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# Social Security Retirement Earnings Test: How Earnings Affect Benefits

Updated August 16, 2019

**Congressional Research Service**
https://crsreports.congress.gov
R41242

**CRS REPORT**
Prepared for Members and
Committees of Congress

# Summary

Under the Social Security Retirement Earnings Test (RET), the monthly benefits of most Social Security beneficiaries who are below full retirement age (FRA)—between 65 and 67, depending on year of birth—are reduced if they have earnings that exceed an annual threshold. In 2019, a beneficiary who is below FRA and will not attain FRA during the year is subject to a $1 reduction in benefits for every $2 of earnings above $17,640. A beneficiary who will attain FRA in 2019 is subject to a $1 reduction in benefits for every $3 of earnings above $46,920. The annual thresholds ($17,640 and $46,920 in 2019) are typically adjusted each year according to national average wage growth.

If a beneficiary is affected by the RET, his or her monthly benefit may be reduced, in part or in full, depending on the total applicable reduction. For example, if the total applicable reduction is greater than the beneficiary's monthly benefit amount, no monthly benefit is payable for one or more months. If family members also receive auxiliary benefits based on the beneficiary's work record, the reduction is prorated and applied to all benefits payable on that work record (including benefits paid to spouses who are *above* FRA). The RET does not apply to Social Security disability beneficiaries, who are subject to separate limitations on earnings.

If a beneficiary is affected by the RET, his or her monthly benefit is *recomputed*, and the dollar amount of the monthly benefit is *increased*, when he or she attains FRA. This RET feature, which allows beneficiaries to recoup benefits "lost" as a result of the RET, is not widely known or understood. This benefit recomputation at FRA adjusts (lessens) the actuarial reduction for early retirement before FRA that was applied in the initial benefit computation by taking into account months for which benefits were reduced in part or in full under the RET.

The RET has been part of the Social Security program, in some form, throughout the program's history. The original rationale for the RET was that, as a social insurance system, Social Security protects workers from certain risks, including the loss of earnings due to retirement. Therefore, benefits should not be paid to workers who demonstrate, through their level of earnings, that they have not "retired." However, that rationale has changed, in part, over time. Specifically, in 2000, the RET was eliminated for those above FRA (it previously affected those above FRA until age 70). Because the RET does not apply to those who claim benefits after they have attained FRA, Social Security benefits become annuitized after FRA.

Studies have shown that the RET has significant impacts on individuals' earnings levels via their hours worked. Specifically evidence shows bunching of individual earnings around the RET threshold levels. However, there is little evidence that the RET has an impact on the overall labor force participation rate. When considering a repeal of the RET, research indicates a repeal would have different impacts across the wage spectrum. Specifically, it would likely incentivize the highest earners—whose entire benefits were withheld due to the RET—to decrease work, receive full benefits, and experience an increased income level overall. Research also suggests that a repeal of the RET would lead to earlier benefit claiming and increased poverty rates, especially among women and those aged 80-89.

The Social Security Administration's (SSA's) Office of the Chief Actuary (OCACT) estimates that, over the long-range projection period (2019-2093), the elimination of the RET would have a relatively small positive effect on the solvency of the Social Security Trust Funds. This is primarily due to the fact that the increases in permanent early retirement reductions for entitlement at age 62 are projected to outweigh the increases in benefit entitlements.

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# Introduction

Social Security retirement benefits received before a person attains full retirement age (FRA)—between 65 and 67, depending on year of birth[1]—are generally subject to an actuarial reduction for early retirement and may be reduced by the Retirement Earnings Test (RET) if the beneficiary has earnings that exceed an annual threshold. Under the RET, a beneficiary who is below FRA and will not attain FRA during the calendar year is subject to a $1 reduction in benefits for every $2 of earnings above an annual exempt amount (also known as a threshold), which is $17,640 in 2019. During the calendar year in which a beneficiary attains FRA, he or she is subject to a $1 reduction in benefits for every $3 of earnings above a higher threshold, which is $46,920 in 2019. Both thresholds are typically increased annually with increases in the national average wage.

This report explains how the RET is applied under current law and provides a detailed example on how the RET affects two hypothetical worker beneficiaries, one younger than FRA throughout the calendar year and one attaining FRA in that calendar year. This report also examines RET features that are not widely known or understood, such as the benefit recomputation when a beneficiary attains FRA to adjust (increase) benefits to take into account months for which no benefit, or a partial benefit, was paid as a result of the RET. Finally, this report discusses RET-related policy issues and the RET's potential elimination, including recent research regarding the RET's impact on work effort, the decision to claim Social Security benefits, and poverty rates across certain demographic groups. In brief, key points discussed in this report include the following:

- The RET began as an all-or-nothing retirement test that resulted in complete benefit withholdings for any earnings after claiming retirement benefits. Over time, however, the RET has moved away from this original all-or-nothing nature.
- Under current law, benefits before the FRA may be reduced or withheld for one or more months as a result of the RET.
- The RET is expected to impact (with full or partial withholding) roughly 520,000 Social Security beneficiaries in 2019.
- Benefits "lost" as a result of the RET may be recouped by the beneficiary. When a beneficiary attains FRA and is no longer subject to the RET, his or her benefits are adjusted upward to take into account months for which no benefit, or a partial benefit, was paid as a result of the RET.
- Research surrounding the RET provides insight into the current labor and poverty effects of the policy and potential future changes in those effects if current legislative proposals were enacted.
- The Social Security Administration's (SSA's) Office of the Chief Actuary (OCACT) estimates that, over the long-range projection period (2019-2093), eliminating the RET would have a small positive effect on the Social Security Trust Funds' solvency.

[1] The full retirement age (FRA) is the age at which beneficiaries are entitled to full benefits without a reduction based on age. The FRA depends on year of birth. For those born between 1938 and 1959, the FRA gradually increases from 65 to 67. For example, a worker born in 1954 has an FRA of 66, whereas a worker born in 1957 has an FRA of 66 and 6 months. For those born in 1960 or later, the FRA is 67. See Table 1 for a complete FRA listing. The early eligibility age (EEA) is the earliest age at which an individual can claim Social Security benefits. For the purposes of this report and for most beneficiaries—including workers and spouses—the EEA is 62. It is younger for widow(er)s. For a more thorough analysis of the FRA and the EEA, please see CRS Report R44670, *The Social Security Retirement Age*.

# Social Security and Social Insurance Principles

## Background on Social Security

Social Security benefits are designed to partially replace earnings lost to an individual or family because of the retirement, disability, or death of a worker.[2] Benefits can be paid by either the Old Age, Survivors, and Insurance (OASI) program or the Disability Insurance (DI) program. Although each program has separate financial operations, the two programs are often referred to on a combined basis as OASDI. In December 2018, more than 62 million beneficiaries were in the OASDI program, including retired workers and their dependents (more than 46 million people), survivors (more than 5 million people), and disabled workers and their dependents (more than 10 million people).[3] Benefit amounts depend on a worker's earnings history and are funded primarily by payroll and self-employment taxes levied on the earnings of covered workers. For the remainder of this report, the term *beneficiary* refers to a retired-worker beneficiary unless otherwise noted.

## Social Security in the Social Insurance Context

In private insurance, consumers purchase insurance policies by paying premiums in exchange for indemnification (i.e., payment of benefits) if a loss occurs due to a covered reason (known as a *peril*, which is defined as the direct cause of a loss). If no loss occurs, the insurance company does not pay the policyholder. For example, homeowners' insurance policies will not pay an insured homeowner without some type of loss to the home through fire.

In social insurance, the general insurance principle still applies: payment of benefits only occurs with the presence of a loss due to the insured peril. However, social insurance differs from private insurance in two main ways: (1) it is generally purchased by more of a nation's citizens than other types of insurance (for reasons such as compulsion to purchase, substantial subsidization, or private market failure) and (2) it generally covers more static, inherent risks that have a universal impact and a social adequacy focus.[4] Social Security benefits for survivor beneficiaries are one example; with survivors benefits, the test for ensuring a loss has occurred is more finite—is the worker beneficiary alive or not? With Social Security retirement benefits, it can be less finite. With these benefits, beneficiaries effectively pay premiums (through payroll taxes) to be indemnified by benefits paid upon experiencing a loss of income due to the specific peril, namely, retirement.

Payment of Social Security benefits to a beneficiary after retirement is analogous to payment of funds from an insurance company due to a policyholder loss. In both cases, insurance principles dictate that full benefits cannot be paid unless there is evidence of a loss present. For Social Security retirement benefits, the RET ensures that a beneficiary below FRA is eligible for full benefits only if he or she has been the subject of a significant loss (as quantified by earnings

[2] For more detailed information regarding the basics of the Social Security system, please see CRS Report R42035, *Social Security Primer*.

[3] Social Security Administration (SSA), *Social Security Beneficiary Statistics*, "Number of Beneficiaries Receiving Benefits on December 31, 1970-2018," at https://www.ssa.gov/oact/STATS/OASDIbenies.html.

[4] Theodore R. Marmor and Jerry L. Mashaw, "Understanding Social Insurance: Fairness, Affordability, and the 'Modernization' of Social Security and Medicare," *Health Affairs*, vol. 25 (March 2006), pp. 114-134.

dropping below the earnings thresholds). The RET, therefore, was created—and still exists—in an effort to abide by longstanding insurance principles that require a loss to pay benefits.

# The Retirement Earnings Test's Basics[5]

## Social Security Worker and Auxiliary Benefits

Social Security benefits are based on the average of a worker's highest 35 years of earnings. A worker's primary insurance amount (PIA) is computed by applying the Social Security benefit formula to the worker's career-average, wage-indexed earnings. The benefit formula replaces a higher percentage of the pre-retirement earnings of workers with low career-average earnings than for workers with high career-average earnings.[6]

A worker's initial monthly benefit is equal to the worker's PIA if he or she begins receiving benefits at FRA. A worker's initial monthly benefit will be *less* than his or her original PIA if the worker begins receiving benefits *before* FRA, and it will be *greater* than his or her original PIA if the worker begins receiving benefits *after* FRA.[7]

Social Security also provides auxiliary benefits to eligible family members of a retired, disabled, or deceased worker. For more information on auxiliary benefits, see **Appendix A**.

