

## ***Beneficiaries Affected by the Annual Earnings Test, 1989***

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The earnings test of the Social Security Act has, since its introduction in 1939, been one of the more controversial provisions of the Act. The controversy has centered on the role that the test plays on the retirement decision and the issue of whether or not Social Security benefits become an "earned right" after an individual reaches retirement age and therefore should be paid regardless of subsequent earnings.

This article presents a history of the earnings test and how it has evolved into the test in effect today. It presents demographic data for the 1,241,000 beneficiaries who in 1989 had at least \$1 in benefits withheld as a result of the test. Of this total, 926,000 were retired-worker beneficiaries. The other persons affected by the test were dependents and survivors who had benefits offset due to their own earnings. Collectively, these persons had over \$5 billion in benefits withheld. In addition to these persons, there is a potentially large group of individuals who never filed for benefits because they knew that their benefits would be withheld.

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During 1989, 1,241,000 Social Security beneficiaries had their benefits reduced or withheld as a result of a provision in the law that limits the amount a beneficiary may earn and still collect benefits. This provision, referred to as the retirement or earnings test, allows an individual to earn a specific amount without having any benefits withheld but reduces benefits by a set proportion of earnings beyond the specific limits (the annual exempt amounts). In 1989, workers under age 65 could have earned up to \$6,480 without having any benefits withheld, but the benefits were reduced \$1 for each \$2 of earnings above that level. Workers aged 65-69 were allowed to earn up to \$8,880 without penalty and benefits were reduced \$1 for each \$2 of earnings above this amount. Workers aged 70 or older were not subject to the earnings test. (In 1993, those persons under age 65 and those aged 65-69 could have earned \$7,680 and \$10,560, respectively, without having any benefits withheld. The corresponding reductions are \$1 for each \$2 in earnings for the under-age-65 group, and \$1 for each \$3 of earnings for the 65-69 age group.)

About 75 percent (926,000) of persons who had their benefits either partially or fully withheld were retired-worker beneficiaries. The remaining 25 percent (315,000) were dependents of retired and disabled workers and survivor beneficiaries who had benefits withheld due to their own earnings. Thirty-six percent of retired workers affected by the earnings test had their entire annual benefits withheld. In 1989, \$5 billion in benefits were withheld because of the earnings test.

If the question of what constitutes retirement were posed to several individuals, chances are that each person would give a different response. Does a person have to stop working entirely to be considered retired? Or does one also have to attain a certain age? What about an individual who stops working a full-time, 40-hour-a-week job and instead elects to work as a volunteer at a local hospital for the same number of hours?

The authors of the Social Security Act of 1935 and those legislators and policymakers involved in formulating later amendments had to decide what

constituted retirement and when benefits should be paid. They also had to contend with economic and budgetary concerns in formulating policy. Today, more than a half century since the introduction of the earnings test, debate continues over the effect the earnings test has on the work effort of the elderly. On the one hand, some have argued that the earnings test is a disincentive for continued work beyond normal retirement age. Others believe that the earnings test plays a minor role in the retirement decision as well as the labor-force participation of the elderly.<sup>1</sup>

This article reviews the development of the earnings test from its introduction in 1939 to the present. It presents detailed data for beneficiaries affected by the earnings test in 1989.

### **Background**

The "normal" retirement age of 65 was established by the original Social Security Act. It was not chosen scientifically, but rather as a compromise between some private pension plans in the mid-1930's that used age 70 and the Townsend Plan that recommended age 60.<sup>2</sup> As a result of the 1983 amendments, the normal retirement age is scheduled to gradually increase to age 67 by the year 2027. This change will first affect workers who attain age 62 in the year 2000. Workers will still have the option of retiring as early as age 62 with actuarially reduced benefits: for those who retire at age 62, benefits will be 70 percent of the benefits that they would have received at age 67. Thus, in 2027, workers will need to retire at age 67 in order to be entitled to unreduced benefits.

Since its introduction in 1939, the earnings test has undergone major revisions. The initial provision required that all benefits for the month be withheld when monthly earnings in covered employment exceeded \$14.99, regardless of the benefit amount. No provision was made for an annual earnings test. Therefore, a worker with wages of \$180 per year spread evenly over the year would have received no Social Security benefit. However, if the \$180 were earned in

1 month, the worker would have received 11 benefit checks. This rather stringent "all-or-nothing" earnings test reflected public policy, which was directed toward reducing unemployment.

In September 1950, the amount of monthly allowable earnings was raised to \$50. In addition, in order to accommodate newly covered self-employed workers, a yearly earnings test was established for them because earnings from self-employment were reported on an annual basis. For self-employed workers, annual earnings of \$600 or less did not affect their benefit. Earnings above this level resulted in the withholding of 1 month of benefits for each \$50 of earnings. The monthly test, however, still applied to wage earners. Furthermore, the 1950 legislation eliminated the earnings test for workers aged 75 or older.

The exempt amounts were raised, effective September 1952, to \$75 for monthly wages and \$900 for annual earnings from self-employment. The 1954 amendments introduced an annual earnings test for wage earners and lowered the age at which the test was no longer applicable to 72. The monthly and annual exempt amounts were raised to \$80 and \$1,200, respectively. Effective September 1958, and still in effect today, the monthly exempt amount was set at one-twelfth the annual amount.

