the effect of benefit cuts were "surprisingly small in size and inconsistent in direction." The ten percent cut is estimated to result in an expansion of the labor force by only 64,000 in 2000 (Select Committee 1981b). These findings may indicate that benefit reductions without accompanying employment opportunities for older workers create strong incentives for continued work, but only those persons with continued employment opportunities are in a position to respond to these incentives. The rest can simply be expected to leave work accepting smaller Social Security pensions.

The Pepper Bill took a different approach to encouraging work until age 65. By maintaining current benefit levels for early retirement, the Bill provided relatively little new monetary encouragement to continue work until age 65. However, one unique aspect of the Bill is its implied recognition of the difficulties older workers, especially low income workers, experience finding employment. This is accomplished through a tax credit proposal to encourage employers to hire low income workers age 62 and over. This proposal could increase the supply of employment opportunities for older workers. There is, however, the possibility that given the availability of this tax credit, employers will substitute low wage older workers for low wage younger workers. After age 65, the bill provided additional incentives for continued work by a gradual increase in the delayed retirement credit, requiring continued accrual of pension benefits for workers over 65, eliminating age discrimination including mandatory retirement, and liberalizing the earnings test.

The Pepper approach assumes that a considerable number of older workers want to work longer and will if certain employment barriers are removed. A recent Harris Survey provides support for this assumption (Louis Harris and Associates, 1979). The survey shows that 53 percent of currently retired workers reported that they would have preferred full- or part-time employment when they retired and that among workers aged 50 to 64, 51 percent would prefer not to retire and "only 15 percent plan to retire before the normal retirement age." However, it should be pointed out that what people report they would do in surveys, can vary considerably from what they might actually do given an appropriate employment opportunity.

Findings from the Department of Labor Age Discrimination in Employment Study (Select Committee on Aging, 1981b) also suggest that the Pepper approach would lead to an increase in labor force participation among older workers. The study estimates that the elimination of mandatory retirement "would result in 195,000 additional older men being in the labor force in 2000." Analysis that assumed a ten percent increase in future employer pension benefits when the normal age of retirement was below age 65, led to the conclusion that the labor supply of older workers in 2000 would increase by 49,100 under current age discrimination laws and by 67,700 if mandatory retirement is eliminated. While not directly testing the impact of increasing the delayed retirement credit in social security the findings imply that this approach would result in increased labor force participation among older persons--though of very modest proportion. The Pepper proposal which would liberalize, but not eliminate the earnings test, provided less incentive than the Reagan Administration and Pickle approaches which would eliminate the earnings test altogether.

Clearly, the impact of both benefit reduction and voluntary approaches to encouraging the employment of older workers is highly dependent on the economic context in which they would be implemented. If labor shortages materialize, then the market place can be expected to encourage continued employment of older workers by the reversal of private pension early retirement incentives, by the elimination of employment barriers for older workers, by the development of more part-time employment opportunities and by encouraging the development of flexible retirement options. The increase of employment opportunitied combined with the implementation of either approach would offer a powerful incentive for continued employment. Similarly, high levels of inflation could affect the retirement decision in a manner that encourages later retirement. Again, the combination of inflation and either approach should provide significant incentives to retire later.

Either approach could also serve to legitimate later retirement. For example, by establishing 68 as the normal retirement age, the Pickle Bill would most clearly establish a new publicly sanctioned retirement age. But, the Reagan and Pepper bill would also indicate to the public that early retirement is becoming less acceptable and later retirement a national goal. The creation of public policy that established a goal of later retirement would probably modify retirement expectations, and employer pensions seem likely to respond by instititionalizing later retirement ages or encouraging later retirement.

Both approaches to encouraging later retirement are capable of leading to greater labor force participation among older workers. Positive and negative incentives do seem to work, though the magnitude of effect varies with particular plans. The magnitude of the impact of each approach would be largely conditioned by prevailing economic conditions.