## Who is Subject to the RET?

Although legislative changes have altered various features of the RET, three key factors still remain to establish the RET's applicability to a worker beneficiary (and, therefore, his or her auxiliary beneficiaries): (1) type of beneficiary, (2) being below FRA, and (3) having earnings above certain thresholds in a year with entitlement to Social Security benefits.[8]

### Type of Beneficiary

The RET applies only to beneficiaries whose entitlement is not based on a disability. In other words, the RET does not apply to Social Security disabled beneficiaries, including disabled workers, disabled widow(er)s, and disabled adult children.[9]

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[5] §203(b)-(f) of the Social Security Act; 42 U.S.C. §403(b)-(f). See also 20 C.F.R. §§404.415-404.459, and SSA, Program Operations Manual System (POMS) *RS 025 Annual Earnings Test*, at https://secure.ssa.gov/apps10/poms.nsf/subchapterlist!openview&restricttocategory=03025.

[6] For a more detailed explanation of the Social Security benefit computation and actuarial adjustments to benefits, see CRS Report R43542, *How Social Security Benefits Are Computed: In Brief*.

[7] For workers who claim benefits before FRA, the monthly benefit amount is decreased by an early retirement reduction. Workers who delay filing for benefits until after FRA receive delayed retirement credits (DRCs). For more information regarding the mechanics of the early retirement reductions and DRCs, please see CRS Report R44670, *The Social Security Retirement Age*.

[8] For RET purposes, earnings includes all wages, including those earned from both covered and noncovered employment, and for those wages above the Social Security maximum taxable wage base (and self-employment); SSA, Program Operations Manual System (POMS) RS 02505.005 *How to Count Wages Under the Earnings Test (ET)*, 05/29/2012, at https://secure.ssa.gov/poms.nsf/lnx/0302505005. The RET does not apply to beneficiaries living outside the United States whose work is not covered by the U.S. Social Security system; in this case, the "foreign work test" is applied.

[9] For more information regarding disabled beneficiaries, see CRS Report R44948, *Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI): Eligibility, Benefits, and Financing*.

## Below FRA

The RET can apply to any nondisabled beneficiary below the FRA, which varies between 65 and 67 depending on the year of birth (see **Table 1**). The RET does not apply to worker beneficiaries who are at or above FRA (application of the RET ends with the month of FRA attainment). In 2000, legislative changes made the RET applicable only for beneficiaries below FRA; previously, the RET applied to beneficiaries until they reached age 70.[10]

**Table 1. Social Security Full Retirement Ages (FRA) by Birth Year**

| Birth Year | Social Security FRA |
|---|---|
| 1937 and earlier | 65 |
| 1938 | 65 and 2 months |
| 1939 | 65 and 4 months |
| 1940 | 65 and 6 months |
| 1941 | 65 and 8 months |
| 1942 | 65 and 10 months |
| 1943-1954 | 66 |
| 1955 | 66 and 2 months |
| 1956 | 66 and 4 months |
| 1957 | 66 and 6 months |
| 1958 | 66 and 8 months |
| 1959 | 66 and 10 months |
| 1960 and later | 67 |

**Source:** Social Security Administration, "Benefits Planner: Retirement," at https://www.ssa.gov/planners/retire/retirechart.html.

## Earnings Above Certain Thresholds

For any beneficiary below FRA who may be subject to the RET, a final test of applicability requires the beneficiary to also exceed an earnings threshold. The RET applies only to wage and salary income (i.e., earnings from work). It does not apply to income from pensions, rents, dividends, interest, and other types of "unearned" income.[11] A beneficiary with no earnings is not subject to the RET.

After establishing that a worker beneficiary is both of the applicable type and age and has earnings, a beneficiary must compare his or her annual earnings to the annual RET thresholds. In 2019, the RET thresholds are $17,640 for beneficiaries who are below FRA and will not attain FRA this year and $46,920 for beneficiaries who will attain FRA this year. The RET exempt amounts generally increase each year at the same rate as average wages in the national economy.[12] **Table B-1** in the **Appendix** shows the annual exempt amounts under the RET from calendar years 2007 to 2019.

[10] For more information regarding the legislative history of the RET, please see the "Historical Background" section.

[11] Self-employed persons are subject to the RET if they have performed "substantial services," which are determined by the nature of the service performed rather than by profit or loss.

[12] RET thresholds remain unchanged for years in which there is no cost-of-living adjustment (COLA) paid.

## How the RET Works

For those beneficiaries that meet the applicable RET conditions—being nondisabled, younger than FRA, and having earnings at least above the threshold amount ($17,640 in 2019)—the RET reduces Social Security benefits. This reduction occurs in addition to early retirement actuarial reductions. There are also two important considerations when administering the RET: the payment of partial benefits and the grace year provision.

### The RET Reduces Social Security Benefits

For beneficiaries who are below FRA and will not attain FRA during the calendar year, Social Security benefits are reduced by $1 for every $2 earned above the threshold amount ($17,640 in 2019). For beneficiaries who are below FRA and will attain FRA during the calendar year, Social Security benefits are reduced by $1 for every $3 earned above the threshold amount ($46,920 in 2019).[13]

Each year, beneficiaries report predicted earnings for the upcoming year (as they are not verified until the close of the taxable year). Predicted annual earnings above the exempt amount are charged against monthly benefits, beginning with the first chargeable month of the year, at the applicable rate of $1 for every $2 or $3 of earnings above the exempt amount, and continue to be charged each month until all earnings above the exempt amount have been charged against the worker's benefits and any benefits payable to family members on his or her work record. A partial benefit is recorded to be paid when the charge to a given month is less than the monthly benefit.

### Partial Benefit Payments

According to SSA procedure, when partial monthly benefits are anticipated to be paid based on projected earnings, those partial monthly benefits are paid only at the close of the taxable year.[14] In essence, the beneficiary must wait until the statement of earnings has been verified, which usually occurs in the first quarter of the following calendar year during tax season. Despite this delay, there is no interest paid for the withheld partial benefits.

By electing to pay beneficiaries in the next calendar year, the SSA is deciding to wait for annual earnings statements to become finalized and validated. Essentially, this is done to ensure that

[13] Beneficiaries who will attain FRA during the calendar year are treated differently as a result of a compromise reached when the RET structure was modified in 2000. Before 2000, there were two RETs: one for beneficiaries below FRA and one for beneficiaries between FRA and age 70. The RET for beneficiaries between FRA and age 70 was more generous; the exempt amount was higher and the reduction to benefits was $1 for every $3 (a 33% offset) of earnings above that amount. By comparison, the RET for beneficiaries below FRA applied a lower exempt amount and the reduction to benefits was $1 for every $2 (a 50% offset) of earnings above that amount. In 2000, when lawmakers eliminated the RET for beneficiaries beginning with the month they attain FRA, there was a concern that beneficiaries who would attain FRA in 2000 would be worse off. The concern arose because, under pre-2000 law, the more generous RET applied to beneficiaries starting in January of the year they attained FRA. Therefore, eliminating the more generous RET would cause these beneficiaries to be subject to the lower exempt amount and the 50% offset during that year (rather than the higher exempt amount and the 33% offset during that year). To address this concern, the House version of the legislation, for the year 2000 only, allowed beneficiaries attaining FRA in 2000 to be subject to the more generous RET in the months preceding attainment of FRA. A Senate Manager's Amendment extended this provision to all future beneficiaries for the year they attain FRA. In April 2000, President William Clinton signed the legislation, which became P.L. 106-182.

[14] SSA, Social Security Handbook, Chapter 18: Reduction or Nonpayment of Social Security Benefits, *1806.2 When Is The Partial Monthly Benefit Paid?*, 01/17/2003, at https://www.ssa.gov/OP_Home/handbook/handbook.18/handbook-1806.html

actual earnings from the year are equal to the predicted or reported earnings from the beginning of the year.[15] If the actual earnings are equal to the predicted earnings, the partial benefit is paid as originally calculated. If the actual earnings are higher, however, a larger RET reduction may be warranted, which would come from the unpaid partial benefit month. In some cases, the partial benefit could be reduced to zero if actual earnings for the year exceeded the predicted earnings by a significant amount. Had the partial benefit been paid, the beneficiary would owe the SSA for benefit overpayment. If the opposite occurred, and actual earnings were lower than predicted, the SSA would owe the beneficiary an additional amount above the unpaid partial benefit.

After the partial monthly benefit is withheld, the beneficiary receives full benefits for the remainder of the year. In **Table 2**, for example, the first individual (the beneficiary below FRA throughout the calendar year) receives no monthly benefits from January through July due to the RET, and then he or she is due a partial benefit in August. It is this partial monthly benefit due in August that will be paid at the close of the taxable year. The monthly benefits due for the remainder of the year (September through December) are projected to be paid in full on their regular payment schedule.

In either case, it is administratively simpler to add or remove additional benefits to or from an outstanding partial benefit payment than to permit an entirely new payment or to request repayment through collections. The intent of this procedure is twofold: administrative simplicity and to save a beneficiary of the inconvenience of having to return an overpayment of benefits.

## The RET in Conjunction with Early Retirement Reductions

When a worker elects to claim Social Security benefits before his or her FRA, he or she is subject to a permanent actuarial reduction in the PIA. In the initial benefit computation, retirement benefits are reduced for early retirement by a fraction of the worker's PIA for each month of entitlement before FRA.[16] The RET is applied to the PIA only after it has been reduced by the early retirement actuarial adjustment. Both the permanent reduction for early retirement and the RET are applied to beneficiaries below FRA.

## The Grace Year Provision

A "grace year" generally applies during the first year of benefit entitlement. During the grace year, the RET is applied effectively on a monthly basis. A beneficiary may receive full benefits for any month during which his or her earnings do not exceed one-twelfth of the annual exempt amount, regardless of the total amount of earnings for the year.[17] However, after becoming entitled, the monthly earnings test is an absolute one: if exceeding the monthly threshold, the beneficiary will receive no benefits for that month.

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[15] SSA, Program Operations Manual System (POMS) RS 02501.100 *Imposing Work Suspensions*, 04/27/2011, at https://secure.ssa.gov/apps10/poms.nsf/lnx/0302501100.

[16] Retirement benefits are reduced by five-ninths of 1% (or 0.56%) of the worker's PIA for the first 36 months immediately before FRA. Stated another way, the actuarial reduction for early retirement is about 6.67% per year for the first three years of entitlement before FRA (i.e., from the age of "FRA minus 36 months" to FRA, or ages 64 to 66 if the FRA is 67). For each additional month of entitlement before FRA (up to 24 months), retirement benefits are reduced by five-twelfths of 1% (or 0.42%) of the worker's PIA, or an annual reduction of 5% (i.e., ages 62 and 63 if the FRA is 67). Under current law, the maximum reduction for early retirement ranges from 20% for a worker whose FRA is 65 to 30% for a worker whose FRA is 67.

