# A Tax Reform to Keep Seniors on the Job

**By Andrew G. Biggs**

WSJ 11/4/15

The Congressional Budget Office projects that Social Security will become insolvent in 2029, requiring steep tax increases or benefit cuts. Meanwhile, many Americans are concerned that they might not have enough money for retirement. A simple way to help solve both problems is to delay retirement and work longer.

A person who puts off claiming Social Security from age 62 to 65 increases his benefits by about 24%. A longer work life also means a healthier IRA or 401(k). Researchers at the Urban Institute calculate that an additional five years in the labor force typically raises retirement income by roughly 60%.

But is delaying retirement really possible? Yes, the evidence suggests. From October 2007 to February 2009 the S&P 500 stock index fell by 53%, while the Case-Shiller index of housing prices declined by 18%. Near-retirees reacted to these financial losses by working more.

My analysis of Census Bureau data shows that although there are fewer Americans ages 20-55 working today than in 2005, the last full year before the beginning of the slowdown, there are 3.9 million *more* workers ages 60-64—a 60% increase. The average number of hours a week that these people worked also rose, to 38.2 from 37.6, and they worked more weeks a year, too.

A skeptic might ask: College professors and computer programmers can easily delay retirement, but what about lower-income workers? Among Americans ages 62-65, individuals with only a high-school diploma had greater increases in employment rates from 2005-14 than those with bachelor's, masters or doctoral degrees.

It isn't easy for older workers to find jobs even in good times, and it's tougher for near-retirees with less education. But they did. And their retirements will be more secure as a result.

While the experience of the Great Recession shows what is possible—and already happening—tax changes can encourage even more workers to delay retirement. One idea is to reduce the 12.4% Social Security payroll tax on older workers.

Research by economists Eric French (University College London) and John Bailey Jones (State University of New York, Albany) has found that near-retirees' work decisions are particularly sensitive to tax rates. My own calculations find that increased revenues from income taxes and Medicare payroll taxes would cover most of the lost revenue from cutting the Social Security payroll tax.

This tax reform isn't pie-in-the-sky; three presidential candidates have offered different versions. Former Florida Gov. Jeb Bush proposes repealing the 6.2% employee payroll tax for workers above the normal retirement age of 66. New Jersey Gov. Chris Christie would eliminate the full 12.4% payroll tax at age 62. Florida Sen. Marco Rubio would eliminate the tax beginning at age 65.

Not every American can delay retirement or needs to. But the government can make it more attractive for many to do so, both as a way to reform Social Security and to improve Americans' financial security.

*Mr. Biggs, an American Enterprise Institute resident scholar, was principal deputy commissioner of the Social Security Administration, 2007-08.*