An important question that needs to be examined now concerns the extent to which these approaches are likely to provide employment incentives for specific groups of older workers.

IMPACT OF WORK INCENTIVES ON SPECIFIC GROUPS

As has been pointed out, enactment of the Pickle, Reagan or Pepper proposals would have created some incentives for continued employment. The impact of these incentives on particular groups would vary greatly, depending upon the health and employment options available to these groups.

HEALTHY WORKERS: WORK INCENTIVE IMPACTS

Healthy older workers* are probably in the best position to respond--by postponing retirement--to the incentives established through enactment of any of these proposals. The Reagan proposal would encourage healthy workers with employment opportunities to continue working until at least age 65, starting in 1982. The approach assumes that there is an adequate supply of jobs in the economy to meet the employment demands of older workers. However, in a high unemployment economy, older workers--like many younger ones--often lack employment opportunities. So, in the short-run,

* "Healthy older workers" refers to those older workers in good health or with health problems that do not represent an appreciable barrier to continuing or finding employment.

the Administration's proposal might have intensified the unemployment problems of some healthy older workers. The Pickle Bill would--like the Reagan proposal--encourage increased labor force participation in the future. Raising retirement age to 68 would also intensify the unemployment problems of future older workers in a below full employment economy. The development of early retirement and normal retirement opportunities both nationally and within particular industries has been partially motivated by high levels of unemployment. Retirement has frequently been used to reduce unemployment. In the absence of employment opportunities, even healthy workers willing and able to work, may be unable to respond to these incentives. A chief advantage for this group of healthy workers of the voluntary approach as exemplified by the Pepper Bill is that it expands the supply of jobs available to older workers. The elimination of age discrimination and tax credits to employers hiring low income older workers--as was proposed in the Pepper Bill--would, however, probably result in only a very modest increase in employment opportunities.

UNHEALTHY WORKERS: WORK INCENTIVE IMPACTS

Currently, some workers--though not eligible for Social Security or SSI disability--have health problems that constrain their ability to find and/or continue employment. While these health problems are often not so severe as to prevent them from working, these problems--often in combination with other factors such as high unemployment--make them less competitive in the labor market. It is important, therefore, to examine the impact of retirement proposals on this group--unhealthy older workers.

The problem with the benefit reduction approach for this group is that to the extent that these workers are incapable of working due to health reasons, they simply cannot respond to the incentives that would be established. Of course, not all among this group are unable to work; however, on average, they are less attractive to employers and so their employment opportunities are limited.

Since health is the major reason given for early retirement, the Reagan proposals would have exacerbated the problems of a large portion of future early retirees. The proposal in the Reagan package to eliminate all non-medical factors from the Social Security disability determination process would have aggravated the employment problems of unhealthy early retirees. Age, vocational and educational factors are presently taken into account when determining disability eligibility out of recognition of the special employment problems experienced by older workers with partial disabilities.

Raising retirement age to 68 would also have a similar impact on this group. A significant portion of older workers with health problems will remain unable to work until age 65, let alone 68, even if the demand for older workers greatly increases. Enactment of the Pickle Bill, while creating incentives to which some older workers with health problems could respond, would also have resulted in expanding the cost of health induced unemployment for many workers below age 65. In contrast, enactment of the Pepper Bill, while not likely to have a significant impact on the employment opportunities of the unhealthy group, would not have resulted in benefit reductions.

OLDER WOMEN: WORK INCENTIVE IMPACTS

Older women are more dependent on the Social Security system for income than older men. The majority (52 percent) of older women over 65 are widows in contrast to 14 percent of men who are widowers. Older women are less likely to work than older men and, if they do, their earnings are likely to be less than men. For example, median income from earnings in 1976 was $4065 for couples, $2300 for unmarried men and $2040 for unmarried women (Women's Study Program, 1980). Income from Social Security is similarly distributed and in terms of private and special public-employee pensions, where present, their value tends to be considerably less for single women. Moreover, 60 percent of unmarried women compared to 46 percent of unmarried men and considerably fewer couples are entirely dependent on Social Security for their income.