[17] SSA, Social Security Handbook, Chapter 18: Reduction or Nonpayment of Social Security Benefits, *1807 Grace Year and Non-Service Month Defined*, 08/08/2011, at https://www.ssa.gov/OP_Home/handbook/handbook.18/handbook-1807.html.

In general, the grace year provision ensures that beneficiaries electing entitlement in a calendar year do not receive a withholding of their benefits after they have terminated working, at least from the pre-retirement level. See **Appendix C** for a detailed example.

## Examples of How the RET Works

**Table 2** illustrates the application of the RET to a single person who receives benefits based on his or her own work record. The table illustrates the effect of the RET on single worker beneficiaries in two different age groups: beneficiaries who will remain below FRA throughout the calendar year and beneficiaries who will attain FRA during the calendar year. In accordance with **Table 2**, the two single worker beneficiaries in the following examples experience the effects of the RET:

*Single Worker Beneficiary Who is Below FRA Throughout the Calendar Year*

This example shows a worker beneficiary with a monthly benefit amount of $2,000 (after the reduction for early retirement) and earnings of $48,000 in 2019. Because this worker beneficiary is below FRA throughout the calendar year, he or she is subject to a $1 reduction in benefits for every $2 of earnings above the annual exempt amount of $17,640 in 2019. Therefore, the worker has excess earnings equal to $30,360 and will have an RET reduction (an RET charge) equal to $15,180. Each month, the original monthly benefit ($2,000) is withdrawn from the RET charge, so, for this beneficiary, there will be seven months of entirely withheld benefits, one partially withheld month of benefits in August, and four months of full benefits paid.

*Single Worker Beneficiary Who Attains FRA in September of This Calendar Year*

This example shows a worker beneficiary with a monthly benefit amount of $2,000 (after the reduction for early retirement) and earnings of $48,000 in 2019. Because this worker beneficiary will attain FRA during September of this calendar year, he or she is subject to a $1 reduction in benefits for every $3 of earnings above the annual exempt amount of $46,920 in 2019. Therefore, the worker has excess earnings equal to $1,080 and will have an RET reduction (an RET charge) equal to $360. For this beneficiary, there will only be one partially withheld month (January, wherein the RET charge becomes $0) with full benefits paid for the remainder of the year. As he or she is attaining FRA in September, the monthly benefit in September and beyond will be higher than $2,000 as it is readjusted for all of the months since entitlement that the beneficiary had benefits withheld, in part or in full, due to the RET.

**Table 2. Hypothetical Example of the Application of the Retirement Earnings Test to a Single Worker Beneficiary with Earnings Above the Annual Exempt Amount in 2019**

| Step | Worker Beneficiary is Below FRA Throughout Calendar Year | Worker Beneficiary Attains FRA in September of Calendar Year |
|---|---|---|
| 1. Social Security monthly benefit after the actuarial reduction for early retirement | $2,000 | $2,000 |
| 2. Calculation of earnings above the annual threshold | | |
| Predicted earnings in 2019 | $48,000 | $48,000 |
| RET threshold in 2019 | $17,640 | $46,920 |
| Earnings above the threshold | $30,360 | $1,080 |
| 3. RET charge | $15,180 (one-half of earnings above the threshold) | $360 (one-third of earnings above the threshold) |
| 4. Application of the RET: the benefit paid each month equals the monthly benefit amount of $2,000 minus the remaining balance of the RET charge. The RET charge for a given month cannot exceed the benefit for that month, but it may reduce the benefit to zero in some months. A partial benefit is paid if the remaining RET balance is less than the monthly benefit amount. | | |
| January monthly benefit | $0[a] | $1,640[b] |
| February through July monthly benefits | $0[a] | $2,000 |
| August monthly benefit | $820[b] | $2,000 |
| September through December monthly benefits | $2,000 | $2,000[c], plus the readjustment of benefits withheld due to the RET, which is done at FRA |

**Source:** Congressional Research Service.

**Notes:** This example assumes that the worker beneficiary receives benefits based only on his or her own work record. The starting benefit amounts include actuarial reductions for retirement before FRA and any other reductions that may apply. The example is constructed so that the grace year provision does not apply, as it assumes that the beneficiary both works and collects benefits over the full calendar year.

a. No benefit is paid in these months because the beneficiary's RET balance is larger than the monthly benefit amount, so the RET charge for these months is equal to the monthly benefit amount.

b. This partial amount is not paid in this month, per Social Security Administration procedure. Instead, the partial benefit will be paid in 2020 after 2019 earnings have been verified to match the expected earnings (which, in this example, are equal to $48,000).

c. Please reference **Table 3** to see examples as to how this type of benefit readjustment is made.

## Restoration of RET-Withheld Benefits Upon Attaining FRA

When a beneficiary has had benefits fully or partially withheld under the RET, benefits "lost" as a result of the RET are restored starting at FRA. Specifically, the worker's benefits are recomputed—and increased—when he or she attains FRA. In the benefit recomputation at FRA, the actuarial reduction for benefit entitlement before FRA that was applied in the initial benefit computation is adjusted (i.e., the actuarial reduction for early retirement is lessened) to reflect the number of months the worker received no benefit or a partial benefit as a result of the RET.[18] Detailed examples are in **Table 3**.

Stated generally, if a worker's benefits are reduced in the initial benefit computation to reflect 24 months of early retirement, and the worker subsequently has benefits withheld under the RET for 12 months, the benefit recomputation at FRA will reflect an actuarial reduction for 12 (= 24 – 12) months of early retirement, resulting in a higher monthly benefit amount starting at FRA. In essence, the worker is treated as if he or she had claimed benefits a year later than when he or she actually did and receive the lower actuarial adjustment for early retirement as a result.

### Application of the Recomputation of Benefits After FRA

The following examples are illustrated in **Table 3** below.

#### *An Example–FRA of 65*

Consider the first worker, who starts receiving Social Security retirement benefits at the age of 62 with an FRA of 65 and has earnings above the RET exempt amount. Because the person claims retirement benefits three years (36 months) before attaining FRA and has earnings above the RET threshold, he or she will be subject to both (1) the actuarial reduction for benefit entitlement before FRA and (2) benefit withholding under the RET.

*1. Actuarial reduction for early retirement*

As the early retirement does not exceed three years (36 months), this worker is subject to only the actuarial reduction of about 6.67% per year. In this example, the total actuarial reduction in the person's initial monthly benefit is 20%. This results in a monthly benefit equal to $2,000, which was reduced from $2,500 originally.[19]

*2. Benefit withholding under the RET*

In addition, the person continues to work throughout the three-year period from the ages of 62 to 65 and has earnings above the threshold. If this worker has his or her benefits affected by the RET for, hypothetically, eight months each year, it can be determined that the RET results in a partial or complete reduction for a total of 24 months (January-August for each of the three years). The benefit recomputation when the person attains FRA will take into account that the person experienced either zero or partial benefits for 24 months as a result of the RET.

[18] In addition, if a beneficiary continues to work, the Social Security Administration automatically checks the person's record each year to determine if the additional earnings will increase his or her monthly benefit. For example, earnings for 2019 would be included in a recomputation effective January 2020. SSA's Program Operations Manual System (POMS) *RS 00605.401 Recomputations and Recalculations*, effective October 1, 2010, at https://secure.ssa.gov/apps10/poms.nsf/links/0300605401.

[19] If the worker was never affected by the RET, this reduced benefit (of $2,000) would be the benefit payable on a permanent basis, even after reaching FRA (unless a later year of work resulted in a higher PIA calculation).

*3. Recomputation of benefits*

Specifically, the reduction factor for benefit entitlement before FRA will be adjusted from 36 months to 12 months (=36 – 24). Starting at FRA, the person's monthly benefit will be increased to reflect an actuarial reduction for benefit entitlement before FRA of about 6.67% instead of 20%. This beneficiary is now eligible for a benefit of $2,333 per month. While this benefit is still reduced from the original $2,500 amount because of the early retirement actuarial reductions, the beneficiary receives a higher monthly benefit than the original $2,000 because benefits withheld under the RET are restored at FRA.

## *An Example–FRA of 67*

Considering the second worker from **Table 3**, assume that the worker began receiving benefits at the age of 62, which is five-full years before the worker's FRA of 67. The worker also has earnings above the RET threshold. As such, he or she is subject both (1) the actuarial reduction for benefit entitlement before FRA and (2) benefit withholding under the RET.

*1. Actuarial reduction for early retirement*

With five years of pre-FRA entitlement, this beneficiary is subject to both levels of the actuarial reduction: the first three years immediately prior to FRA (consider the years aged 64, 65, and 66) are reduced at a combined 20% and the additional two years (consider the years aged 62 and 63) are reduced at a combined 10%.[20] With a total benefit reduction of 30%, the beneficiary's original $2,500 monthly benefit is reduced to $1,750.[21]

*2. Benefit withholding under the RET*

In addition, the person continues to work throughout the five-year period from age 62 to age 67 and has earnings above the threshold in each year causing a reduction in his or her monthly benefit under the RET. If this worker has his or her benefits affected by the RET for, hypothetically, eight months each year, it can be determined that the RET results in 40 months (January-August for each of the five years) of affected benefits (either zero or partial). The benefit recomputation when the person attains FRA will take into account that the person experienced either zero or partial benefits for 40 months as a result of the RET.

*3. Recomputation of benefits*

Specifically, the reduction factor for benefit entitlement before FRA will be adjusted from 60 months to 20 months (=60 – 40). Working backwards, the first 24 months are adjusted at 5% per year, which is a 10% change. Then, for the remaining 16 months, benefits are adjusted at the 6.67% annual rate for a total adjustment of 8.89%. Combining the 10% and 8.89% adjustments, the original 30% actuarial reduction will be adjusted for 40 months by 18.89% for a new actuarial reduction of 11.11%, which represents the 20 remaining months above. This beneficiary is now eligible for a benefit of $2,222 per month. While this benefit is still reduced from the original $2,500 amount because of the early retirement actuarial reductions, the beneficiary receives a higher monthly benefit than the original $2,000 because benefits withheld under the RET are restored at FRA.

[20] See footnote 16 for more information.