The 1960 amendments introduced the concept of benefit reduction by a proportion of the amount earned as opposed to a dollar-for-dollar reduction. Under the new test, \$1 in benefits was withheld for each \$2 of earnings between \$1,200 and \$1,500. For any amount earned above this limit, benefits were reduced dollar for dollar. William L. Mitchell, Commissioner of Social Security when this legislation was enacted, described the new earnings test as follows:<sup>3</sup>

The new test reduces the deterrent to work that existed under the previous test. A beneficiary who wants to work can feel free to accept a job at any earnings level above \$1,200, knowing that he will always have more in combined earnings and benefits than if

he had limited his earnings to \$1,200 or less. Since earnings in excess of \$1,500 resulted in a dollar-for-dollar reduction in benefits and because, unlike Social Security benefits, earnings were taxable, a strong disincentive to work remained.

In the decade that followed, the earnings test was further liberalized by both increases in the exempt amounts and the level at which the benefit was reduced \$1 for every \$2 of earnings. The 1972 amendments eliminated the \$1-for-\$1 band altogether, thereby extending the \$1-for-\$2 offset to all earnings above the exempt amount. Once again, the disincentive to work was diminished. In addition, the amendments provided for automatic increases in the annual exempt amount pegged to increases in the average wage earned by workers covered by Social Security.

The 1977 amendments introduced several significant changes in the earnings test. The age at which the test was no longer applicable was reduced from 72 to 70 effective in 1982 (postponed until 1983 by 1981 legislation). Also, the annual exempt amount for workers aged 65 or older was raised to \$4,000 effective in 1978, with scheduled increases of \$500 per year through 1982. Thereafter, increases in the exempt amounts were to be automatic and based on rises in the average wage. Workers under age 65 did not receive the aforementioned ad hoc increase but continued to have their exempt amounts pegged to the average wage. Thus, effective in 1978 and continuing thereafter, beneficiaries under age 65 had a lower exempt amount than those 65 or older. Annual exempt amounts for beneficiaries under age 65 and for those aged 65 or older for the period from 1978 through 1993 are shown in table 1. Another major provision of this legislation was the elimination of the monthly earnings test except for the initial year of entitlement. This was done to prevent workers with substantial yearly earnings from receiving benefits for months in which they did not work. Legislation enacted in 1983 further liberalized the earnings test for workers

aged 65-69 by reducing the proportion of benefits withheld for earnings above the annual exempt amount to \$1 for each \$3 effective in 1990.<sup>4</sup>

In 1989, beneficiaries aged 65-69 could earn as much as \$8,880 annually and still receive their full Social Security benefit. For earnings above that amount, benefits were reduced \$1 for every \$2 of

earnings. Table 2 shows the effects of the earnings test on workers with annual Social Security benefits of \$8,400 at various annual earnings levels. For example, earnings of \$18,000 would result in the withholding of \$4,560 of benefits. The annual benefit would be totally offset at earnings of \$25,680 or more.

### The Delayed Retirement Credit

Tangential to the earnings test, but nonetheless an important provision affecting workers who postpone retirement beyond age 65, is the delayed retirement credit (DRC), first enacted in 1972. The DRC increases a retired-worker benefit by a specified percentage for each month a benefit is not received, for any reason, between the normal retirement age—currently 65—and the age at which the earnings test no longer applies. The monthly credit under the 1972 legislation was one-twelfth of 1 percent (1 percent per year) for workers who did not receive benefits because of high earnings or because they did not file for benefits.

Legislation enacted in 1977 raised the DRC, effective in 1979, to one-fourth of 1 percent (3 percent per year) for workers attaining age 65 during the period from 1982 through 1989. This legislation also provided for DRC's to be applied to workers receiving actuarially reduced benefits as well as to widows and widowers whose spouses were eligible for DRC's. The 1983 amendments provided for additional increases in the DRC as an incentive for individuals to continue working. It specified that the DRC be gradually increased starting with seven twenty-fourths of 1 percent (3-1/2 percent per year)

Table 1.—Annual exempt amounts for Social Security beneficiaries under age 65 and aged 65-69,<sup>1</sup> 1978-93

Year	Annual exempt amounts for beneficiaries—	
	Under age 65	Aged 65-69 <sup>1</sup>
1978	\$3,240	\$4,000
1979	3,480	4,500
1980	3,720	5,000
1981	4,080	5,500
1982	4,440	6,000
1983	4,920	6,600
1984	5,160	6,960
1985	5,400	7,320
1986	5,760	7,800
1987	6,000	8,160
1988	6,120	8,400
1989	6,480	8,880
1990	6,840	9,360
1991	7,080	9,720
1992	7,440	10,200
1993	7,680	10,560

<sup>1</sup>Through 1982, the earnings test applied to beneficiaries aged 65-71; starting in 1983, it applies to beneficiaries aged 65-69.

