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Early Retirement May Increase Risk of Old-Age Poverty

For low-wage workers, early retirement with reduced monthly checks from Social Security can increase the risk of poverty as the years pass. A study published this month in the journal *Demography* shows that the penalty for those who begin to draw Social Security checks before the “normal retirement age” may make an important difference to the stability of their incomes in the first decade of retirement.

The authors, Robert Haveman, Karen Holden, and Barbara Wolfe of the University of Wisconsin-Madison and Kathryn Wilson of Kent State University, studied financial outcomes for a sample of 6,200 men and women who began receiving benefits from Social Security in 1980-81 and were re-interviewed ten years later. Those who were below age 65 when they first drew Social Security were worse off when they first received benefits than those who had waited until they passed 65. During the decade following retirement, the early retirees were more likely to have incomes below poverty, and the gap between early and late retirees grew.

The difference was dramatic for nonwhite women: 31 percent of nonwhite women who retired at ages 62-64 were living in poverty a decade later, compared with 15 percent of those who had waited until age 65 or older. Poverty rates had increased during the decade for the early retirees, while they had decreased for those who retired at 65 or older. For white women, the initial poverty rates were much lower, but again there was an advantage for those who had waited to draw benefits until age 65 or older. Much of the increase in poverty rates during retirement was associated with widowhood. But even among women with no change in marital status, those who retired early were more likely to experience an increase in poverty during the first decade of retirement. Older white men were less likely than women to live in poverty, but the advantage for those who had retired at or beyond the “Normal” age was even clearer.

Haveman and his colleagues note that the differences in financial status were not entirely due to the decision to retire early. Those who began receiving checks before age 65 were more likely than their older counterparts to be in poor health and recently unemployed. They were also less likely than the older retirees to have income from assets to go along with their Social Security income. These characteristics combined with the lower Social Security benefit to account for the income gap between early and later retirees.

The normal retirement age has been set by the Social Security Administration at 65. Under a 1983 law it is scheduled to rise gradually for successive groups of retirees, reaching age 67 for

those born after 1960. Beneficiaries can start receiving checks as early as age 62, though, in exchange for a reduction in payments. More than two-thirds of new retirees take advantage of this provision. The reduction is just under 21 percent for those who start drawing benefits at age 62 in 2003. It will increase to a 30 percent reduction for the youngest Baby Boomers when they reach retirement ages in the next decade.

The study authors discuss several options for strengthening the safety net that Social Security provides, including eliminating the early-retirement penalties after retirees have reached some age, or eliminating it for the poorest retirees. In the meantime, those counting on Social Security for their retirement income should be aware of the longer term risks associated with starting early.

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“Social Security, Age of Retirement, and Economic Well-Being: Intertemporal and Demographic Patterns among Retired-Work Beneficiaries” *Demography*, vol. 40, May 2003: 369-394, can be found online at www.prb.org/cpipr, click on “articles from the journal Demography”, userid cpipr, password demography. Or call the Center for Public Information on Population Research, 202-939-5414. The Center, a project of the Population Reference Bureau, is funded by the National Institute on Child Health and Human Development.