[21] If the worker was never affected by the RET, this reduced benefit (of $1,750) would be the benefit payable on a permanent basis, even after reaching FRA (unless a later year of work resulted in a higher PIA calculation).

### *Comparing Recomputations at FRA*

Note that the final, recomputed benefit for the beneficiary with an FRA of 67 is notably smaller than that of the beneficiary with an FRA of 65. This occurs because the beneficiary with the FRA of 65 spends less "time in early retirement" than the beneficiary with the FRA of 67. As more and more beneficiaries must attain age 67 to reach FRA (with the FRA increasing from 65 to 67 for every later birth year), compounding reductions of benefits may become more universal in nature. However, workers who delay filing for benefits until after FRA, and avoid being affected by the RET, receive a delayed retirement credit (DRC). The DRC applies beginning with the month the worker attains FRA and ending with the month before he or she attains the age of 70. Starting in 1990, the DRC increased until it reached 8% per year for workers born in 1943 or later (i.e., starting with those who attained age 62 in 2005 or FRA in 2009).[22]

**Table 3. Hypothetical Example of the Application of the Readjustment of Benefits at FRA**

| Step | Worker Beneficiary With an FRA of 65 | Worker Beneficiary With an FRA of 67 |
|---|---|---|
| 1. Social Security monthly benefit (PIA) before the actuarial reduction for early retirement | $2,500 | $2,500 |
| 2. Identify the percentage of actuarial reduction in initial benefits for entitlement at age 62 | | |
| For the 36 months immediately prior to FRA, 5/9 of 1% per month or 6.67% per year | 20% | 20% |
| For the months in excess of 36, 5/12 of 1% per month or 5% per year | None | 10% |
| Total benefit reduction for early retirement | 20% | 30% |
| 3. Calculate the monthly benefit after actuarial reductions for early retirement | $2,000[a] | $1,750[a] |
| 4. Hypothetically, assume a beneficiary was affected by the RET for 8 months per year and calculate the total number of months he or she had benefits withheld, either partially or entirely, due to the RET | 24[b] | 40[b] |
| 5. Calculate the percentage given back to the beneficiary for those impacted months[c] | | |
| Months at 5/12 of 1% | None | 24 |
| Months at 5/9 of 1% | 24 | 16 |
| Total percentage to be added back to the monthly benefit | 13.33%[d] | 18.89%[e] |
| 6. Calculate the new actuarial reduction for early retirement[f] | 6.67% | 11.11% |
| 7. Calculate the new, permanent monthly Social Security benefit[g] | $2,333 | $2,222 |

**Source:** Congressional Research Service.

**Notes:** This example assumes that these beneficiaries began receiving benefits at age 62.

[22] For more information regarding DRCs, please see CRS Report R44670, *The Social Security Retirement Age*.

a. This is calculated by first multiplying the original monthly benefit in Step 1 by the total benefit reduction percentage to get the dollar reduction. Then, subtract that dollar reduction from the original benefit from Step 1. So, for example, 2500 * 0.20 = 500, and 2500 – 500 = 2000.
b. This value is calculated by multiplying 8 months * 3 (each year of entitlement before FRA) = 24 months (for an FRA of 65), and by multiplying 8 months * 5 (each year of entitlement before FRA) = 40 months (for an FRA of 67).
c. These percentages are given back with the "months in excess of 36" being returned first. When that 10% is exhausted, the beneficiary begins to earn back the "36 months immediately prior to FRA."
d. This amount is calculated by multiplying 5/9% * 24 = 13.33%. These 24 months represent the two years of impacted benefits.
e. This amount is calculated in two parts because the beneficiary retired more than three years, or 36 months, before his or her FRA. So, first, he or she earns the 10% lost for the 24 months in excess of 36. Then, with 16 months remaining in his or her balance (= 40 – 24), multiply 16 * 5/9% to get 8.89%. So, the total percentage to be added back is 18.89% (= 10 + 8.89).
f. This amount is calculated by subtracting the percentage to be added back from the initial reduction. So, for example, 20% - 13.33% = 6.67%.
g. This is calculated in the same way as in Step 3. Benefit amounts are rounded down to the next lowest dollar.

# Worker Beneficiaries' Earnings Levels

**Table 4** shows the number of worker beneficiaries who had earnings in 2015, the most recent year for which data are available from SSA's 1-Percent Continuous Work History Sample. More than 3.1 million worker beneficiaries who were below FRA during all or part of 2015 had earnings.

With respect to the data shown in **Table 4**, not all worker beneficiaries with earnings are affected by the RET. For example, those who have earnings below the exempt amount are not affected by the RET. In addition, those who are in the first year of entitlement may benefit from the grace year provision and are not subject to the RET during any months in which they have earnings that are lower than the monthly RET exempt amount.

Although these 3.1 million worker beneficiaries are not all affected by the RET, these data provide insight into the universe of worker beneficiaries who could be affected by the RET. For those below FRA throughout 2015, the threshold was $15,720 annually, and for those attaining FRA in 2015, the threshold was $41,880 annually. When identifying the nearest ranges (those from $1 to $14,999, which is the closest threshold to $15,720 and from $1 to $39,999, which is the closest threshold to $41,880), it is clear that a majority of the worker beneficiaries with earnings (more than 50% in each population) have earnings below the threshold amounts; in the "Policy Issues" section below, the dispersion across earnings levels will provide a useful context.

**Table 4. Number of Worker Beneficiaries with Earnings in 2015**

| | Below FRA Throughout 2015[a] | | Attained FRA in 2015[b] | |
|---|---|---|---|---|
| **Annual Earnings Ranges** | **Number** | **Percentage** | **Number** | **Percentage** |
| $1-$4,999 | 540,200 | 25.41% | 225,900 | 22.82% |
| 5,000-9,999 | 295,100 | 13.88 | 119,400 | 12.06 |
| 10,000-14,999 | 291,000 | 13.69 | 99,800 | 10.08 |
| 15,000-19,999 | 236,000 | 11.10 | 77,200 | 7.80 |
| 20,000-24,999 | 132,100 | 6.21 | 60,700 | 6.13 |
| 25,000-29,999 | 101,000 | 4.75 | 49,900 | 5.04 |
| 30,000-34,999 | 78,700 | 3.70 | 41,400 | 4.18 |
| 35,000-39,999 | 69,800 | 3.28 | 41,700 | 4.21 |
| 40,000-44,999 | 55,200 | 2.60 | 32,200 | 3.25 |
| 45,000-49,999 | 44,100 | 2.07 | 28,800 | 2.91 |
| 50,000-54,999 | 39,100 | 1.84 | 27,200 | 2.75 |
| 55,000-59,999 | 30,900 | 1.45 | 19,900 | 2.01 |
| 60,000-64,999 | 28,900 | 1.36 | 16,900 | 1.71 |
| 65,000-69,999 | 22,200 | 1.04 | 13,600 | 1.37 |
| 70,000-74,999 | 20,700 | 0.97 | 13,800 | 1.39 |
| 75,000-79,999 | 16,300 | 0.77 | 11,600 | 1.17 |
| 80,000-84,999 | 12,400 | 0.58 | 10,800 | 1.09 |
| 85,000-89,999 | 13,200 | 0.62 | 9,200 | 0.93 |
| 90,000-99,999 | 18,600 | 0.87 | 14,100 | 1.42 |
| 100,000 or more | 80,300 | 3.78 | 75,700 | 7.65 |
| **Total with Earnings** | **2,125,800** | **100%** | **989,800** | **100%** |

**Source:** Data received by CRS from the Social Security Administration (SSA), Office of Research, Evaluation and Statistics: 1-Percent Continuous Work History Sample—2016 Active File and 2015 Employee and Employer File. Data provided by SSA to CRS on July 22, 2019.

**Notes:** Table includes individuals who were awarded retired-worker benefits by December 2014.

a. The threshold amounts for persons who were below FRA throughout 2015 were $15,720 annually and $1,310 monthly.

b. The threshold amounts for persons who attained FRA in 2015 were $41,880 annually and $3,490 monthly.

# Historical Background

As mentioned earlier, Social Security benefits are meant to partially replace earnings lost to an individual or family because of the worker's retirement, disability, or death. The rationale for the RET was outlined in the 1935 report of the Committee on Economic Security, which

recommended that no benefits be paid before a person had "retired from gainful employment."[23] This recommendation was emblematic of the pure social insurance idea discussed previously.

The original Social Security Act in 1935 barred payment of benefits for any month in which a beneficiary received wages from "regular employment."[24] This provision never went into effect, however, because the Social Security Board, and other prominent figures, thought it would be nearly impossible to determine the practical definition of "regular employment" in different industries and occupations. Instead, the board recommended a specific monetary amount to simplify administration. In 1939, and before any benefits were ever paid, Congress incorporated these recommendations in amendments to the Social Security Act.[25] Starting with the first benefits paid in 1940, benefits were withheld entirely for months in which covered earnings were $15 or more. In essence, this put a price tag on retirement: being retired constituted receiving Social Security benefits and a salary for work up to $14.99 per month. At this point, the RET applied to anyone claiming benefits; in line with the principle of social insurance, there was not yet an age at which the RET no longer applied. Over time, various aspects of the RET became subject to legislative attention, including age limits, earnings thresholds, and its all-or-nothing nature.

## Age Limits

An RET age limit is the age at which the RET no longer applies. Lawmakers first applied an age limit to the RET as part of the Social Security Act Amendments of 1950. In 1950, the RET was made applicable only to retirees up until age 75, at which point Social Security benefits became an annuity capable of being supplemented with any amount of additional work earnings. Lawmakers continued to lower the age limit throughout the second half of the 20th century: to age 72 in 1954, age 70 in 1977, and FRA (see **Table 1**) in 2000.

## Earnings Thresholds

Other than the age at which the RET applied, a major issue with concern to the RET since the establishment of the Social Security Act was related to the thresholds at which the RET would become applicable. As mentioned above, the threshold was first changed in 1939 (from $0 to $15 per month). The threshold was subsequently increased over the years on an ad hoc basis. Finally, the thresholds were indexed to national average wage growth in 1972 (effective in 1975).[26]

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[23] Committee on Economic Security, *Report of the Committee on Economic Security*, Washington, DC, January 1935, http://www.socialsecurity.gov/history/reports/ces5.html, in the section entitled "Contributory Annuities (Compulsory System): Outline of Plan."