Because of their increased dependence on Social Security income, it seems probable that given good health and the availability of employment, women are more likely than men to increase their work effort in response to the incentives established by both benefit reduction and voluntary approaches. Consequently, in terms of examining the impact of these proposals, the issue that needs to be addressed concerns the extent to which women are in a position to respond to these incentives.

In comparison with older male workers, older female workers are more likely to hold service industry occupations which pay less, to work part-time due to job discouragement (Women's Studies Program, 1980), to have less seniority and job security, to not be covered by an employer pension, to experience more unemployment and to have experienced less consistent paid work histories due primarily to child-rearing and other homemaking responsibilities. The inhermittent labor force involvement of older women presents particular problems to newly single women facing the necessity of employment for the first time in many years or perhaps simply for the first time. Their lack of recent employment experience often combines with high levels of unemployment as well as age and sex discrimination to make labor force re-entry difficult.

In addition to increasing personal income, older women with employment opportunities may benefit from both approaches to encouraging later retirement in another way. As Shirley Campbell (1980) points out, to advance professionally, women are often required to sustain great work effort during the same time that they are under the heaviest child rearing responsibilities. She suggests that efforts to raise retirement age could result in "less pressure to become established while young." Also, it would seem that the gradual legitimization of a later retirement age might make mid-life labor force re-entry easier since employers would anticipate more years of post-training employment. These points are, of course, highly speculative and debatable.

In spite of these positives, benefit reduction approaches to later retirement do present many of the same problems for women as for health and unemployed older workers. Data from the Survey of New Beneficiaries (Reno, 1975) show 67 percent of non-married women and 52 percent of married women stating that either health, compulsory retirement or job discontinuance was the reason they left their last job within three years of becoming entitled to social security benefits in 1969. Among non-married women entitled at age 62, 41 percent report health reasons and 17 percent job discontinuance. Given the limited employment options for many women, it would seem that many women would not be in a position to respond to the incentives that would be created by either the benefit reduction or voluntary approaches, especially for the poorest and those with the most limited labor force histories.

MINORITIES: WORK INCENTIVE IMPACTS

Assuming the past and present are good predictors of the future, disadvantaged minorities--Blacks, Hispanics, Native Americans and Pacific Asians-- are also less likely to be in a position to continue employment in response to incentives to later retirement. Minority workers are more likely than whites to experience disabling health conditions (often occupationally-related) during late middle age. For example, in 1976, while about 10 percent of social security (OASDI) recipients were black, about 15 percent of the disabled worker benefits went to blacks. Similarly, a 1977 survey of Spanish surnamed persons in five western states shows proportionately greater participation in the disability program among Hispanics (Social Security Administration Advisory Council Reports, 1979). Data from the National Longitudinal Survey of Men show that black men who have withdrawn from the labor force before age 65 are more subject to work-limiting health conditions than white men (Sheppard, 1977). In her study of early labor force withdrawl of men aged 58 to 63, Karen Schwab (1975) observes:

> For black men, as for manual workers, health-imposed work limitations explain the disproportionate number out of the labor force.

While accurate data are not available on the health conditions of disadvantaged minorities and sub-groups within these classifications, as Fernando Torres-Gil points out "it is generally accepted that minorities fall far behind in the level of health care needed to sustain their work careers up to normal retirement age" (1980). The combination of health problems and the interaction of these conditions with greater occupational requirement for physical extertion reduces the probability for continued employment of older minority workers.

Life expectancies of minorities are generally shorter. However, the life expectancy gap at age 65 between whites and groups defined as disadvantaged minorities is slowly closing and has closed for some groups. For example, 1978 data show that at age 65 whites can expect to live 16.3 years and "others" 16.1 years (Brottman, 1981). Still, the proportion of minority populations reaching age 65 is considerably smaller than white. Whereas about 11.5 percent of the white population is 65 and over, about 7.8 percent of the black population and 3.8 percent of Hispanics are over 65. Life expectance at birth are also considerably shorter--74 for whites and 69.2 for "others."