Table 2.—Examples of income received from earnings and Social Security benefits for beneficiaries aged 65-69 with annual benefit amounts of \$8,400, by annual earnings levels, 1989

Annual earnings	Earnings above exempt amount	Chargeable earnings	Benefits		Total income from earnings and benefits	Additional income due to work <sup>1</sup>
			Payable	Withheld		
\$3,000	0	0	\$8,400	0	\$11,400	\$3,000
\$6,000	0	0	8,400	0	14,400	6,000
\$8,880	0	0	8,400	0	17,280	8,880
\$9,000	\$120	\$60	8,340	\$60	17,340	8,940
\$12,000	3,120	1,560	6,840	1,560	18,840	10,440
\$15,000	6,120	3,060	5,340	3,060	20,340	11,940
\$18,000	9,120	4,560	3,840	4,560	21,840	13,440
\$21,000	12,120	6,060	2,340	6,060	23,340	14,940
\$24,000	15,120	7,560	840	7,560	24,840	16,440
\$25,680	16,800	8,400	0	8,400	25,680	17,280
\$27,000	18,120	9,060	0	8,400	27,000	18,600
\$30,000	21,120	10,560	0	8,400	30,000	21,600

<sup>1</sup>Does not take into account taxes paid on earnings and benefits.

for workers attaining age 65 in 1990 and reaching two-thirds of 1 percent (8 percent per year) in the year 2008. The 1983 amendments also provided for a gradual increase in the normal retirement age, and the age at which DRC's are first credited, to age 67 by the year 2027.

### **Study Methodology**

The data included in this study were derived from administrative and statistical files maintained by the Social Security Administration (SSA). The majority of the data are from the Master Beneficiary Record (MBR)—a primary administrative file containing detailed information for all Social Security beneficiaries. This file, which is established when an individual applies for benefits, contains all information necessary to pay the proper benefit in addition to demographic data. Since earnings data on the MBR are limited, it was necessary to use two other files—the Master Earnings File (MEF), an administrative record, and the Continuous Work History Sample (CWHWS), a statistical file, to obtain this information.

The first step in the process of obtaining data for this article was the selection from the MEF of all records for individuals aged 62-69 who had earnings in excess of the exempt amount. The next step was to obtain a file extract from the MBR containing all records for beneficiaries who had at least \$1 in benefits withheld due to earnings in 1989. Data from the two files were matched to generate the tables included in this article.

For purposes of this study, an individual is considered to be affected by the earnings test if he or she had at least \$1 in benefits withheld in 1989. Only retired workers, dependents, and survivors whose benefits were offset based on their own earnings are included in this study. The number of spouses and children whose benefits were offset because of the worker's earnings are not included. However, their benefits withheld and payable are included because the retired worker's earnings affect any entitled family members. Persons receiving benefits on the basis

of a disability are also excluded from these data.<sup>5</sup>

A worker or dependent is eligible for benefits if he or she meets all factors of entitlement but has not filed an application. For purposes of this study, however, only workers who also filed for benefits are included. Thus, a worker who meets all factors of entitlement but continues to work at a level of earnings that would preclude benefit receipt and therefore does not file an application, is considered to be eligible for benefits. If, however, the worker does file for benefits but benefits are suspended because of earnings, he or she is considered to be entitled and benefits are in force. The term "beneficiaries in force" refers to the sum of both beneficiaries who are receiving benefits and those whose benefits are withheld, usually due to the earnings test.

In addition to workers affected by the earnings test as defined in this article, there exists a large number of workers who would be entitled to benefits if the earnings test were eliminated. These are individuals with high earnings who have not filed for benefits because they know that their benefits would be withheld. In order to estimate the size of this group it is necessary to determine the number of persons who meet the age requirement and who are fully insured for benefits. A worker is fully insured if he or she has at least one quarter of coverage for all years beginning with 1951 (or the year in which the worker attained age 21, if later) and ending with the year before the worker attains age 62, dies, or becomes disabled. The number of fully insured workers is estimated by SSA's Office of the Actuary and is discussed in the next section.

### **Retired-Worker Beneficiaries**

In 1989, 926,000 retired-worker beneficiaries had benefits offset due to the earnings test. These persons represented 9.5 percent of the 9.8 million retired-worker beneficiaries aged 62-69 with benefits in force at the end of that year (table 3). Two-thirds were men and more than 80 percent of the total number were aged 65-69.

Among beneficiaries aged 65-69, women represented less than one-third of those affected even though they accounted for 43 percent of retired workers with benefits in force. Fewer women worked than men, and when they did, they tended to have lower earnings. Median earnings for all workers aged 65-69 in employment covered by Social Security in 1989 were \$7,684 for men and \$5,837 for women.

Data shown in this article, which are derived from administrative records, have certain strengths and weaknesses. These data provide earnings distributions and actual amounts of benefits withheld for persons included in the data bases. The types of information derived from an interview survey, such as occupation, family composition, total income, and retirement plans are not included.

Also, the data include only persons who have filed for benefits and whose benefits were either granted or withheld due to excess earnings (have benefits in force). However, in order to complete the analysis of the earnings test, information for persons who have not filed for benefits must be included—about 40 percent of both insured men and women aged 62-64 (shown in table 4). There are a number of reasons for not filing:

- Persons do not file because they are working. Their decision not to file may or may not be based on knowledge of the provisions of the earnings test.
- Persons do not wish to have their retired-worker or survivor benefits permanently reduced.
- Persons are not aware of the availability of benefits at age 62-64.
- Persons are not fully informed about the amount of benefit reduction before age 65.

Among insured workers aged 65-69, 95 percent of the men and 84 percent of the women have retired-worker benefits in force. The percentage for women is lower because those who are entitled to higher benefits as widows (based on their deceased husbands' earnings records) are

not required to file for retired-worker benefits.

### Benefits Withheld in 1989

When a retired worker has earnings in excess of the exempt amount, benefits for entitled spouses and children are also offset. The amounts withheld and the amounts before withholding shown in tables 3, 5, and 7 include benefits for these family members.