[24] P.L. 74-271, the Social Security Act of 1935, §202(d), at https://www.ssa.gov/history/pdf/Downey%20PDFs/Social%20Security%20Act%20of%201935%20Vol%201.pdf#page=50.

[25] Larry DeWitt, "Special Study #7: The History and Development of the Social Security Retirement Earnings Test," Social Security Administration: Reports and Studies, August 1999, at https://www.ssa.gov/history/ret2.html. (Used hereafter as a reference for any discussion of amendments throughout the Historical Background section made from 1939 through 1996.)

[26] SSA, *Automatic Determinations*, Exempt Amounts 1975-1999, October 2008, at https://www.ssa.gov/OACT/COLA/rteahistory.html.

## All-or-Nothing Nature

Until 1972, the all-or-nothing nature of the RET remained.[27] Once hitting the threshold, a beneficiary's monthly benefit would be reduced to $0, which was the subject of much criticism (especially from those that were self-employed). In response, lawmakers amended the Social Security Act in 1972 to end the all-or-nothing RET reduction and replace it with a new one: $1 for every $2 in earnings beyond the RET thresholds. Later, in 1983, lawmakers established the two-threshold structure ($1 for every $2 over the threshold for those between age 62 and 64 and $1 for every $3 over the threshold for those between age 65 and 69). In 2000, the current structure was created ($1 for every $2 over the threshold for those not attaining FRA in a certain calendar year and $1 for every $3 over the threshold for those attaining FRA in that calendar year).

## Other Notable Developments

The RET has evolved from a monthly test to an annual one (with the exception of the "grace year" as discussed previously). Until 1977, the monthly test was used, which allowed workers to have a few months of earnings high enough to result in no benefits yet still receive benefits in the months for which they fell under the threshold. These amendments in 1977 marked the first time that the RET was made "less generous" since its inception in 1935.

Another major change materialized with the implementation of delayed retirement credits (DRCs) in 1972. Although DRCs are generally thought of as increased benefits for delayed retirement, they also are what provide for the recomputation of benefits at FRA to account for months wherein Social Security benefits were entirely or partially withheld due to the RET.

The most recent legislative change to the RET occurred in 2000 when Congress eliminated the RET for beneficiaries beginning with the month they attain FRA. This change was proposed under the Senior Citizens' Freedom to Work Act of 2000, which became P.L. 106-182. During the congressional debates of 2000, the desire to incentivize those between FRA and age 70 to return to substantial work (resulting in earnings above the thresholds that existed) was the leading push to create legislation.[28] By eliminating the RET at FRA, P.L. 106-182 was expected—by Members of Congress in congressional debate—to increase both the earnings of those who were decreasing hours worked (to keep pay below RET thresholds) and the overall labor force participation rate among those who had already retired from work. In the research analyzing the results from 2000, which is discussed in detail below, those expectations were met for some populations, specifically with large earnings increases for those with higher incomes and increases in the labor force participation rate for women (except for married women).

# Policy Issues

Policymakers have questioned the RET's impact on labor supply and the timing of Social Security benefit claiming. Some argue that the RET is perceived as a "tax" or penalty on work effort, and that it induces workers to work fewer hours or even to retire completely from the workforce. Others argue that the RET causes workers to delay claiming Social Security benefits. However, the recomputation of benefits at FRA to account for any benefits affected by the RET is

[27] Under the 1960 amendments, there was a change to have the RET penalty be $1 for every $2 of earnings over the $1,200 annual threshold. However, once establishing an annual earnings record over $1,500, the all-or-nothing RET penalty remained in effect.

[28] House debate, *Congressional Record*, daily edition, vol. 146, part 36 (March 28, 2000), pp. H1441-H1447.

not well known or understood. Nevertheless, both of these effects could have important implications for the retirement security of older workers. Quantitative studies have found mixed evidence concerning the RET's impact on work hours, retirement decisions, and the timing of Social Security benefit claims. As a result, examining the RET's impact and its potential repeal on levels of income across different demographic groups is necessary.

## The RET, Threshold Bunching, and Individual Behavior

### Bunching Behavior at Lower Earnings Levels

Research has shown that a significant impact of the RET—both before and after the major legislative action of 2000 to eliminate the RET above FRA—is the bunching of labor hours by individuals at the RET threshold amounts. Although the individual decision to increase or decrease hours worked varies by income level, the notion is that for earnings at or just above the annual RET threshold, the RET may encourage workers to work fewer hours and keep earnings just under the RET threshold. This effect is known as *bunching* under the RET threshold. An often-cited 1999 study found that a subset of workers do cluster at earnings levels just below the RET threshold.[29] Other research has noted and documented a similar phenomenon.[30] In addition, a 2007 study noted that the previously seen bunching at earnings thresholds for those between FRA and age 70 had disappeared after the 2000 legislation.[31] This finding was significant in acknowledging the direct, and seemingly rapid, impact policymakers can have—in this case, with a partial RET repeal (above FRA)—on the behavior of lower earning Social Security beneficiaries regarding their hours worked.

### Ambiguity at Higher Earnings Levels

At higher earnings levels (far above threshold levels), the RET's impact on work hours is more ambiguous. Some workers perceive the RET as a "tax" on work effort despite the recomputation of benefits at FRA. To the extent that the RET is perceived as a "tax" on earnings, it may induce some workers to reduce their work hours or even to retire completely from the workforce. Other workers, however, may respond to the RET reduction to Social Security benefits in other ways depending on combined family benefits and total family income.[32]

### Lifecycle and Myopic Views

Despite the literature's finding of an altered labor supply, the RET is actuarially fair in its readjustment of benefits at FRA—meaning that over the course of the average person's lifespan, he or she will receive all of the benefits withheld due to the RET—and as such, there should not be an altered labor supply. However, because there is an effect, two schools of thought regarding how to study the RET exist: the lifecycle view and the myopic view.[33] The *lifecycle view* is

[29] Leora Friedberg, *The Labor Supply Effects of the Social Security Earnings Test*, National Bureau of Economic Research, Working Paper no. 7200, June 1999.

[30] Haider and Loughran, 2007; Song and Manchester, 2007; Olsen and Romig, 2013.

[31] Gary V. Engelhardt and Anil Kumar, *The Repeal of the Retirement Earnings Test and the Labor Supply of Older Men*, Center for Retirement Research at Boston College, Working Paper no. 2007-1, May 2007.

[32] Jae G. Song and Joyce Manchester, "How Have People Responded to Changes in the Retirement Earnings Test in 2000," *Social Security Bulletin*, vol. 67, no. 1 (2007).

[33] Marjorie Honig and Cordelia Reimers, "Is It Worth Eliminating the Retirement Test?" *The American Economic Review*, vol. 79, no. 2 (1989), pp. 103-107. (Cited for the basis of the rest of this paragraph, unless otherwise cited.)

generally held by those workers who understand that the RET withholdings will be coming back to them in an actuarially neutral manner, considering the average person's lifespan. Therefore, those individuals would not look at the RET as a "tax" entirely. The *myopic view*, in contrast, is more commonly held by individuals who do not give the same economic value to the increased benefits later in life. In that way, those beneficiaries are more myopic and prefer a dollar today to two dollars tomorrow. As such, people with the myopic view are generally held to that view because of particular circumstances and beliefs, such as they have a limited ability to borrow money in the present, a shorter-than-average lifespan, a risk averse attitude, a higher personal discount rate,[34] or a lack of awareness of the later benefit readjustment. The higher personal discount rate is emblematic of someone who views the RET as having a less than actuarially fair impact on him or her with his or her prioritization of current and present benefits.[35]

## The RET and Aggregate Labor Behavior

Although work hours—on which the RET has an impact through workers bunching their earnings near the thresholds—often symbolize an individual labor supply decision about quantity of work, aggregate labor supply is not often considered in policy discussions. The aggregate labor supply looks at worker and beneficiary behaviors across the retired-worker beneficiary population and in totality. One 2003 study of the 1973-1998 period found that the RET had little or no effect on the aggregate work hours and earnings of men aged 62 and older, although there is somewhat stronger evidence that raising the RET thresholds would have a positive impact on women's earnings (no evidence was found for an impact on women's work hours).[36] A 2007 study of Social Security beneficiaries' responses to the 2000 removal of the RET for those at or above FRA found that, when workers were segmented by earnings level, fairly large positive effects on earnings were found above the RET threshold.[37] Finally, a 2007 study found that 2.2% of the total population—or 4.8% of the workforce—responded to the RET behaviorally (as described in the next section below).[38] However, while the aggregate number of hours worked, as evidenced by the two latter studies, show the impacts of the RET across the spectrum, the impact of the RET on aggregate labor force participation does not appear profound in the literature.

The labor force participation decision—that is, a worker's decision to retire or remain in the workforce—is, in some ways, more challenging than the decision to simply increase or decrease hours worked. With that in mind, research has not found the RET to have a large effect on labor force participation. This is perhaps in part because the RET is a relatively small part of the larger retirement decision that includes other factors—such as the FRA, which began increasing from age 65 to age 67 in 2000 and thus can make it difficult to parse out the impact of the simultaneous change in the RET, pension rules, and the worker's health—and because it is difficult to separate the RET's impact from the trend toward later retirement that is already under way. In addition, a 2004 study argued that re-entering the labor force after retirement as an older worker (thereby increasing the labor force participation rate) is not as easy as extending the length of time spent

[34] The discount rate is a rate used to equate present dollars to past or future dollars.

[35] Gary V. Engelhardt and Anil Kumar, "Taxes and the Labor Supply of Older Americans: Recent Evidence from the Social Security Earnings Test," *National Tax Journal*, vol. 67, no. 2 (2014), pp. 443-458.

[36] Jonathan Gruber and Peter Orszag, "Does the Social Security Earnings Test Affect Labor Supply and Benefits Receipt?" *National Tax Journal*, vol. 56, no. 4 (2003), pp. 755-773.

[37] Jae G. Song and Joyce Manchester, "How Have People Responded to Changes in the Retirement Earnings Test in 2000," *Social Security Bulletin*, vol. 67, no. 1 (2007).

[38] Steven J. Haider and David Loughran, "Do the Elderly Respond to Taxes on Earnings? Evidence from the Social Security Retirement Earnings Test," *RAND Labor and Population*, Working Paper no. WR-223-1, April 2007.

working, which is generally the path undertaken by the younger generation as they, theoretically, have time to plan if a repeal of the RET were to be legislated.[39] A recent 2018 study, which uses data through 2012, theorizes that the labor force participation rate generally rose for women after 2000; however, that increase only materialized for women who were single, divorced, separated, or widowed (married women saw a decrease in their labor force participation rate).[40] This finding is particularly useful in understanding the disparate impacts of a potential repeal across the retired worker beneficiary population.

