

**REFORMING SOCIAL SECURITY**

**Option: Begin Longevity Indexing**

If, as projected, Americans continue to live longer from one generation to the next, individuals will, on average, receive Social Security benefits for a longer period of time. The trend contributes to Social Security’s funding gap, and one option to offset it is longevity indexing. Indexing would automatically modify Social Security to pay smaller monthly benefits as lifespans increase. Reducing the monthly payments could be accomplished either by increasing the age at which a person becomes eligible for full unreduced retirement benefits (full retirement age) or by changing the benefit formula. Depending on the specific proposal, this is estimated to fill 20-26 percent of the funding gap. Indexing the full retirement age for longevity is estimated to increase it by one month every two years. Each year that the full retirement age increases, there is about a 6 to 8 percent reduction in monthly benefits for any given age at which benefits are claimed.

*Argument for:*

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In the future, Social Security’s benefits should be indexed for increases in lifespan because Americans on average are living to greater ages than they did in the past. Future Americans are expected to live even longer. While living longer is a good thing for individuals, it hurts Social Security’s finances because it means more and more people are spending longer and longer time in retirement collecting Social Security benefits. Longevity indexing can be done by increasing the full retirement age or by modifying the benefit formula, but the fairer way to do this is by indexing the retirement age.

When we discuss Social Security, it is best to only look at how much longer people will live once they reach age 65. That statistic is the best estimate of how long they will collect benefits. Facts from a number of government agencies all show the same thing. People who have reached age 65 live longer now than they did in the past, and more people live to age 65.

One way of dealing with increased lifespan is to simply increase the retirement age for full benefits. And Congress did just that in 1983. Already, the age to receive full benefits has climbed to age 66, and it is scheduled to go to 67 by about 2022. However, that only deals with the longevity increases that have already taken place. For instance, the Centers for Disease Control says that just between 2000 and 2006, life expectancy for people who have reached age 65 increased by an average of 0.9 years. During those six years alone, it went up by a full year for both white and African-American men, 1.1 years for African-American women, and 0.7 years for white women.

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A fair way to handle future increases in longevity is to index the Social Security retirement age. Under this approach, the Social Security Administration would continue to collect data, and when longevity increases above a certain level, the age for full benefits would automatically go up. Most experts believe that longevity indexing would increase Social Security's full benefits age by about one month every two years. Using this method starting in 2025, the retirement age would go up by about one year from 67 to 68 by about 2049.

This increase does not necessarily mean that someone would have to retire later. The alternative is a very slightly reduced benefit. Individual retirees would choose which approach to take. And they would have that information in plenty of time to make a decision.

An added advantage to indexing the retirement age is that if something happened so that Americans started to live for less time once they reached age 65, the retirement age would decrease. It is almost impossible to see this happening in reality, but it has happened in other countries. Regardless of whether longevity goes up or down, indexing the retirement age is a fair way to adjust Social Security.

## Virginia Reno

Indexing Social Security benefits to longevity would mean reducing future benefits, and not just for retired workers, but possibly for everyone—including retired and disabled workers, their young children and spouses, and the children and widowed spouses of deceased workers—when average U.S. life expectancy increases even slightly. Whether done through increasing the full retirement age or by modifying the benefit formula, there are two big problems with this approach: First, overall increases in average life expectancy are unevenly shared across the population; and second, living costs do not fall as longevity rises.

Linking Social Security benefits to population-wide longevity changes would mean ignoring the wide disparities in life expectancy among subsections of the population. Most of the gains in life expectancy over the past 30 years have gone to higher earners. Men in the top half of the earnings distribution have gained an average of 6 more years of life after age 65, while lower-earning men have gained only 1.3 years. Higher-earning women have seen smaller gains, while lower-earning women have seen no gain at all. Future increases in average life expectancy are likely to follow similar patterns, with higher-income and white-collar workers gaining the most while lower-income and African-American and Native American workers generally enjoy minor gains at best. Cutting benefits across the board for all beneficiaries, based on average life-expectancy gains, would be profoundly unjust.

Moreover, using gains in life expectancy as a rationale for cutting benefits defeats the whole point of Social Security, which is to partially replace wages when earnings stop and to generate benefits sufficient to achieve—and maintain—basic economic security. What you need to make ends meet does not decline because the overall population of which you are a part happens to be living longer. Rent, groceries, medical costs, and utility bills do not become 5 percent cheaper if the U.S. population as a whole lives 5 percent longer. Social Security benefits are modest and are already being cut significantly as a result of changes enacted in 1983. Cutting them further for any reason,

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let alone by tying them to average longevity, would undermine this basic insurance protection for American families.

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Perspectives 19, June, 2012

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**NOTE:** The estimated solvency effects in this Perspectives report are based on the intermediate assumptions in the *2011 Social Security Trustees Report*.

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