In 1989, almost \$4.4 billion in benefits were offset as a result of the earnings of retired workers. Men had \$3.4 billion of their benefits withheld—63 percent of the benefits that would have been payable to them if there had

been no deduction due to earnings. Nearly \$1 billion was withheld from women retired workers—57 percent of their benefits (table 3).

About \$4.1 billion in benefits was offset from beneficiaries aged 65-69.<sup>6</sup> Thirty-four percent of women aged 65-69 and 46 percent of men had their total annual benefits withheld due to the earnings test, compared with 7 percent of women and 10 percent of men aged 62-64.

### Changes Since 1982

In 1982, the latest year of available detailed data about the earnings test, workers aged 70-71 were also covered

by the earnings test. Since then, the number of retired workers affected decreased by 112,000 (table 3). This decrease appears attributable to the lowering of the age (from 72 to 70) at which the earnings test is no longer applicable.

During the period from 1982 through 1989, the number of retired workers aged 65-69 with benefits in force increased by about 700,000 (from 6.5 million to 7.2 million). The number of these persons affected by the earnings test, however, increased by less than 7,000 and represented a smaller percentage of those with benefits in force in 1989.

Table 3.—Number and percentage distribution of retired-worker beneficiaries with benefits in force and those affected by the earnings test, by sex, age, and total annual benefit, selected years, 1970-89<sup>1</sup>

Year, sex, and age group	Beneficiaries with benefits in force at end of year		Beneficiaries affected by the earnings test						
	Number	Percentage distribution	Number	Percentage distribution	As a percent of those with benefits in force	Total annual benefits (in thousands)		Ratio of benefits withheld to benefits before withholding <sup>2</sup>	Percent with all benefits offset <sup>2</sup>
						Withheld <sup>2</sup>	Before withholding <sup>2</sup>		
1970 .....	7,674,438	100.0	1,555,678	100.0	20.3	\$1,998,225	\$2,792,429	0.72	(3)
Men .....	4,455,453	58.1	1,097,672	70.6	24.6	1,523,994	2,102,706	.72	(3)
Women .....	3,218,985	41.9	458,006	29.4	14.2	474,231	689,723	.69	(3)
1975 .....	9,319,297	100.0	1,318,772	100.0	14.2	2,684,559	4,252,463	.63	34
Men .....	5,269,351	56.5	921,667	69.9	17.5	2,080,963	3,210,208	.65	39
Women .....	4,049,946	43.5	397,105	30.1	9.8	603,596	1,042,255	.58	21
1980 .....	10,585,624	100.0	1,062,648	100.0	10.0	3,902,664	5,990,456	.65	36
Men .....	5,876,561	55.5	739,439	69.6	12.6	3,102,838	4,599,097	.67	43
Women .....	4,709,063	44.5	323,209	30.4	6.9	799,826	1,391,359	.57	21
1982 .....	11,080,973	100.0	1,038,585	100.0	9.4	4,306,849	7,312,814	.59	31
Men .....	6,141,410	55.4	698,109	67.2	11.4	3,394,199	5,494,353	.62	37
62-64 .....	1,161,254	10.5	101,878	9.8	8.8	188,330	525,154	.36	10
65-69 .....	3,706,700	33.5	516,181	49.7	13.9	2,698,183	4,169,954	.65	42
70-71 .....	1,273,456	11.5	80,050	7.7	6.3	507,686	799,245	.64	39
Women .....	4,939,563	44.6	340,476	32.8	6.9	912,650	1,818,461	.50	18
62-64 .....	1,099,784	9.9	75,265	7.2	6.8	82,445	235,990	.35	5
65-69 .....	2,829,200	25.5	234,556	22.6	8.3	729,831	1,364,960	.53	22
70-71 .....	1,010,579	9.1	30,655	3.0	3.0	100,374	217,511	.46	19
1989 .....	9,778,596	100.0	926,342	100.0	9.5	4,384,029	7,102,219	.62	36
Men .....	5,453,716	55.8	617,306	66.6	11.3	3,394,607	5,357,353	.63	41
62-64 .....	1,353,909	13.8	98,819	10.7	7.3	228,174	661,813	.34	10
65-69 .....	4,099,807	41.9	518,487	56.0	12.6	3,166,433	4,695,539	.67	46
Women .....	4,324,880	44.2	309,036	33.4	7.1	989,422	1,744,866	.57	28
62-64 .....	1,195,175	12.2	69,963	7.6	5.9	96,061	279,406	.34	7
65-69 .....	3,129,705	32.0	239,073	25.8	7.6	893,362	1,465,460	.61	34

<sup>1</sup>Includes workers aged 62-69 in 1989 and 62-71 in prior years.

<sup>2</sup>Includes benefits withheld from entitled spouses and children.

<sup>3</sup>Data not available.

Women represented a slightly higher proportion of those aged 65-69 affected by the earnings test in 1989 than in 1982. Since 1970, the percentage of women affected has increased slowly—from 29 percent in 1970 to 33 percent in 1989. This trend may continue as more women enter and remain in the labor force.<sup>7</sup>

### Earnings Distribution

Of the 926,000 retired-worker beneficiaries affected by the earnings test, approximately 50 percent had 1989

earnings of less than \$20,000 (table 5). Sixteen percent had earnings below \$10,000, and 14 percent earned in excess of \$48,000—the maximum taxable wage. By comparison, only 6 percent of workers of all ages in covered employment had earnings of \$48,000 or more.