The clear-cut difference between research on the aggregate labor supply and the labor force participation rate is important for policymakers. As is often described when advocating for the repeal of the RET, some policymakers want to inspire and incentivize retirees to go back to work or for people not to exit the paid labor force. However, researchers have found that the removal of the RET is unlikely to increase labor force participation among retired workers. In reality, a repeal of the RET could have a larger impact on those currently younger than 62 by inspiring them to work longer before retiring. For those that have already retired, challenges to re-entering the labor market after time outside of it often prevent the attempt.[41]

## The RET and Equity Among Retired-Worker Beneficiaries

With respect to the RET in current law, Social Security beneficiaries can be categorized into one of three groups: (1) those with earnings below the RET limit, (2) those affected by the RET with the result being decreased monthly benefit payments, and (3) those with earnings high enough as to result in no monthly benefit payment.[42] Each group in this study may react to a potential repeal of the RET differently. In general, the first group's behavior would remain unchanged; the second group's behavior change is ambiguous depending on the value each beneficiary places on either (1) increasing his or her work with the increased Social Security benefits due to the repeal of the RET or (2) decreasing his or her work due to the increased benefits due to the repeal of the RET; and the third group's behavior would lead some to reduce work hours due to substantially increased income from receiving Social Security benefits that were previously withheld in their entirety.

These differences have led some to argue that eliminating the RET would unequally benefit some higher earners because the additional Social Security benefits that would become available would permit higher earners, if they wished, to reduce their work hours. Critics of the RET contend that the RET discriminates against claimants who must continue working to supplement their benefits. In contrast, claimants with no earnings who have other forms of income, such as private pensions or investment income, can receive full Social Security benefits. Supporters of the RET counter that eliminating the RET would provide a bonus to people who are fortunate enough to be able to continue working after becoming entitled to retirement benefits, and the additional Social Security benefits may allow or encourage some individuals to reduce their work hours.

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[39] Alan L. Gustman and Thomas L. Steinmeier, *The Social Security Retirement Earnings Test, Retirement and Benefit Claiming*, National Bureau of Economic Research, Working Paper no. 10905, November 2004.

[40] Dale S. Bremmer and Randy Kesselring, "How Social Security's Earning Test, Age and Education Affect Female Labor Supply," *Atlantic Economic Journal*, vol. 46 (2018), pp. 357-377.

[41] Steven J. Haider and David Loughran, *Do the Elderly Respond to Taxes on Earnings? Evidence from the Social Security Retirement Earnings Test*, RAND Labor and Population, Working Paper no. WR-223-1, April 2007.

[42] Marjorie Honig and Cordelia Reimers, "Is It Worth Eliminating the Retirement Test?" *The American Economic Review*, vol. 79, no. 2 (1989), pp. 103-107. (Cited for the basis of the rest of this paragraph, unless otherwise cited.)

The idea that the repeal of the RET benefits different earning levels in an inequitable way was examined in a 2003/2004 report—one of the first studies to analyze the impacts of the 2000 legislation—which pointed out that increased total income was statistically significant and large in size for higher earners, but, for lower earners, there was no statistical significance.[43] This statistically significant disparity among the retired-worker beneficiary population indicates that high earners will experience a more substantial benefit than low earners if the RET were to be repealed. These findings were also replicated in a 2007 paper.[44]

Another equity-related consideration is whether some beneficiaries will live long enough to fully realize the higher benefit amounts stemming from the recomputation at FRA. When considering the actuarial fairness of the recomputation, which is the idea that a worker with an average lifespan will earn back the benefits withheld due to the RET, workers with a shorter than average lifespan may feel that the recovery of benefits is incomplete. Conversely, for those who live longer than average, the recomputation may result in higher lifetime benefits that more than earn back the initial benefit reductions under the RET. Because life expectancy is linked to income, some argue that the RET may be regressive on a lifetime basis.[45]

These different effects of an RET repeal across the retired-worker beneficiary population present challenges for policymakers. Often, the argument in favor of the RET repeal is to assist those with low earnings in avoiding unnecessary taxation and to incentivize working further into the elder years. Although that view may be ignoring the benefit readjustment at FRA, it is assuming that the impact on the entire retired-worker beneficiary population will be universally equal.

## The RET and Benefit Claiming Behavior

Because the RET applies to persons who are younger than FRA, studies suggest that it may discourage persons below the FRA from claiming benefits early. As noted earlier, some workers perceive the RET as a tax on benefits received before FRA, even though the recomputation of benefits at FRA (which results in a higher monthly benefit starting at FRA) allows the worker to recoup benefits withheld under the RET.

Numerous studies have found evidence that the RET does have an impact on the decision concerning when to claim Social Security benefits. For example, a 2003 study examined persons aged 62 and older during the 1973-1998 period and estimated that a $1,000 increase in the RET threshold could increase the share of men aged 62 and older who claim Social Security benefits by 0.7% to 1.6%, while eliminating the RET could increase that share by 5.2% to 13.5%.[46] A more recent study, which examined the 2000 elimination of the RET for men and women at or above FRA, found an increase in benefit claims between 2% and 5% among men and women aged 65 to 69, and an increase by 3%-5% among men and women who were reaching the age of 65.[47]

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[43] Jae G. Song, "Evaluating the Initial Impact of Eliminating the Retirement Earnings Test," *Social Security Bulletin*, vol. 65, no. 1 (2003/2004).

[44] Jae G. Song and Joyce Manchester, "How Have People Responded to Changes in the Retirement Earnings Test in 2000?" *Social Security Bulletin*, vol. 67, no. 1 (2007).

[45] For more information regarding the relationship between life expectancy and income, please see CRS Report R44846, *The Growing Gap in Life Expectancy by Income: Recent Evidence and Implications for the Social Security Retirement Age*.

[46] Jonathan Gruber and Peter Orszag, "Does the Social Security Earnings Test Affect Labor Supply and Benefits Receipt?" *National Tax Journal*, vol. 56, no. 4 (2003), pp. 755-773.

[47] Jae G. Song and Joyce Manchester, "How Have People Responded to Changes in the Retirement Earnings Test in

Recently examined 2000-2018 data concluded that the removal of the RET for those above FRA incentivized earlier benefit claiming for beneficiaries above FRA.[48] While that same report also showed no meaningful impact related to early claiming for those younger than FRA, the 2000 legislation did not offer any RET changes to that age segment of the population. If the portion that was previously affected by the RET before 2000 (above FRA until age 70) responded to a repeal of the RET with earlier benefit claiming, then an RET repeal for those below FRA could lead to earlier benefit claiming for those individuals below FRA.

There is other pertinent literature that helps to establish the impacts on benefit claiming and receipt of a complete RET repeal, which is the focus of some policymakers. A 2003 study predicted increased early take-up of benefits in the future if the RET were to be repealed for those younger than FRA.[49] Similarly, a 2004 study found that complete repeal of the RET would lead to an increase of benefit take-up for married men by 10%.[50] Likewise, a 2013 study found that RET repeal could lead to significant increases (14.4% with assumed behavioral responses discussed earlier) in beneficiaries becoming entitled earlier than their FRAs by 2050.[51] From all of these sources, the authors suggest that a complete elimination of the RET would lead to significant early benefit claiming before FRA.

## RET Repeal and the Impact on Poverty Rates

Another consideration for policymakers is the effect of the RET on poverty rates. When considering the potential repeal of the RET, if more people claim at age 62 because of no perceived tax, then more people would become subject to the permanent actuarial reduction in benefits, which increases for every month of entitlement before the FRA. Without the RET, this permanent reduction would no longer be lessened after FRA, unless there is a year of work in which the salary would be substantial enough to impact the PIA calculation (in which case the beneficiary would still be subject to the permanent percentage reduction). If a hypothetical beneficiary retires at the age of 64, three years before his or her hypothetical FRA, that beneficiary is subject to a permanent reduction of his or her benefits by 20% per month. If the repeal of the RET encouraged the hypothetical beneficiary to claim benefits earlier than he or she otherwise would have under current law, then the beneficiary would be subject to more years of permanently reduced benefits and at a higher reduction rate. For example, if that same hypothetical beneficiary were to retire at the age of 62, five years before his or her hypothetical FRA, he or she would be subject to a 30% permanent reduction and for two years longer than before (those years age 62 and 63). This permanent reduction, cemented further without a later RET readjustment, is the cause for poverty concerns later in a beneficiary's life, particularly at older ages.

Considerable evidence shows that poverty levels may increase in response to a complete repeal of the RET. A 2000 paper estimates that the poverty impact may be significant; specifically, the

2000?" *Social Security Bulletin*, vol. 67, no. 1 (2007).

[48] CRS In Focus IF11115, *Social Security Benefit Claiming Age*.

[49] Caroline Ratcliffe, Jillian Berk, and Kevin Perese, et al., *Impact of the Social Security Retirement Earnings Test on 62-64-Year-Olds*, AARP, Washington, DC, December 2003, pp. 1-48.

[50] Alan L. Gustman and Thomas L. Steinmeier, T*he Social Security Retirement Earnings Test, Retirement and Benefit Claiming*, National Bureau of Economic Research, Working Paper no. 10905, November 2004.

[51] Anya Olsen and Kathleen Romig, "Modeling Behavioral Responses to Eliminating the Retirement Earnings Test" *Social Security Bulletin*, vol. 73, no. 1 (2013). For poverty projections related to S. 2336, see Senator Marco Rubio's 2014 proposal to eliminate the RET, available at the SSA's Office of Research, Evaluation, and Statistics webstie at https://www.ssa.gov/policy/docs/projections/policy-options/worker-benefit/eliminate-ret-2050.html.

paper estimates the following potential percentage point increases in poverty rates after potential RET repeal: 2.3% among women, 3.6% among widow(er)s, 1.1% among married couples, 3.7% among surviving-spouse beneficiaries, 2.4% among those aged 70-79, and 4.4% among those aged 80-89. [52] In addition, more recent research from 2016 shows that the complete repeal of the RET would increase the likelihood of very low incomes among women in their mid-70s and older.[53] While another study is not specific about the timeframe of poverty-related impacts of a repeal, it projects that the negative impacts on poverty would occur.[54] Certain Social Security provisions help provide the explanation for these variations in poverty rates across demographic groups.

