

# *John Laitner*

*talks about tax incentives  
for working longer* \*#

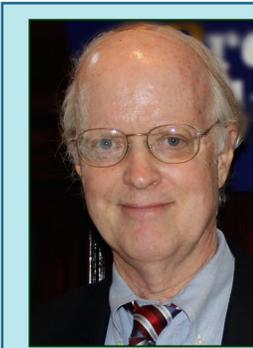
# Q&A

December 2012

## **Consumption, retirement and Social Security: Evaluating the efficiency of reform that encourages longer careers**

*MRRC: What does this study tell us that we did not know before?*

Answer. The fact that people are living longer than before and are tending to take most of the extra time as additional retirement rather than work is well known. What is new here is that we are proposing a way of responding to these long-term changes that we think can benefit individuals and the economy as a whole. We propose having a person's Social Security "vest" at some point – say, age 55. At that point,



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the person's payroll tax obligation would end and his/her benefit formula would be set. Social Security taxes would be slightly higher, say, 1 percent higher, prior to that point so that the reform would be revenue neutral for the system. The idea is that as workers approached the age of retirement, they would, after "vesting," no longer face the Social Security payroll tax (let alone any Social Security earnings test). The after-tax reward for continued work would thus rise 10-11 percent – which we believe would

encourage people to stay at work a year or so longer. People tend to consume the same government services whether they work or not; under our plan, they would continue paying federal income taxes, for instance, longer. Thus, overall government solvency would be improved. With longer career earnings, private preparation for retirement would be less onerous too.

*MRRC: Why do the current tax and Social Security systems tend to promote earlier retirement? What are the work disincentives of the current benefit system?*

Answer: A worker's gains from government spending, including Social Security benefits, tend to be largely independent of his or her choice of retirement age. Nevertheless, the taxes needed to pay for such spending

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\* This Q&A is based on MRRC Working Paper WP 2006-142.

# John Laitner and Dan Silverman. *Consumption, retirement and Social Security: Evaluating the efficiency of reform that encourages longer careers*. *Journal of Public Economics*, Volume 96, Issues 7-8, August 2012, Pages 615-634

diminish the private reward to work. The latter tends to promote earlier retirement than otherwise. So, on balance, a government's role in a modern society tends to lead to earlier retirement.

*MRRC: How does your proposed reform lead to later retirement?*

Answer: Our idea is to lower the taxes on an individual's pay precisely at the time of life when the individual is making his/her decision of whether to work more or retire. Lowering taxes at all ages would be expensive to the government's overall revenue flow. Lowering tax only at a particular stage of life can be much more efficient. We want to lower the tax rate at the moment of the retirement decision so that individuals inclined to work longer will perceive that they can enjoy a larger fraction of their gross pay.

*MRRC: The proposed changes that you model are estimated to keep people working for 1-1/2 years longer, thus bringing in more federal tax revenue. Would it improve Social Security's solvency?*

Answer: The intent of the particular reform described in our paper is not to improve Social Security's solvency – the reform is designed, in fact, to be revenue neutral for the Social Security system. The gains that we envision include (i) increased federal (as well as state and local) tax collections – as people choose longer careers. And, (ii) more efficient time allocation decisions between work and leisure on the part of individuals as the tax-wedge between the production from extra work and the take-home pay that the work generates is diminished.

*MRRC: Would individuals who wait until the full retirement age (FRA) continue to get a larger Social Security check than if they retire at age 62?*

Answer: People could wait to begin their benefits at the FRA, giving them, as now, a higher benefit stream than if they had claimed benefits at 62.

*MRRC: Why do you provide an option to retire after working for 34 years? Who would this benefit?*

Answer: If we base vesting on years of work rather than age, then people with less schooling will not need to work more years to vest.



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