Men had higher earnings than women: 25 percent of the men affected had earnings of \$40,000 or more, compared with 5 percent of the women. In contrast, 67 percent of the women and 41 percent of the men had earnings of less than \$20,000.

For 41 percent of the men and 28 percent of the women, earnings were high enough to offset any benefits payable. Workers with high earnings were more likely to have benefits totally offset. For example, a 65-year-old worker earning \$30,000 would have, after the \$8,880 exemption, excess earnings of \$21,120. Therefore, \$10,560 in benefits would be subject to offset. This worker would need a monthly benefit of \$880 to receive some benefits during the year.

Earnings were considerably lower for retired workers aged 62-64 than for those aged 65-69. Among men, 83 percent of those aged 62-64 had earnings of less than \$20,000 compared with 34 percent of those aged 65-69. For women, comparable percentages were 95 and 58, respectively. Most persons aged 62-64 with substantial earnings probably had not applied for benefits.

A worker with high pre-entitlement earnings is more likely to continue to have high earnings after entitlement. Table 3 illustrates this point, using the primary insurance amount (PIA) as a proxy for pre-entitlement earnings. Social Security benefit amounts are based on the PIA, which is related to earnings during a working lifetime.

Table 4.—Number of fully insured workers aged 62-69 and number and percent with retired-worker benefits in force, by sex, December 1989

[Number in thousands]

Age and sex	Number fully insured <sup>1</sup>	Number with benefits in force	Percent of fully insured with benefits in force
Aged 62-64	5,156	<sup>2</sup> 3,085	<sup>2</sup> 59.8
Men	2,838	1,706	60.1
Women	2,318	1,379	59.5
Aged 65-69	8,045	7,230	89.9
Men	4,325	4,100	94.8
Women	3,720	3,130	84.1

<sup>1</sup> Steven F. McKay, *Short-Range Actuarial Projections of the Old-Age, Survivors, and Disability Insurance Program, 1991* (Actuarial Study No. 104), October 1991, p. 39.

<sup>2</sup> Includes disabled workers aged 62-64.

Table 5.—Number of retired-worker beneficiaries affected by the earnings test, percentage distribution by annual earnings, and average annual benefit, by sex, age, and primary insurance amount, 1989

Sex, age, and primary insurance amount	Number	Percent	Percentage distribution by annual earnings										Average annual benefit		Percent with all benefits offset
			Less than \$10,000	\$10,000-\$14,999	\$15,000-\$19,999	\$20,000-\$24,999	\$25,000-\$29,999	\$30,000-\$34,999	\$35,000-\$39,999	\$40,000-\$47,999	\$48,000 or more	Unknown earnings	Withheld	Before withholding	
Total	926,342	100	16	20	13	10	7	6	4	5	14	5	\$4,733	\$7,667	36
Men	617,306	100	13	17	11	9	7	6	5	6	19	6	5,499	8,679	41
Aged 62-64	98,819	100	47	25	11	5	3	2	1	1	2	2	2,309	6,697	10
Less than \$500.00	13,620	100	61	22	6	3	1	1	1	(1)	1	3	1,314	3,428	14
\$500.00-\$699.90	21,873	100	52	29	10	3	1	1	(1)	(1)	(1)	3	1,906	5,548	8
\$700.00 or more	63,326	100	41	25	13	6	4	3	2	2	3	2	2,662	7,797	11
Aged 65-69	518,487	100	7	16	11	10	8	7	6	7	22	7	6,107	9,056	46
Less than \$500.00	45,136	100	11	27	16	10	7	6	4	4	6	7	2,565	4,128	44
\$500.00-\$699.90	67,116	100	13	30	20	12	6	4	3	3	4	5	3,474	6,894	27
\$700.00 or more	406,235	100	5	12	10	10	9	8	6	8	26	7	6,936	9,961	50
Women	309,036	100	23	27	17	11	7	4	3	2	3	4	3,202	5,646	28
Aged 62-64	69,963	100	65	24	6	2	1	(1)	(1)	(1)	(1)	1	1,373	3,994	7
Less than \$500.00	46,741	100	72	22	3	1	(1)	(1)	(1)	(1)	(1)	1	1,137	3,285	7
\$500.00-\$699.90	17,354	100	53	31	10	3	1	1	(1)	(1)	(1)	1	1,769	4,981	6
\$700.00 or more	5,868	100	44	25	13	6	4	2	2	2	2	1	2,080	6,715	8
Aged 65-69	239,073	100	11	27	20	14	8	5	3	3	4	4	3,737	6,130	34
Less than \$500.00	94,265	100	17	40	21	10	4	2	1	1	1	3	2,211	4,363	28
\$500.00-\$699.90	83,582	100	9	26	26	18	9	4	2	1	2	3	3,651	6,310	29
\$700.00 or more	61,226	100	4	10	10	14	14	12	8	9	12	7	6,202	8,604	49

<sup>1</sup> Less than 0.5 percent.

Among persons aged 65-69 affected by the earnings test, 48 percent of the men and 41 percent of the women with PIA's of \$700 or more had earnings of at least \$30,000. By comparison, 20 percent of men and 5 percent of women with PIA's of less than \$500 had earnings of \$30,000 or more. As a result of these high earnings, about one-half of the beneficiaries in this age group with PIA's of \$700 or more had benefits totally offset.