Minority workers are also more likely to be low-wage workers, and have careers broken by periods of unemployment. They are likely to approach their later working years with considerably less employment security and pension protection. Assuming a labor market where jobs are scarce, the probability of their extending work in response to changing retirement age incentives is greatly constricted. Because of the shorter life expectancies, fewer minorities reach the age at which these proposals would encourage later retirement. (This situation may change in the future). More importantly, once reaching these ages, the health status of disadvantaged minorities seems likely to limit their ability to continue working.

SUMMARY: WORK INCENTIVE IMPACTS

As has been discussed in this section, for various reasons the choice to continue working past age 62 or 65 is constricted for unhealthy older workers, women and minorities. On the other hand, healthy older workers with employment opportunities are in a position to respond positively to later retirement incentives. The chief differences between the two basic approaches in terms of encouraging work are 1) the benefit reduction approach (Pickle and Reagan) do not distinguish between workers who are capable of working and those that are not, whereas the voluntary approach does; 2) not only does the voluntary approach seek to encourage later retirement, but is also directed at expanding employment opportunities; and 3) the benefit reduction approach does not require substantial federal expenditures to encourage later retirement, whereas the voluntary approach does. Other differences can be seen when examining the impact of these approaches in terms of the goal of adequacy and social equity.

ADEQUACY AND SOCIAL EQUITY*

Benefit reduction approaches to encourage later retirement compromise the goals of adequacy and social equity. As previously mentioned the Pickle approach represents, on average, a 20 percent cut in Social Security benefits (over what is promised under the law when it was proposed) by 2000 when the new retirement age of 68 would be fully phased-in. Similarly, the Reagan proposal would have resulted in reductions beginning with 1982. The impact on persons claiming benefits at or before age 62 would be a one-third

* "Adequacy" refers to a program's effectiveness in meeting the needs of its covered population. "Social equity" refers to the standard that persons in similar circumstances should be treated in a similar manner. Social equity (or horizontal equity as it is also termed) is different from individual (or economic) equity — the principle that persons who pay more into a system (like Social Security) should receive large benefits. It is also different from "verticle equity" the principle that persons with a greater need should receive larger benefits.

reduction in benefits as compared with a 20 percent reduction under current law. For persons retiring after age 64, benefit reductions resulting from changing the benefit formula would, on the average, be 17 percent (Select Committee on Aging, 1981a). The potential cost* of benefit reductions resulting from benefit reduction approaches to encouraging later retirement for unhealthy older workers, women and minorities is quite high. Income data shows that these groups are more likely to have low incomes in retirement and are, on a whole, not in a good position to sustain benefit cuts.

In contrast, the voluntary approach to encouraging later retirement supplements rather than compromises the adequacy goal, though in terms of the goal of adequacy the impact of the Pepper Bill would have been quite modest. For example, by encouraging job development through a tax credit, the Pepper Bill would increase the earnings possibilities for low income older persons. Also, the gradual increase in the delayed retirement credit would increase the adequacy of Social Security for some low and middle income older workers. Its focus on removing discriminatory employment practices complements the goal of adequacy.

In terms of the social equity —the similar treatment of persons in similar circumstances,—the issue revolves around the reality that different groups of older workers face dissimilar work/leisure choices. Benefit reductions to encourage later retirement seems most fairly applied when used as a means of leveraging the continued employment of older workers with employment opportunities. However, where benefit reductions are applied to workers with no or very limited employment opportunities there are clear inequities. The employment opportunities for unhealthy older workers, minorities and women are more likely to be limited than those of other groups. Consequently, not only do the benefit reduction proposals establish inequities between particular individuals, but certain social groups are also likely to be systematically disadvantaged by this approach.

