

Aching to retire? The rise in the full retirement age and its impact on the social security disability rolls [☆]

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Abstract

The Social Security Amendments of 1983 reduced the generosity of Social Security retired worker benefits in the U.S. by increasing the program's full retirement age from 65 to 67 and increasing the penalty for claiming benefits at the early retirement age of 62. These changes were phased in gradually, so that individuals born in or before 1937 were unaffected and those born in 1960 or later were fully affected. No corresponding changes were made to the program's disabled worker benefits, and thus the relative generosity of Social Security Disability Insurance (SSDI) benefits increased. In this paper, we investigate the effect of the Amendments on SSDI enrollment by exploiting variation across birth cohorts in the policy-induced reduction in the present value of retired worker benefits. Our findings indicate that the Amendments significantly increased SSDI enrollment since 1983, with an additional 0.6% of men and 0.9% of women between the ages of 45 and 64 receiving SSDI benefits in 2005 as a result of the changes.

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Our results further indicate that these effects will continue to increase during the next two decades, as those fully exposed to the reduction in retirement benefit generosity reach their fifties and early sixties.

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1. Introduction

During the last two decades, the fraction of adults in the U.S. receiving benefits from the Social Security Disability Insurance (SSDI) program has steadily increased. For example, among individuals between the ages of 45 and 64, the rate of SSDI enrollment rose from 4.5% in 1983 to 6.7% by 2005. A similarly striking increase occurred for younger workers, with the fraction of 25 to 44-year old workers on SSDI rising from 0.7 to 1.6% during this same period. A number of explanations have been advanced for the growth in SSDI enrollment, including a 1984 policy change that liberalized the program's medical eligibility criteria, the aging of the "baby boom" population, and an increase in female labor force attachment that resulted in more women being insured for SSDI (Autor and Duggan, 2006).

In this paper, we investigate whether and to what extent a policy-induced reduction in the generosity of Social Security retired worker benefits also contributed to the increase in SSDI enrollment. The Social Security Amendments of 1983, which were signed into law on April 20th of that year, increased the age at which individuals were eligible for their full retirement benefits from 65 to 67 while simultaneously increasing the penalty for claiming benefits at the early retirement age of 62. Combined with an increase in the payroll tax rate and several other provisions,¹ the main goal of this legislation was to improve the short and long-term fiscal health of Social Security, also known as the Old Age, Survivors, and Disability Insurance (OASDI) program.

As Fig. 1 demonstrates, the increase in the full retirement age and in the early retirement penalty was phased in gradually and occurred in two main stages. Individuals born in 1937 or earlier were unaffected by the change, their counterparts born between 1938 and 1959 were partially affected, and those born in 1960 or later were fully affected. The first half of the policy change was phased in from the 1938 to 1943 birth cohorts while the second was phased in from the 1955 to 1960 birth cohorts. In each year of the phase-in, the full retirement age was increased in two-month increments and the fraction of full benefits that individuals could receive at the early retirement age of 62 fell by 0.833 percentage points. This latter change implied that the penalty for claiming at 62 increased from 20 to 30% of full benefits.

While the generosity of retired worker benefits declined as a result of the Amendments, no corresponding changes were made to SSDI benefits. Theoretically, it is plausible that some individuals who would have otherwise claimed retired worker benefits responded to this change by applying for and perhaps ultimately receiving SSDI benefits. All else equal, one would expect the incentive to do this to be significantly greater for those born in more recent years and for those closer to the age of claiming retired worker benefits. This is because year-of-birth and age are the key determinants of the decline in the value of retired worker benefits induced by the policy.² As

¹ For a full description of the 1983 Social Security Amendments, see <http://www.ssa.gov/history/1983amend.html>.

² It is worth noting that the present value of retired worker benefits for the average individual has been steadily increasing over time, both because of the increase in life expectancy and because of the indexation of social security benefits to average wages. But we only consider the change in the present value that is caused by the policy, essentially assuming that these other changes are relatively smooth over time.

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