Also, the higher the worker's pre-entitlement earnings, which are reflected in higher PIA's, the higher the likelihood that work will continue after retirement. Table 6 distributes earnings in 1989 for all retired workers aged 62-69, including those with earnings below the exempt amount.<sup>8</sup> More than 3 million retired workers, 31 percent of those with benefits in force, had some covered earnings. About 2.1 million persons in this group were aged 65-69.<sup>9</sup> Nearly 16 percent of retired workers aged 65-69 with PIA's of less than \$300 had earnings in 1989. In contrast, 39 percent of those with PIA's of \$800 or more had earnings.

The greater likelihood of workers with high prior earnings who continue to work at older ages may reflect, in part, their better health. Older persons with high incomes more frequently describe their health status as excellent or very good than do those with low incomes.<sup>10</sup> Also, those with high earnings probably experience a continued demand for their work and their occupations may require less physical activity.

Prior studies of the earnings test indicate that some workers may restrict their work effort so that earnings are below the exempt amounts.<sup>11</sup> A substantial proportion of retired workers, both in the 62-64 and the 65-69 age groups had earnings below their respective exempt amounts (\$6,480 and \$8,880). Among those aged 62-64, 61 percent of the men and 71 percent of the women had earnings below the exempt amount of \$6,480. Similarly, among those aged 65-69, 62 percent of the men and 71 percent of the women had earnings below the exempt amount of \$8,880.

As expected, the proportion of persons with earnings below the exempt amount was higher at the lower PIA levels. However, a substantial percentage of retired workers with higher PIA's had earnings below the exempt amount. For example, among retired workers aged 65-69 with PIA's of \$800-\$899, 60 percent of the men and 40 percent of the women who worked had earnings below the exempt amount.

### ***Dependent and Survivor Beneficiaries***

Spouses and children of retired and disabled workers and survivors under age 70 are also subject to the earnings test if they have earnings in excess of the exempt amounts. In 1989, nearly 315,000, or about 3 percent, of these beneficiaries had some or all of their benefits withheld due to their own earnings (table 7). The offset amounted to \$684 million—one-half of the \$1.4 billion that would have been payable to them during the year if deductions were not made because of their earnings.

All of the widowed mothers and fathers, almost all the spouses of disabled workers, and about 20 percent of the spouses of retired workers affected were entitled because they were caring for a child under age 16 or a disabled child. Nondisabled widows and widowers and the remaining spouses met the age requirements for entitlement—60 for widow(er)s and 62 for spouses. About 22,000 spouses of retired workers and 55,000 widows and widowers with benefits withheld were aged 65-69.

Survivor beneficiaries represented more than 75 percent of those affected, and benefits offset from survivors accounted for almost 90 percent of the total withholding. About 106,000 widowed mothers and 15,000 widowed fathers had benefits offset. They represented a substantial proportion of these beneficiary groups with benefits in force—30 percent of the mothers and 55 percent of the fathers.

The actual number of widowed mothers and fathers who had earnings in

excess of the exempt amounts may have been higher than shown in the study data. Total benefits payable to a family are limited by the family maximum provision of the law. This provision is usually applicable to families with more than two beneficiaries. In some situations where total benefits payable to a family are affected by the family maximum, the benefit for a working dependent or survivor continues to be paid because the total family benefit would remain the same whether or not the suspension is processed.

### ***Summary***

The transition to the earnings test as it exists today was a gradual one, resulting in a long-term effort designed to produce greater fairness and equity. It evolved from a restrictive test introduced in 1939, which provided for the withholding of all benefits when monthly earnings exceeded \$14.99 regardless of the beneficiary's benefit amount or age, into one that allows some beneficiaries to continue to work without benefit reduction and others to work and receive reduced benefits. The liberalization of the earnings test has been focused on its three distinct components—the exempt amount, the ratio applied to earnings used to offset the Social Security benefit, and the age at which the earnings test is no longer applicable. A major feature of earnings test legislation has been the differentiation between beneficiaries who have attained normal retirement age—currently 65—and those under that age.

The exempt amounts were increased first on an ad hoc basis and then pegged to increases in the average wage by the 1977 amendments. The 1977 legislation also introduced a higher exempt amount for beneficiaries aged 65 or older as compared with those under 65.

The proportion of earnings above the exempt amount charged to benefits has also been liberalized since the original legislation. Initially, no provision was made for benefit payments to individuals earning more than the exempt amount. In other words, earnings above the exempt amount resulted in the complete

withholding of benefits. The 1960 amendments introduced the concept of withholding benefits at the rate of \$1 for \$2 of earnings above the exempt amount, which is still in effect but only for beneficiaries under age 65. Since 1990, employed beneficiaries aged 65-69 have had their benefits reduced at the rate of

\$1 for \$3 of earnings that exceed the exempt amount.

Persons who forego retirement benefits beyond age 65 up to age 70 receive delayed retirement credits (DRC's). The DRC provision, enacted in 1972, was an equity provision designed to compensate persons who were eligible but did not

receive benefits. The 1983 amendments provided a work incentive by increasing the credit on a gradual basis, until 2008 when it reaches 8 percent per year.