To a lesser extent, it can be argued that the voluntary approach also establishes inequities between individuals and between groups. Rather that using benefit reductions to encourage later retirement, the voluntary approach relies on benefit increases. The same argument made with respect to the use of

* "Cost" as used in this sentence refers to "costs to recipient," rather than to taxpayer.

benefit reductions applies then to the voluntary approach. Certain workers and specific groups are less likely to be in a position to take advantage of these incentives. This, too, represents an inequity although plainly it is not as harsh because no additional loss of benefits results from not responding to the incentive. Further, the aspect of the voluntary approach that seeks to create additional employment opportunities (especially for low income workers in the case of the Pepper Bill) is likely to be especially useful to minority, female and unhealthy older workers.

Closer examination of the Pickle and Reagan proposals identifies the potential impact of the benefit reduction approach on the adequacy of Social Security for women. As the following table shows under the Pickle Bill, the benefits of spouses, divorced and widowed women would eventually be reduced. For example, presently, the full spouse benefit for spouses who retire at age 65 is 50 percent of the PIA of the retired worker--that is, 50 percent of the normal retirement benefit for workers retiring at age 65. Under the Pickle Bill spouses electing to retire at age 65 would receive 41 percent of what the working spouse retiring at age 65 receives under current law.

The Reagan proposal also presents some specific problems for women. The proposal to change the computation points from age 62 to 65 is especially burdensome to women. Currently, the Social Security formula calculates the averaged index monthly earnings (AIME) of a worker by using an averaging period from age 21 to age 62 or from 1951 to age 62 whichever is shorter. After dropping out the lowest five years of earnings the average monthly indexed wage is computed. In general, persons with larger AIMES are entitled to larger benefits. The Reagan proposal would have extended the averaging period by three years--thereby lowering the AIMEs of future beneficiaries whose benefits would be based on the new formula.

This would disproportionately disadvantage women. One problem presently confronting women is that Social Security does not provide credit for years out of the labor force to perform homemaking functions. Consequently, women often have many years of zero earnings. Lengthening the averaging would further depress Social Security benefits for most women with work histories (Grossman, 1981).

The Reagan early retirement program would have reduced the value of Social Security benefits for female workers retiring early, spouses and divorced spouses. Benefits for women retiring at age 62 would be reduced from 80 percent to 55 percent of the PIA. Wives and divorced wives retiring at age 62 as the dependent of worker would have received 27.5 percent of the PIA as opposed to 37.5 percent under current law (Miller, 1981). The proportion of PIA received by widows would be unchanged, although formula changes would, of course, result in benefit reductions affecting widows and all other workers future retirees.

COMPARISON OF THE SPOUSE AND THE WIDOW(ER)S BENEFITS AS A PERCENT OF THE PRIMARY INSURANCE AMOUNT UNDER LAW BEFORE AND AFTER THE 1983 AMENDMENTS, UNDER FULLY PHASED-IN 1981 PICKLE PROPOSAL AND REAGAN PROPOSAL.

	Spouse Benefits at age:			Widow(er)s Benefits at age:			Non-disabled Widow(er)s Benefits at age:		
	68	65	62	68	65	60	60	55	50
Law Prior to 1983 Amendments*	50%	50%	37.5%	100%	100%	71.5%	71.5%	60.8%	50%
Fully Phased-in 1981 Pickle Bill	50%	41%	32%	100%	82%	64%	64%	57%	50%
1981 Reagan Proposal	50%	50%	27.5%	100%	100%	71.5%	71.5%	60.8%	50%
Fully Phased-in Law as Amended in 1983	50%#	41.7%	32.5%	100%#	91.9%	71.5%	71.5%	71.5%	71.5%

* With one exception, prior to 2000, the PIA levels are the same under the Law as amended in 1983. The exception concerns disabled widow(er)s benefits which will be increased to 71.5% of the PIA for ages 50 to 59, beginning in 1984.

\# This percent of the PIA is reached at age 67 when the retirement age provision is fully phased-in.