Survivors' benefits may be permanently affected by the worker beneficiary's decision to claim benefits before FRA. Under a provision in the Social Security Act known as the *widow(er)'s limit provision*, the widow(er)'s benefit may be reduced if the widow(er)'s benefit payable on the worker's record exceeds the benefit the worker was receiving (including any actuarial reduction for early retirement that may have reduced the worker's benefit) before his or her death.[55] If a worker has benefits withheld under the RET and he or she dies before attaining FRA (when the worker's benefit would have been recomputed), for purposes of determining the limit on the widow(er)'s benefit, the worker's benefit is recomputed at the time of the worker's death to account for months for which no benefit or a partial benefit was paid as a result of the RET.

Elderly beneficiaries, in particular, may face reduced living standards if their spouse claims benefits before FRA, because of the actuarial reduction to benefits described above. In general, women tend to outlive their husbands and are, therefore, more likely than men to receive Social Security survivors' benefits. If these survivors' benefits are decreased permanently, women stand to be adversely impacted by an RET repeal. In addition, individuals and couples are more likely to deplete other assets later in retirement, leaving the couple or surviving spouse more reliant on Social Security.

## RET Repeal and the Impact on the OASDI Program

An elimination of the RET for those below their FRA—as is proposed in the Senior Citizens' Freedom to Work Act of 2019 (H.R. 2663)[56]—would have two opposing impacts on the financial outlook of the Social Security program: (1) an increase in costs in the near-term and (2) a decrease in costs in the long-term. In comparing these two impacts in aggregate, a net impact on the program can be calculated.[57]

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[52] Michael A. Anzick and David A. Weaver, "The Impact of Repealing the Retirement Earnings Test on Rates of Poverty" *Social Security Bulletin*, vol. 63, no. 2 (2000).

[53] Theodore Figinski and David Neumark, "Does Eliminating the Earnings Test Increase the Incidence of Low Income Among Older Women?," *Research on Aging*, vol. 40, no. 1 (2016), pp. 27-53.

[54] Caroline Ratcliffe et al., *Impact of the Social Security Retirement Earnings Test on 62-64-Year-Olds*, AARP, December 2003, pp. 1-48.

[55] Social Security Act §202(e)(2)(D) and (f)(2)(D). For more information on the widow(er)'s limit provision, please see CRS Report R41479, *Social Security: Revisiting Benefits for Spouses and Survivors*.

[56] Similar proposals have been presented in previous congresses, including the Let Seniors Work Act of 2014 (S. 2336), for which the Office of Research, Evaluation, and Statistics at the SSA prepared projections as to the potential worker benefit changes: https://www.ssa.gov/policy/docs/projections/policy-options/worker-benefit/eliminate-ret-2030.html.

[57] Letter from Stephen C. Goss, Chief Actuary at the Social Security Administration, to Repensentative Jackie Walorski, U.S. House of Representatives, May 14, 2019, Table 1b, at https://www.ssa.gov/OACT/solvency/JWalorski_20190514.pdf (Cited as *SSA Estimates for Repeal of the RET* for the basis of the rest of this section, unless otherwise cited.) The forthcoming analysis is based upon this letter. It is assumed the elimination begins in 2020.

## Near-Term Increase in Program Costs

An immediate increase in program costs would occur as a result of two populations receiving increased benefits: (1) those who had benefits withheld due to the RET who would now receive no reduction and, therefore, whose benefits would increase and (2) some of those who were previously not receiving benefits and were planning to start entitlement later could elect to receive benefits sooner than they otherwise would under current law. This latter group includes those individuals who would now be able to receive benefits at age 62 and continue to work with no reduction in benefits under the RET, though they would still be subject to early retirement benefit reductions.

In 2019, roughly 450,000 beneficiaries are affected by the RET and the early retirement reduction mentioned earlier.[58] In addition, SSA's Office of the Chief Actuary (OCACT) estimates that in 2019 out of the 5 million worker beneficiaries between age 62 and 65 who are eligible for retired-worker benefits but have delayed entitlement and would have earnings over the RET thresholds, 1.7 million would apply for benefits earlier as a result of the RET repeal.[59]

## Long-Term Decrease in Program Costs

Although eliminating the RET would increase short-term program costs, there would also be a decrease in program costs in the long run. This decrease in program costs stems primarily from the increased incidence of beneficiaries becoming subject to the actuarial reduction in benefits for early retirement. Because this reduction is intended to be actuarially fair over the average lifetime and, seemingly, would not result in decreased lifetime benefits, the OCACT points out that the "overall net decrease in benefits occurs because of changes over time in life expectancy and interest rates."[60] This statement highlights, again, the correlation between life expectancy and lifetime Social Security benefits.

When considering this in the context of the numbers mentioned above, the 450,000 beneficiaries affected by the RET and the early retirement actuarial benefit reduction would all receive increased benefits immediately, but they would no longer be subject to an increase in benefits at FRA due to the RET readjustment. As a result, they will receive lower monthly benefits for the rest of their lives. This impact, driven by the OCACT's prediction of future changes in life expectancy and interest rates, would result in program savings in the long-term. OCACT predicts that 1.7 million workers (of the 5 million referenced earlier) would now claim benefits before FRA, which would lead to an immediate increase in total benefits paid by Social Security; however, these new beneficiaries would all receive an early retirement benefit reduction of a permanent nature. According to the OCACT's letter, the permanent reduction in monthly benefit levels would, on average, more than offset the value of additional benefit payments from earlier claiming over the long run.

## Aggregate Results

In the short run, the OCACT uses a 10-year outlook on the proposal using nominal dollars (as opposed to present value dollars).[61] Within this outlook, the OCACT estimates an average $19.91 billion increase in Old-Age, Survivors, and Disability Insurance (OASDI) costs per year over the

[58] *SSA Estimates for Repeal of the RET*, p. 2.

[59] *SSA Estimates for Repeal of the RET*, p. 3.

[60] *SSA Estimates for Repeal of the RET*, p. 3.

[61] *SSA Estimates for Repeal of the RET*, Table 1b.n. (Cited as the basis for the rest of this paragraph.)

2020-2029 period. This includes cost increases exceeding $20 billion each year from 2020 through 2027.

These annual cost increases are projected to be alleviated by 2038 when costs decline, resulting in program savings.[62] The OASDI program would continue to save money—through cost decreases—throughout the remainder of the 75-year projection period (2019-2093).

When considering both the financial impact and the time over which that impact occurs, the OCACT letter referenced above concludes that, over the long-range projection period of 75 years, elimination of the RET completely would lead to an improvement in the "long-range OASDI actuarial deficit by 0.03% of taxable payroll" and a reduction in the "annual deficit for the OASDI program by 0.11% of payroll for 2093."[63] Stated differently, the elimination of the RET would reduce the trust funds' long-term funding shortfall by about 1%, with the funding shortfall in 2093 reduced by about 3%.

# Conclusion

Originally, the RET was created—and, largely, still exists—in an effort to abide by longstanding insurance principles that require a significant loss to pay benefits. For Social Security retirement benefits, the RET quantifies a significant loss as occurring when earnings drop below the earnings thresholds. Upon FRA, benefits are recomputed to restore benefits withheld due to the RET. However, because the RET is unpopular among many beneficiaries, and may be seen as a "tax" or as a withholding of a benefit they have "bought and paid for," Congress has legislated changes to the RET throughout program history (specifically, to change the age limit, the earnings thresholds, and the all-or-nothing nature). Recently, a complete repeal of the RET has been the subject of legislative attention.

As the research suggests, a complete RET repeal is likely to increase the hours worked for certain populations (such as those with lower incomes near RET thresholds) and decrease the hours worked for others (such as those with higher incomes for whom the RET withholds the entirety of the year's benefits), but it is less likely to increase the overall labor force participation rate due to difficulties reentering the labor force for those already having exited. Furthermore, research suggests a repeal of the RET is likely to incentivize the early take-up of benefits, which would lead to a higher frequency of permanently reduced benefits due to actuarial reductions for early retirement. With no recalculation for later benefits remaining after RET removal, these lifetime lower benefits would increase the likelihood of poverty incidence for certain groups, especially women and those aged 80-89.

According to the OCACT's cost estimate of H.R. 2663 that would eliminate the RET, enactment of the proposal would reduce the OASDI cost. Increased program costs for benefits paid to individuals under the FRA would be more than offset by the lower monthly benefits due to early retirement benefit reductions because of changes over time in life expectancy and interest rates.

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[62] *SSA Estimates for Repeal of the RET*, Table 1b. (Cited as the basis for the rest of this paragraph.)

[63] *SSA Estimates for Repeal of the RET*, p. 1. The long-range financial status of the OASDI program is measured by the *actuarial balance*. The actuarial balance is the difference between the *summarized cost rate* (the ratio of the present value of cost to the present value of the taxable payroll for the projection period) and the *summarized income rate* (the ratio of the present value of scheduled non-interest income to the present value of taxable payroll for the projection period) over a 75-year projection horizon. The summarized cost rate and the summarized income rate are expressed as a percentage of *taxable payroll* (the weighted sum of taxable wages and taxable self-employment income). When this is multiplied by the OASDI payroll tax rate, it results in the total amount of payroll taxes. (2019 Annual Report, pp. 243-244.)

# Appendix A. Social Security Auxiliary Benefits

Social Security provides benefits to eligible family members of a retired, disabled, or deceased worker. Benefits payable to family members are equal to a specified percentage of the worker's PIA, subject to a maximum family benefit amount. That maximum family benefit amount is a function of the worker's PIA and is generally between 150% and 188% of that PIA.[64]

In general, two ways exist in which a person who receives Social Security auxiliary benefits (benefits paid to spouses, survivors, and other dependents) could be affected by the RET. First, benefits paid to spouses and dependents are affected by the RET when the benefits are based on the record of a worker beneficiary who is subject to the RET (i.e., the worker beneficiary is below FRA and has earnings above the exempt amount). This includes benefits paid to spouses who are below FRA as well as to those who are *above* FRA. An exception is made for auxiliary benefits paid to divorced spouses. If a divorced spouse has been divorced from the worker beneficiary for at least two years, the auxiliary benefit is not affected by the worker beneficiary's earnings.

