

STRENGTHEN SOCIAL SECURITY

...don't cut it.

Why the Bowles-Simpson “Hardship Exemption” Won’t Work

The Bowles-Simpson deficit reduction proposal would raise the normal retirement age for receiving full Social Security benefits from age 67 to age 69 and raise the early retirement age from 62 to 64. (Technically, it indexes the retirement ages to longevity, meaning that the ages would continue to rise eventually beyond ages 69 and 64.) The proposal includes a “hardship exemption” that would allow workers to appeal for an exemption from the increases in retirement ages, so that they could become eligible at age 67 for full benefits and remain eligible for early retiree benefits at age 62.

The Social Security Administration (SSA) would be tasked with designing “a policy over the next ten years that best targets the population for whom an increased [early retirement age] poses a real hardship.” This policy would begin to phase-in in 2022, when the ages would start rising beyond ages 67 for full benefits and 62 for early benefits. Twenty-eight years ago when the normal retirement age was increased to age 67, SSA was similarly mandated by Congress, but Congress never took follow-up action.

There are two fundamental flaws with the Bowles-Simpson proposal to use a “hardship exemption” to offset harm caused by raising retirement ages:

- 1) Because many older workers are likely to be excluded from any hardship exemption, Bowles-Simpson will intensify existing hardships caused by the increase in the retirement age from 65 to 67 and future hardships caused by raising the early retirement age to 64 and the normal retirement age to 69.
- 2) While a “hardship exemption” sounds reasonable, it is not likely to work.

The vast majority of Social Security retirees – 2 million out of 2.7 million in 2009 – accept permanently reduced benefits before reaching the normal retirement age. Nearly half – 1.3 million in 2009 – accept these benefits at age 62, when benefit reductions are largest. Many of these early retirees have little or no alternative to claiming permanently reduced benefits.¹

Below is a more detailed critique:

- **Bowles-Simpson’s increase in the retirement age would cut benefits 13 percent on top of an earlier cut of 13 percent.** The eligibility age for a full Social Security benefit is already increasing from age 65 to 67 for those born in 1960 or later. This amounts to a 13 percent, across-the-board cut in benefits for workers born in 1960 or after, whether they retire at age 62, 70 or any age in between.² The Bowles-Simpson proposal to raise the normal retirement age to 69 would result in another 13 percent cut in benefits.

- **Many middle-class workers may not be eligible for the hardship exemptions.** For example, to estimate the costs of the hardship exemption, Social Security’s Actuary assumed that it would be available only to workers with average lifetime earnings below 400 percent of the federal poverty level (FPL), irrespective of their occupations.³ Workers earning more than \$43,320 a year in 2009 would not qualify,⁴ thereby excluding a huge number of retirees who left work early due to physically demanding jobs, health conditions, job discrimination or lack of employment opportunities.
- **A “hardship exemption” will not help many older workers who have health limitations and/or work in arduous employment.** Many older workers with health problems have little or no alternative to claiming permanently reduced Social Security benefits at early ages. Twenty-seven percent of all workers aged 60 to 61 report a “work-limiting health condition,” with higher percentages reported for minority workers – 36.5 percent of African Americans and 31.5 percent of Latinos.⁵ Moreover, 45 percent of workers aged 58 and older work in jobs that are either physically demanding or have difficult working conditions.⁶ These workers are likely to suffer the most by having to postpone retirement and/or accept cuts in benefits.
- **The “hardship exemption” will not help unemployed older workers who find it difficult to find employment after age 60, let alone age 67 or later.** Unemployment for workers aged 55 and over was at an all-time high in 2010.⁷ Once unemployed, older workers have a much harder time finding new work and often “retire.” Age discrimination is often a cause. The U.S. Equal Employment Opportunity Commission reported that there was a nearly 30 percent increase in age discrimination charges from 2007.⁸ Not surprisingly, half of all workers age 55 or older who lose their jobs end up retiring.⁹
- **A “hardship exemption” will do little to address the discrimination against low-income persons and persons of color.** A disproportionate number of low-income persons and persons of color experience work-limiting health and employment problems. Moreover, unlike the well-off, low-income workers have had little gains in life expectancy in the past thirty years, regardless of their occupations. Raising the retirement age would cut their benefits and significantly shorten retirement for many low- and middle-income workers.¹⁰
- **A “hardship exemption” will do nothing for persons, usually women, who reduce paid work to care for family members.**¹¹ Retirement is generally earlier for those providing physical care to aging parents, spouses or other relatives. Women who give care are more likely to retire than non-caregivers – five times more likely according to one study.¹²
- **Consistent with the inherent difficulties of creating a hardship exemption, SSA’s Chief Actuary, in developing cost estimates, determined that 60 percent of the very lowest earners will see a benefit cut under Bowles-Simpson, because they will not qualify for either the hardship exemption or the improved minimum benefit.**¹³