In 1989, 9.5 percent of retired-worker beneficiaries aged 62-69 had benefits either partially or fully withheld by the earnings test. Of these, 926,000 bene-

Table 6.—Number of retired-worker beneficiaries under age 70 with benefits in force and percentage distribution by annual earnings, and by sex, age, and primary insurance amount, 1989

[Based on a 1-percent sample]

Sex, age, and primary insurance amount	Number of retired workers (in thousands)			Percentage distribution by annual earnings										Percent of retired workers without earnings
	With benefits in force	Without earnings	With earnings	Total	Less than \$2,500	\$2,500-\$6,479	\$6,480-\$8,879	\$8,880-\$9,999	\$10,000-\$19,999	\$20,000-\$29,999	\$30,000-\$39,999	\$40,000-\$47,999	\$48,000 or more	
Total .....	9,860	6,822	3,037	100	25	29	15	4	12	6	3	2	4	69
Men .....	5,532	3,668	1,864	100	24	27	15	3	12	7	4	2	6	66
Aged 62-64 .....	1,374	811	563	100	26	35	11	3	14	6	2	1	2	59
Less than \$200.00 .....	44	35	9	100	37	44	4	1	7	3	1	(1)	2	79
\$200.00-\$299.90 .....	38	29	9	100	39	37	13	1	8	1	(1)	(1)	(1)	77
\$300.00-\$399.90 .....	86	62	24	100	37	44	10	4	6	(1)	(1)	(1)	(1)	72
\$400.00-\$499.90 .....	98	66	32	100	26	45	14	4	11	(1)	1	(1)	(1)	67
\$500.00-\$599.90 .....	111	68	43	100	30	41	14	4	10	1	(1)	(1)	(1)	62
\$600.00-\$699.90 .....	139	77	62	100	25	41	11	4	16	2	(1)	(1)	(1)	55
\$700.00-\$799.90 .....	197	109	88	100	24	37	15	4	16	3	1	(1)	(1)	55
\$800.00-\$899.90 .....	357	204	153	100	28	35	11	3	14	6	2	(1)	(1)	57
\$900.00 or more .....	304	161	143	100	23	25	9	2	14	11	7	2	6	53
Aged 65-69 .....	4,158	2,857	1,301	100	22	24	16	4	11	7	5	3	8	69
Less than \$200.00 .....	118	98	20	100	45	35	7	3	7	1	(1)	1	1	83
\$200.00-\$299.90 .....	112	92	20	100	39	29	15	5	8	2	3	1	1	82
\$300.00-\$399.90 .....	263	207	56	100	32	33	16	4	9	4	1	(1)	(1)	79
\$400.00-\$499.90 .....	299	229	70	100	30	30	17	3	14	3	2	(1)	1	77
\$500.00-\$599.90 .....	364	265	99	100	26	32	20	4	12	4	1	1	1	73
\$600.00-\$699.90 .....	505	359	146	100	26	29	20	4	15	4	1	(1)	1	71
\$700.00-\$799.90 .....	851	599	253	100	25	29	19	4	13	7	2	(1)	1	70
\$800.00-\$899.90 .....	1,384	932	452	100	21	22	17	4	10	10	8	2	5	67
\$900.00 or more .....	263	78	185	100	8	7	6	2	8	7	9	10	43	30
Women .....	4,328	3,155	1,173	100	28	32	15	4	13	5	2	1	1	73
Aged 62-64 .....	1,185	783	403	100	30	41	13	3	10	2	1	(1)	(1)	66
Less than \$200.00 .....	219	169	50	100	42	45	9	1	3	1	(1)	(1)	(1)	77
\$200.00-\$299.90 .....	159	111	48	100	34	47	12	2	4	(1)	(1)	(1)	(1)	70
\$300.00-\$399.90 .....	273	178	95	100	29	45	16	4	6	(1)	(1)	(1)	(1)	65
\$400.00-\$499.90 .....	202	121	81	100	29	39	15	4	11	(1)	(1)	(1)	(1)	60
\$500.00-\$599.90 .....	129	76	53	100	25	37	14	4	16	2	1	(1)	(1)	59
\$600.00-\$699.90 .....	90	55	35	100	22	34	12	5	19	5	1	(1)	(1)	61
\$700.00-\$799.90 .....	63	40	23	100	28	35	10	2	13	8	2	1	(1)	64
\$800.00-\$899.90 .....	41	27	14	100	30	26	9	4	18	7	5	1	(1)	66
\$900.00 or more .....	10	6	4	100	23	23	7	(1)	18	7	16	2	5	56
Aged 65-69 .....	3,143	2,372	771	100	27	28	16	4	14	6	2	1	1	75
Less than \$200.00 .....	505	437	68	100	44	43	9	2	2	1	(1)	(1)	(1)	87
\$200.00-\$299.90 .....	394	325	69	100	37	38	16	3	5	1	(1)	(1)	(1)	83
\$300.00-\$399.90 .....	695	530	165	100	29	32	19	5	13	1	(1)	(1)	(1)	76
\$400.00-\$499.90 .....	553	395	158	100	25	28	20	6	17	4	1	(1)	(1)	72
\$500.00-\$599.90 .....	406	282	125	100	23	22	16	5	22	9	2	(1)	(1)	69
\$600.00-\$699.90 .....	288	205	83	100	22	21	17	3	19	13	3	1	1	71
\$700.00-\$799.90 .....	189	134	55	100	22	21	12	4	13	17	6	3	2	71
\$800.00-\$899.90 .....	104	62	42	100	18	13	9	3	10	16	17	8	5	60
\$900.00 or more .....	9	2	7	100	1	1	6	3	9	7	7	16	49	22

<sup>1</sup>Less than 0.5 percent.