Second, benefits paid to spouses (including divorced spouses) and dependents are affected by the RET when the auxiliary beneficiary is below FRA and has his or her own earnings above the exempt amount. Auxiliary beneficiaries who have their own earnings, even if they do not have their own retired worker benefit, are subject to the same annual exempt amounts and benefit reduction rates on their auxiliary benefits that apply to worker beneficiaries. An auxiliary beneficiary qualifying for benefits based on another beneficiary's work record (e.g., a spouse, a parent) and on his or her own work record is deemed dually entitled.[65]

The RET does not apply to disabled beneficiaries, including disabled auxiliary beneficiaries.

**Table A-1** shows an example of a couple in which (1) one member, the worker beneficiary, receives a retired-worker benefit based on his or her own work record, and (2) one member, the auxiliary beneficiary, receives a spousal benefit only. Both beneficiaries are assumed to be below FRA throughout the calendar year and to have earnings above the RET exempt amount.[66] Because neither beneficiary will attain FRA during the calendar year, both are subject to the same RET exempt amount and benefit reduction rate. Benefit reductions under the RET are applied to the couple in the following order:[67]

- First, the worker beneficiary's RET charge is pro-rated and applied to both the worker beneficiary's retired-worker benefit and the auxiliary beneficiary's spousal benefit.
- Second, if there is a balance remaining on the spousal benefit (if the spousal benefit has not been reduced to zero), the auxiliary beneficiary's RET charge from his or her own earnings is applied to (and further reduces) his or her spousal benefit only (the auxiliary beneficiary's earnings above the RET exempt amount do not affect the worker beneficiary's retired-worker benefit).

[64] For more detailed information on auxiliary benefits and the implementation of family maximum rules, please see CRS Report R42035, *Social Security Primer*.

[65] For more information on dually entitled beneficiaries, please see CRS Report R41479, *Social Security: Revisiting Benefits for Spouses and Survivors*.

[66] An example of such a couple would be a worker beneficiary who receives a retired-worker benefit based on his or her own work record and an auxiliary beneficiary (who does not have enough Social Security-covered employment to qualify for a retirement benefit) who is currently working but does not receive his or her own retired-worker benefit.

[67] 20 C.F.R. §404.434(b)(3).

**Table A-1. Hypothetical Example of the Application of the RET for a Couple Consisting of a Worker Beneficiary and an Auxiliary (Spousal) Beneficiary, 2019**

| Step | Spouse #1: Worker Beneficiary | Spouse #2: Auxiliary Beneficiary |
|---|---|---|
| 1. Social Security retired-worker benefit, based on his or her own work record | $2,000 | None |
| 2. Social Security auxiliary (spousal) benefit | None | $1,000 |
| 3. Calculation of earnings above annual threshold | | |
| Predicted earnings in 2019 | $30,000 | $30,000 |
| RET threshold in 2019 | $17,640 | $17,640 |
| Earnings above threshold | $12,360 | $12,360 |
| 4. RET Charge | $6,180 (one-half of earnings above the threshold) | $6,180 (one-half of earnings above the threshold) |
| 5. Application of the RET | | |
| January and February monthly benefits: The worker beneficiary's RET charge is applied to the total family benefit of $3,000 for each month. | $0 | $0 |
| March monthly benefit: The balance of the worker beneficiary's RET charge ($180 = $6,180 -$6,000) is pro-rated between the beneficiaries in proportion to their original entitlement amount, so $120 is applied to the worker beneficiary and $60 is applied to the auxiliary beneficiary. In addition, $940 of the auxiliary beneficiary's RET charge is applied to the auxiliary beneficiary's benefit only, reducing it to zero for this month. | $1,880 | $0 |
| April through August monthly benefits: The worker beneficiary receives full monthly benefits. The auxiliary beneficiary's monthly benefit is reduced to zero by his or her own RET charge. | $2,000 | $0 |
| September monthly benefit: The worker beneficiary receives full monthly benefits. The auxiliary beneficiary's RET balance of $240 ($6,180 - $5,940) is charged to his or her own benefit. | $2,000 | $760 |
| October through December monthly benefits: full benefits are paid to both beneficiaries. | $2,000 | $1,000 |

**Source:** Congressional Research Service.

**Notes:** The starting benefit amounts include reductions for retirement before FRA and exclude other benefit reductions that may apply, such as those related to receipt of a non-covered pension. The example has been constructed so that the "grace year" provision does not apply (see "The Grace Year Provision" section or **Appendix C** for an example). Both beneficiaries are presumed to be below FRA throughout the calendar year.

**Table A-2** summarizes the applicability of the RET to worker beneficiaries and auxiliary beneficiaries when either type of beneficiary has earnings above the exempt amount.

**Table A-2. Summary of the Applicability of the Retirement Earnings Test to Worker Beneficiaries and Auxiliary Beneficiaries**

| Beneficiary Type | Worker Beneficiary Has Earnings Above the Exempt Amount | Auxiliary Beneficiary Has Earnings Above the Exempt Amount |
|---|---|---|
| **Worker Beneficiary** | The worker beneficiary's own benefit is reduced. | Only the auxiliary benefit is reduced, not the worker beneficiary's benefit. |
| **Auxiliary Beneficiary: Spouse** | Auxiliary benefits to spouses are reduced for the worker beneficiary's earnings above the exempt amount, which are charged against the total family benefit. | Only the auxiliary benefit is reduced, not the worker beneficiary's benefit. |
| **Auxiliary Beneficiary: Divorced Spouse** | A divorced spouse's benefit is not reduced for the worker beneficiary's earnings above the exempt amount if the couple has been divorced for at least two years. | Only the auxiliary benefit is reduced, not the worker beneficiary's benefit. |
| **Auxiliary Beneficiary: Child** | Auxiliary benefits to children are reduced for the worker beneficiary's earnings above the exempt amount, which are charged against the total family benefit. | Only the auxiliary benefit is reduced, not the worker beneficiary's benefit. |
| **Auxiliary Beneficiary: Mother or Father with Qualifying Child in Care** (child under age 16 or disabled) | Not applicable (worker beneficiary is deceased). | The mother's or father's benefit is reduced. |
| **Auxiliary Beneficiary: Widow(er)** | Not applicable (worker beneficiary is deceased). | The widow(er)'s benefit is reduced. |
| **Auxiliary Beneficiary: Parent** | Not applicable (worker beneficiary is deceased). | The parent's benefit is reduced. |

**Source:** SSA, Social Security Handbook, Chapter 18: Reduction or Nonpayment of Social Security Benefits, *1804 How Excess Earnings Are Charged Against Benefits*, April 9, 2010, at https://www.ssa.gov/OP_Home/handbook/handbook.18/handbook-1804.html.

**Notes:** A worker beneficiary's spouse or child who is receiving mother's/father's benefits or child's benefits based on a third person's work record is deemed entitled on the worker beneficiary's record. Therefore, the worker beneficiary's earnings above the exempt amount would be charged not only against his or her own benefits and the benefits of those entitled on his or her record, but also against the spouse's or child's benefits that are based on a third person's work record. As noted previously, disabled beneficiaries are subject to different rules and limitations regarding earnings.

# Appendix B. Annual Exempt Amounts Under the Social Security Retirement Earnings Test, Calendar Years 2007-2019

The RET annual exempt amounts are indexed to average wage growth in the economy. An exception, however, is that the annual exempt amounts are not increased in a year during which no Social Security cost-of-living adjustment (COLA) is payable. In some years—such as, 2010, 2011, and 2016—there were no Social Security COLAs payable, so the RET exempt amounts did not increase in these years. The RET applies only to wage and salary income (i.e., earnings from work). It does not apply to "unearned" income, such as income from pensions, rents, dividends, or interest.

**Table B-1. Annual Exempt Amounts Under the Social Security Retirement Earnings Test, Calendar Years 2007-2019**

| Calendar Year | Prior to Year of Attaining FRA | During Year of Attaining FRA |
|---|---|---|
| 2007 | $12,960 | $34,440 |
| 2008 | $13,560 | $36,120 |
| 2009 | $14,160 | $37,680 |
| 2010 | $14,160 | $37,680 |
| 2011 | $14,160 | $37,680 |
| 2012 | $14,640 | $38,880 |
| 2013 | $15,120 | $40,080 |
| 2014 | $15,480 | $41,400 |
| 2015 | $15,720 | $41,880 |
| 2016 | $15,720 | $41,880 |
| 2017 | $16,920 | $44,880 |
| 2018 | $17,040 | $45,360 |
| 2019 | $17,640 | $46,920 |

**Source:** Social Security Administration, "Exempt Amounts Under The Earnings Test," at http://www.socialsecurity.gov/OACT/COLA/rtea.html.

# Appendix C. The Grace Year Provision Illustrated

**Table C-1. Hypothetical Example of the Application of the Grace Year Provision in the First Year of Entitlement, 2019**

| Step | Worker Beneficiary with Entitlement Beginning at Age 62 in September of Calendar Year |
|---|---|
| 1. Salary in this calendar year | |
| January 1—August 31 | $48,000 |
| Salary in September | $1,300 |
| Salary in October | $1,500 |
| Salary in November | $900 |
| Salary in December | $2,100 |
| 2. Identify applicable RET threshold | |
| As this entitlement does not come in a calendar year wherein the retiree is reaching FRA, the lower threshold applies | $17,640 |
| Determine the monthly amount of that threshold | $1,470[a] |
| 3. Social Security monthly benefit to be received upon entitlement | $2,000 |
| 4. Calculate the Social Security benefit to be received in each calendar month | |
| January through August | N/A—not yet entitled at the early retirement age of 62 |
| September | $2,000[b] |
| October | $0[c] |
| November | $2,000[d] |
| December | $0[e] |

**Source:** Congressional Research Service.

**Notes:** This example assumes that the worker beneficiary receives benefits based on his or her own work record only. The starting benefit amounts include reductions for retirement before FRA and exclude other reductions that may apply.

a. This value is calculated by dividing the annual threshold ($17,640) by 12.

b. Salary = $1,300, which is less than the RET limit of $1,470, so the worker receives the entire Social Security benefit plus his or her earnings.

c. Salary = $1,500, which is more than the RET limit of $1,470, so the worker receives his or her earnings but no Social Security benefit.

d. Salary = $900, which is less than the RET limit of $1,470, so the worker receives the entire Social Security benefit plus his or her earnings.

e. Salary = $2,100, which is more than the RET limit of $1,470, so the worker receives his or her earnings but no Social Security benefit.

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## Acknowledgments

This report was originally co-authored by CRS specialist Dawn Nuschler and former CRS analyst Alison Shelton.

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