Another major social equity issue concerns the potential impacts of the benefit reduction approach on disadvantaged minorities. As previously discussed, primarily for reasons of health limitations, more physically demanding work and more limited employment opportunities, the choice to continue working past age 62 or 65 is generally more constricted for older minorities when compared to other older persons. Benefit reduction approaches to encouraging later retirement seem likely to create new social inequities for older minorities. For example, a larger proportion of disadvantaged minorities would be forced to accept greatly reduced early retirement benefits under the Reagan Administration proposal. Also, the Pickle proposal which would have raised retirement age to 68 by 2000 would have had a similar negative impact on minorities.

MEETING THE FINANCIAL COMMITMENTS OF SOCIAL SECURITY

Prior to enactment of the 1983 Amendments, all but the most optimistic projections suggest that the combined Old Age Survivors Disability Insurance program (OASDI) trust funds had a long range deficit. Using the most widely accepted set of intermediate assumptions (Alternatives IIB) about the performance of the economy and demographic changes, the 1981 report of the Social Security Trustees Report projected an average deficit over the next 75 years of 1.82 percent of taxable payroll*—which represented about a 13% shortfall (Board of Trustees, 1981). Projections based on more pessimistic assumptions showed larger deficits. Ultimately, the cast programs were brought into actuarial balance by a combination of new revenue and benefit reductions.

Raising the normal age of retirement under Social Security was given active consideration (and ultimately included in the 1983 Amendments) primarily because of its ability to produce significant long-run savings. For example, the Social Security's Office of the Actuary (1981) estimated the following costs and savings as a percent of taxable payroll from enactment of the Pickle Bill retirement age provisions:

Raising retirement age combined with eliminating the delayed retirement credit.	1.27 percent savings
Elimination of the earnings test.	.05 percent cost

In the long-run, the Pickle retirement age proposals could be expected to produce a savings of 1.22 percent of taxable payroll. There would of course, be no short-run savings from the bill because retirement age would not begin to be raised until 1990 and then only gradually. Also, there would be a slight increase in the cost of the Disabiliy Insurance Program because recipients would be carried until age 68, rather than 65.

The other example of the benefit reduction approach to encouraging later retirement that has been used in this paper—the

* Taxable payroll includes all earnings subject to Social Security payroll taxation.

Reagan Administration approach--would have produced even greater savings. The Office of the Actuary estimated the following long-run costs and savings as a percent of taxable payroll from enactmenh of the Reagan retirement age proposals:

Increased actuarial reduction for early retirement	.71 percent savings
Elimination of dependents benefits for children of retired workers aged 62 to 64	.02 percent savings
Removal of non-medical factors from the social security disability determination process	.06 percent savings
Changing the computation points from 62 to 65	.25 percent savings
Increase the bend points in the social security benefit formula by 50 percent instead of 100 percent of wage increases between 1982 and 1987	1.29 percent savings
Eliminate the earnings test	.14 percent cost

The net long-run savings from the Reagan retirement age proposals would have been 2.19 percent of taxable payroll. Because some of these proposals would go into effect by 1982, the Reagan approach would have produced significant short-run as well as long-run savings. (Ultimately, the retirement age proposal included in the 1983 Amendments saved about 0.7 percent of taxable payroll).

By changing retirement expectations and behavior, the voluntary approach to encouraging later retirement can also be expected to produce long-run savings to the Social Security system. The exact amount of savings is difficult to predict because it is dependent on the degree to which positive incentives will change the retirement decision. If, for example, the Age Discrimination Employment Study projections are correct and the elimination of mandatory retirement would add almost 200,000 older workers to the workforce by 2000, then it is clear that the Pepper proposal to eliminate mandatory retirement would produce some small savings to Social Security since fewer would be collecting their benefits and more would be paying taxes. Similarly, the Pepper proposals to encourage later retirement by providing a tax credit for the employment of low income older workers and requiring continued accrual of benefits for older workers after the normal age of retirement would also result in a very modest savings for Social Security by increasing the older labor force. (In 1983, a similar proposal to eliminate mandatory retirement was estimated as saving .03 percent of taxable payroll.) In terms of the long-run costs as a percent of payroll, the Office of the Actuary projected the following changes from the two Pepper retirement age proposals that would alter the Social Security law:

Graduated increase in the delayed retirement credit	.02 percent cost
Liberalized earnings test	.01 percent cost

There is, however, an additional indirect cost which is not measured in these cost estimates. Liberalizing the earnings test and delayed retirement credit has the distinct disadvantage of reducing the savings to Social Security in the future that results from any future increase in labor force participation among persons 60 and over. In the long-run the Pepper Bill would have a direct cost to Social Security of about .03 percent of taxable payroll. This would have been offset by savings from eliminating mandatory retirement. The tax credit proposal would have increased general revenue expenditures by an estimated 31 million dollars in fiscal 1982 (Select Committee on Aging, 1981c). As discussed, long-run savings to Social Security can be anticipated as a result of workers altering their retirement expectations and behavior; the magnitude of these savings is, however, difficult to predict.

Even under the most optimistic projections of the ability of voluntary incentives to alter the retirement decision, there are two reasons why it is unrealistic to expect voluntary approaches to produce nearly as much savings for Social Security as benefit reduction approaches. First, voluntary incentives are more expensive. Instead of eliminating benefits to encourage later retirement, the emphasis is on selective improvement of benefits to create work incentives. Second, and more importantly, the benefit reduction approach produces clear savings by reducing the financial commitment of the program to future retirees.

CONCLUSION

This paper has assessed the degree to which benefit reduction and voluntary approaches to encouraging later retirement meet four different and often conflicting retirement policy objectives: 1) providing work incentives for older workers, 2) income adequacy, 3) social equity and 4) financing social security. It also identifies the costs and benefits of these aproaches to healthy older workers, unhealthy ones, women and minorities. Both of these approaches are potentially effective means of encouraging later retirement; however, each is associated with a different set of priorities in terms of meeting the goals of adequacy, social equity and containment of the Social Security financing.

Benefit reduction approaches to encouraging later retirement compromise adequacy and social equity goals for the purpose of producing savings in Social Security. The reverse seems largely true of voluntary approaches. In short, while benefit reduction approaches to encouraging later retirement would produce greater savings in the Social Security program, they would do so in part, at the expense of older persons who experience limited opportunity for employment. On the other hand, voluntary approaches would not impact these persons negatively, nor are they likely to produce large savings.

The cost savings goal assumed primacy in the retirement age debate which culminated with the enactment of the 1983 Amendments to the Social Security Act. The poor performance of the economy since 1977 makes it possible to consider social welfare policies in the 1980s that were politically unacceptable only ten years ago. Support for raising the normal age of retirement was justified by projected deficits in Social Security as well as the belief that the general decline in labor force participation of older workers during the past 35 years is a result of the increased availability of early and normal retirement benefits. Given this, certain prescriptions follow. To encourage later retirement age and reduce Social Security costs, simply raise retirement and/or reduce benefits for early retirees.

As this paper has suggested, evidence exists to challenge the belief that the great majority of older workers leave work voluntarily and in good health. Also, analysis of the development of early and normal retirement options within specific industries and in the Country as a whole suggests that historically retirement policy has been used as a means of reducing unemployment by enticing older workers out of the labor force in exchange for a pension. To the extent that older workers do not have control over their retirement (or continued employment) decision, then reliance on benefit reduction means to encourage later retirement will result in faulty policy, because significant portions of the savings produced would come from some of the most vulnerable older persons.

In the absence of a general improvement in the employment opportunities for older workers and in the availability of disability benefits for older workers with health problems, voluntary approaches provide the only equitable means of encouraging later retirement. Such approaches do, however, seem likely to fall quite short in terms of meeting the objective of financing Social Security. Hence, the policy dilemma.

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