Table 7.—Number and percentage distribution of dependent and survivor beneficiaries under age 70 with benefits in force and affected by the earnings test, by type of beneficiary and benefits withheld, 1989

Type of beneficiary	Beneficiaries with benefits in force at end of year		Beneficiaries affected by the earnings test				Total annual benefits (in thousands)		Ratio of benefits withheld to amount before withholding
	Number	Percentage distribution	Number	Percentage distribution	As a percent of those with benefits in force	Withheld			
Total <sup>1</sup> .....	11,852,973	100.0	314,938	100.0	2.7	\$684,229	\$1,365,233	0.50	
Spouses and children of retired workers .....	3,526,521	29.8	48,201	15.3	1.4	45,890	73,956	.62	
Wives .....	3,147,228	26.6	45,056	14.3	1.4	43,308	68,228	.63	
Husbands .....	99,937	.8	692	.2	.7	807	947	.85	
Children <sup>2</sup> .....	279,356	2.4	2,453	.8	.9	1,775	4,781	.37	
Spouses and children of disabled workers .....	1,324,343	11.2	26,836	8.5	2.0	23,650	49,751	.48	
Wives .....	288,708	2.4	20,769	6.6	7.2	19,193	39,199	.49	
Husbands .....	9,587	.1	726	.2	7.6	559	1,037	.54	
Children <sup>2</sup> .....	1,026,048	8.7	5,341	1.7	.5	3,898	9,514	.41	
Survivors .....	7,002,109	59.1	239,901	76.2	3.4	614,689	1,241,526	.50	
Nondisabled widows .....	5,107,781	43.1	110,854	35.2	2.2	296,745	681,153	.44	
Nondisabled widowers .....	59,070	.5	2,576	.8	4.4	4,992	8,897	.56	
Widowed mothers .....	347,452	2.9	105,521	33.5	30.4	268,488	479,920	.56	
Widowed fathers .....	26,360	.2	14,695	4.7	55.7	39,217	50,276	.78	
Children <sup>2</sup> .....	1,461,446	12.3	6,255	2.0	.4	5,248	21,280	.25	

<sup>1</sup> Excludes parents and disabled widows and widowers.

<sup>2</sup> Excludes disabled children.

ficiaries, 36 percent, had their entire benefits withheld. In addition, 315,000 dependents of retired and disabled workers and survivor beneficiaries had some benefits withheld due to their own earnings. The earnings test as applied in 1989 resulted in the withholding of \$5 billion in benefits. Benefits to persons who did not apply for Social Security are not included in this amount.

### Notes

<sup>1</sup>For a discussion of these issues, see Michael V. Leonesio, "Effects of the Social Security Earnings Test on the Labor Market Activity of Older Americans: A Review of the Evidence," *Social Security Bulletin*, Vol. 53, No. 5, May 1990, pp. 2-21, and Michael D. Packard, "The Earnings Test and the Short-Run Work Response to its Elimination," *Social Security Bulletin*, Vol. 53, No. 9, September 1990, pp. 2-16.

<sup>2</sup>Robert J. Myers, *Social Security*, Homewood, IL: Richard D. Irwin, Inc., 1985, p. 468.

<sup>3</sup>William L. Mitchell, "Social Security Legislation in the Eighty-sixth Congress,"

*Social Security Bulletin*, Vol. 23, No. 11, November 1960, pp. 19-20.

<sup>4</sup>For a more complete review of the legislative history of the earnings test and its implications, see Robert J. Myers, *op. cit.*, pp. 246-254.

<sup>5</sup>These beneficiaries included disabled workers, disabled adult children, and disabled widows and widowers; their earnings are not subject to the earnings test. Earnings of disabled beneficiaries are evaluated to determine if their benefits should continue. In 1993, for nonblind disabled beneficiaries, earnings averaging \$500 per month, over a period of time, usually demonstrate the ability to engage in substantial gainful activity (SGA). If the disabled beneficiary is able to engage in SGA, he or she may no longer be disabled and therefore ineligible for disability benefits.

<sup>6</sup>This amount does not include benefits that would have been withheld from workers who did not file because their benefits would have been totally offset.

<sup>7</sup>For a description of the earnings test in 1982 and a discussion of changes from 1970 through 1982, see Barbara A. Lingg,

"Beneficiaries Affected by the Annual Earnings Test in 1982," *Social Security Bulletin*, Vol. 49, No. 5, May 1986, pp. 25-32.

<sup>8</sup>These data are from the Continuous Work History Sample, a 1-percent sample of all workers in covered employment. Data in table 6 may not be entirely comparable with those shown in tables 2, 3, and 5, which are derived from the Master Beneficiary Record.

<sup>9</sup>Certain workers with high earnings may receive partial Social Security benefits because in the first year of benefit entitlement they may use the monthly earnings test rather than the annual earnings test. Therefore, the number of retired-worker beneficiaries with high earnings may be somewhat overstated.

<sup>10</sup>Data from the 1989 Health Interview Survey reported in *Aging America: Trends and Projections*, 1991, pp. 108-109.

<sup>11</sup>Michael V. Leonesio, "Social Security and Older Workers," *ORS Working Paper No. 53*, Office of Research and Statistics, Social Security Administration, December 1991, p. 15.