OECD recommends balanced approach to social security reform in the United States

As a result of rapid population ageing, the United States faces a risk of slower economic growth, serious labour shortages and rising tax rates over the next few decades. By 2030, almost one-fifth of the population is expected to be over the age of 65. As the baby-boom generation moves into retirement, growing expenditures on social security will have to be financed by taxes on a smaller number of workers relative to the number of pensioners, or by cuts in the value of social security benefits. Public expenditures on Medicare are projected to rise even more rapidly. These problems will be magnified unless there is a significant reversal in the trend towards early retirement (Figure 1).

Population ageing is also a major challenge for many other countries. Therefore, the OECD is carrying out a review of policies across OECD countries to improve incentives and opportunities for older workers to remain in the workforce for longer. On April 22, as part of this review, the OECD released a report on *Ageing and Employment Policies: United States*.

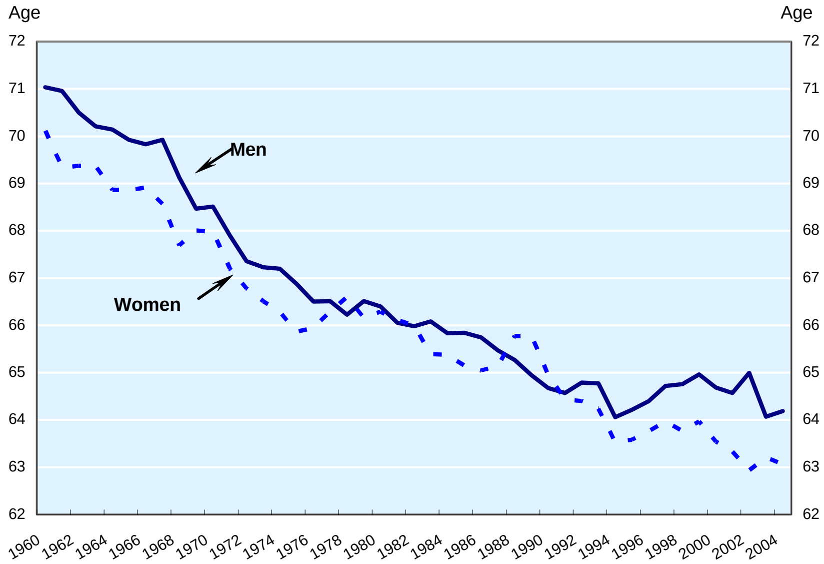
This report goes beyond the narrow focus of the current debate in the United States on individual accounts and calls for a more balanced approach to Social Security reform that encompasses three objectives: i) improving the long-term financial sustainability of Social Security; ii) maintaining or improving income adequacy in retirement; and iii) encouraging older workers to carry on working.

Bearing in mind these objectives and the report's focus on improving work incentives and employment opportunities for older Americans, its recommendations include the following:

- Raise the minimum age for social security and speed up the transition from 65 to 67 for the full retirement age.
- Strengthen measures to combat age discrimination.
- Eliminate the "Medicare-as-secondary-payer" rule to reduce the cost of employing older workers.
- Improve older job seekers' access to employment services and strengthen training opportunities for low-skilled workers.
- Improve working conditions. Older Americans have much longer hours of work than in most other OECD countries (Figure 2) and there are substantial barriers to phased retirement.

For further comment, journalists are invited to contact the head of the OECD's Thematic Review of Ageing and Employment Policies, **Mark Keese** ([33] 1 45 24 87 94).

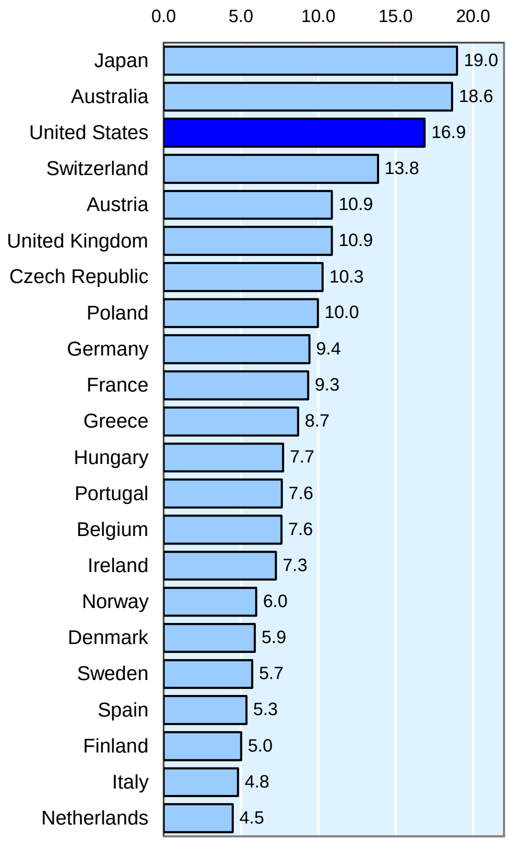
Figure 1. **Average effective retirement age in the United States, 1960-2004[a]**



a) For each five-year period ending in the year shown in the figure, the average age of exit for all persons in the labour force aged 40 and over who were no longer in the labour force 5 years later.
Source: OECD estimates derived from the Current Population Survey.

Figure 2. **Share of older employees who work 50 hours or more per week, 2003[a]**

Percentages



a) For Japan, the data refer to 2000.
Source: OECD estimates.