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We Need a Raise

By Bruce Bartlett

According to the Wall Street Journal, congressional Republicans are considering an increase in the normal retirement age in order to help finance Social Security reform. In the past, this idea has been very controversial and Democrats are, no doubt, salivating at the opportunity to slam Republicans for even thinking about raising the retirement age. But it's a good idea that shouldn't fall victim to partisan politics.

Increasing life expectancy is something we all take too much for granted. But just within the lifetime of most baby boomers, such as myself, the increase has been dramatic. And projections say that life expectancy is going to continue rising, not just here but worldwide. Obviously, this will have massive effects on society that inevitably will require everyone to rethink their plans for work and

retirement. It will also necessitate changes in our institutions.

It may be hard to believe, but according to historian Robert W. Fogel, the life expectancy at birth was just 32 years in England in 1725. Those of us in the "colonies" were better off, but life expectancy here was just 50 years at that time. Under such circumstances, the idea of retirement was absurd. People worked until they died. They had no other choice.

As recently as 1900, within the lifetime of many people's parents and grandparents, the situation wasn't any better. According to the Census Bureau, life expectancy at birth hadn't improved at all in the previous 200 years. It was still about 50 years in the U.S. -- 48.3 years for men and 51.1 years for women. In many relatively advanced countries it was far worse.

In 1900, life expectancy for men was less than 40 years in Austria, Czechoslovakia, Greece, Hungary, and Spain. It was under 50 years in Belgium, France, Germany, Great Britain, Italy, and Japan. Australia seems to have had the longest life expectancy, but even there a male could expect only 53.2 years at birth while a female could expect 56.8 years.

But just a few decades later, there had been dramatic improvement everywhere. The life expectancy for men in 1950 was over 60 years in every major country except Japan, Hungary, and Spain, and was close to 70 years in the Scandinavian countries. However, in most developing countries, life expectancy was still at medieval levels. Throughout most of Africa and Asia, one was fortunate to reach 40 years.

As of 2000, the life expectancy for men was well above 70 years in every major country except Hungary, and was above 80 years for females in most countries. A woman born in Japan could expect 84.1 years of life. And even in developing countries, there had been substantial progress. Fifty percent increases in the previous half century are not uncommon.

Of course, in terms of retirement systems, the life expectancy at age 65 is what really matters. In 1940, when Social Security paid its first benefits, a man that age could expect another 11.9 years and a woman another 13.4 years. This year, a 65-year old man's life expectancy has risen to 16.2 years and a woman's is 19 years. According to the Organization for Economic Cooperation and Development, by 2040 every man who reaches his 65th birthday can expect to live to see his 83rd birthday in all major countries. A woman reaching 65 years will likely live to celebrate her 86th birthday.

Unfortunately, our retirement systems are still largely based on an era when life expectancy was much lower. The nature of work and compensation has also

changed so as to encourage earlier retirement than the nation can afford. As economist Eugene Steuerle pointed out in recent congressional testimony, in the 1940s the average worker didn't begin drawing Social Security until age 68 -- 3 years above the normal retirement age. At that time, the option of early retirement at age 62 didn't even exist.

Today, a majority of workers begin drawing Social Security benefits at age 62. If they waited as long as their parents, they would have to wait until age 74. Because people are drawing benefits earlier and living longer, Steuerle estimates that total Social Security and Medicare benefits for a typical two-earner couple have risen from \$195,000 in 1960 to \$710,000 today. He estimates that without reforms, this figure will rise to \$1.1 million in 2030 (all in 2005 dollars).

Clearly, attitudes and institutions must change. A new report from HSBC, the big British bank, finds that older people worldwide want to continue working in some way and firmly reject the idea of mandatory retirement. In Britain, Tony Blair has proposed raising the retirement age to 70 for high-income earners. This

suggests that raising the age when people can begin drawing Social Security may not meet the resistance we've seen in the past.

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