Retirement Income
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Undersaved? Work a little longer

By Editorial Staff *Thu, May 3, 2018*

A 66-year-old worker who works one year longer and claims Social Security one year later could see a 7.75% rise in his inflation-adjusted retirement income, according to new research.

Working a little longer, and postponing the start of Social Security benefits, can partly make up for under-saving over several decades of work, according to a recent article from the National Bureau of Economic Research, “The Power of Working Longer.”

The study’s authors found that working only three to six months longer boosts retirement income by as much as increasing retirement contributions by one percentage point over 30 years of employment. For a 62-year-old, working until age 70 would increase retirement income by at least 40% percent and more than 100% for some individuals.

“The results are unequivocal,” the paper said. “Primary earners of ages 62 to 69 can substantially increase their retirement standard of living by working longer. The longer work can be sustained, the higher the retirement standard of living.”

The finding applies to single adults and the primary earner of married couples, and across a broad range of earnings levels, wrote authors Gila Bronshtein, Jason Scott, John B. Shoven and Sita N. Slavov.

Older workers who are 10 years away from retirement and who decide to work one month longer at the end of their careers can get the same increase in retirement income as they can by adding one percentage point to their retirement saving rate over 10 years.

The findings are considered to be of special relevance to older workers, who may not be able to save more or have time to benefit from switching to a low-cost portfolio.

Additional years or even just months of work allow workers to contribute more to their retirement accounts. Delaying withdrawals from those accounts allows more time for them to grow. Waiting longer before buying an annuity means the annuity will be cheaper. (The researchers assume that at retirement a worker buys an inflation-indexed joint survivor life annuity, in part because it harmonizes the benefits of private savings and Social Security, which is also an inflation-indexed, joint-survivor annuity.)

The largest factor, however, is the increase in Social Security benefits from claiming later. If an average 66-year-old works one year longer, and claims Social Security at age 67, he or she will see a 7.75% rise in annual retirement income, the researchers calculate. Some 83% of the gain comes from the rise in Social Security benefits.

The lower one's income, the larger the gain in Social Security benefits from additional earnings. A lower wage worker needs to work only 2.1 months longer to equal the benefit of 30 years of saving an extra percentage point of income, while a higher wage earner has to work 4.4 months longer to get the same benefit.