- **The “hardship exemption” will hurt workers filing disability claims, and retirees seeking the exemption are likely to face huge processing delays.** The Social Security Administration is already overwhelmed by disability claims, with a backlog for determining benefits averaging 514 days.¹⁴ By further depleting SSA’s human and financial resources, the implementation of a hardship exemption will increase disability claims backlogs. Instead of creating a new requirement resulting in more delays, Congress should improve the existing system.
- **Nothing was done to offset the problems created in 1983 for persons who are now being disadvantaged by benefit cuts resulting from increases in the retirement age.** The Social Security Administration issued its findings in 1986 showing that 29.9 percent of new retirees reported that they were either totally unable to work due to their health, or held jobs they could not continue due to some combination of health limitations and/or the strength requirements of their jobs.¹⁵ No legislative action followed. If Congress wants to address hardship caused by raising the retirement age, it should start with existing hardships resulting from raising the normal retirement age to 67.

¹ Social Security Administration (SSA), “Table 6.A4—Number and average monthly benefit for retired and disabled workers, by age and sex, 2009,” in *Annual Statistical Supplement to the Social Security Bulletin, 2010*, February 2011. Available at <http://www.ssa.gov/policy/docs/statcomps/supplement/2010/supplement10.pdf>

² Social Security Administration, “Effect of Early or Delayed Retirement on Retirement Benefits,” 2010. Available at http://www.ssa.gov/OACT/ProgData/ar_drc.html. Each one-year increase represents a cut of 6% to 7%.

³ Memo from Stephen C. Goss, Chief Actuary of the Social Security Administration, to Fiscal Commission Co-Chairs, December 1, 2010, pp. 6, 12. Available at <http://ssa.gov/oact/solvency/index.html>

⁴ Department of Health and Human Services (HHS), “The 2009 HHS Poverty Guidelines.” Available at <http://aspe.hhs.gov/poverty/09poverty.shtml>

⁵ Government Accountability Office (GAO), “Raising the Retirement Ages Would Have Implications for Older Workers and SSA Disability Rolls,” November 2010, pp. 17-18. Available at <http://www.gao.gov/new.items/d11125.pdf>

⁶ Hye Jin Rho, “Hard Work? Patterns in Physically Demanding Labor Among Older Workers,” Center for Economic Policy Research, July 2010. Available at <http://www.cepr.net/documents/publications/older-workers-2010-08.pdf>

⁷ Bureau of Labor Statistics (BLS), “Labor Force Statistics from the Current Population Survey,” December 2010. Available at <http://www.bls.gov/cps/>

⁸ *Washington Post*, “Age Discrimination Claims Jump, Worrying EEOC, Worker Advocates,” July 2009. Available at <http://www.washingtonpost.com/wp-dyn/content/article/2009/07/15/AR2009071503760.html>

⁹ GAO, *Ibid.*, p. 31.

¹⁰ Economic Policy Institute, “Social Security and the Federal Deficit: Not Cause and Effect,” August 2010, pp. 7-8. Available at http://epi.3cdn.net/99133adf653fd78719_qym6b95et.pdf

¹¹ Kingson, E.R. & R.A. O'Grady-LeShane (April, 1993). The effects of caregiving on women's Social Security benefits. *The Gerontologist*. Also see: James Raymo and Megan Sweeny, “Work-Family Conflict and Retirement Security,” *J Gerontology B Psychology Sci Soc Sci* (2006) 61 (3): S161-S169, <http://psychogerontology.oxfordjournals.org/content/61/3/S161.full.pdf>

¹² Dettinger, E., & Clarkberg, M. (2002). Informal caregiving and retirement timing among men and women: Gender and caregiving relationships in late midlife. *Journal of Family Issues*, 23(7), 857–879.

¹³ Letter from Social Security Chief Actuary, February 2, 2011, available at <http://ssa.gov/oact/solvency/index.html>

¹⁴ GAO, *Ibid.*, p. 13.

¹⁵ Social Security Administration (October, 1986), "Increasing the Social Security Retirement Age: Older Workers in Physically Demanding Occupations or Ill Health," *Social Security Bulletin*, 49(10). 5-23
<http://www.socialsecurity.gov/policy/docs/ssb/v49n10/v49n10p5.pdf>