

Statement of Senator Charles E. Grassley
Hearing Before the Senate Committee on Finance
Choosing to Work During Retirement and the
Impact on Social Security
July 15, 2010

Over the next two decades, the aging of the 78 million baby boomers will bring about a dramatic demographic shift.

Our nation will see the ratio of workers to Social Security beneficiaries decline from 3-to-1 to 2-to-1. That means one-third fewer workers relative to each beneficiary.

All other things being equal, this demographic shift implies a payroll tax increase of 34% or a benefit reduction of 25% would be necessary to balance Social Security's annual cash-flow in 2030.

The purpose of today's hearing is to consider ways to encourage the employment of older Americans and thereby improve Social Security's long-term financial outlook.

When Social Security was enacted in 1935, it was agreed that if a person worked, he or she was not retired, and thus not entitled to Social Security retirement benefits.

Over the years, the so-called Retirement Earnings Test has been modified to allow many people to work and collect retirement benefits at the same time. The exact amount depends on each worker's age and income.

These modifications represent a trade-off between two competing objectives – limiting retirement benefits to those who are retired, and allowing those who are retired to supplement their income.

Much of today's testimony focuses on encouraging those who are old enough to collect Social Security to pursue a second career.

But the historical data show a significant decline in labor force participation among men of every age.

As Mr. Goss's testimony shows, between 1950 and 2010, the labor force participation rate among younger men (16-44) fell by 9%; among older men (45-64) the rate fell by 14%; and among those ages 65 and over the rate fell by 44%.

The historical decline among men has been offset by the increase among women. There has also been a slight increase among men in recent years.

But under the Social Security Administration's intermediate assumptions, future increases will not make up for our aging population. There will be a net decline in overall labor force participation.

Higher labor force participation rates would improve Social Security's long-term annual cash-flow.

Additional employment would bring in more payroll taxes. But it would also result in higher benefits.

In the long-run, benefits would increase by 50 to 80 cents for every dollar of additional payroll taxes.

Ultimately, achieving a sustainable Social Security system will require fundamental reform.

But as today's testimony will show, encouraging more employment among Americans of every age will make the task easier than it might otherwise be.