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RETIREMENT EXPERIENCE OF OLD-AGE INSURANCE BENEFICIARIES, 1966-1976

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Much attention has been focused recently on retirement rates under social security because of their rapid increase over the past several years. The increase is attributable in part to changes in the Social Security Law as well as to the influence of current economic conditions and social attitudes. This analysis gives some of the possible causes for the increase and comments on possible future trends.

Many analysts, particularly those associated with staff and private pension plans, tend to think of individual workers as either fully active or fully retired. This may be partly because generally, those pension plans do not pay any retirement benefits if the worker is still active within the particular employment covered by the plan. This is not the case with social security, since under this system, which covers almost all employment in the United States, the law permits the "retired" worker to earn certain amounts of income from covered or non-covered employment and still draw his monthly benefit check, either in full or in part. This may be done under the provision in the law usually referred to as "the retirement test" which in part was designed to allow workers to ease the transition from full employment to full retirement. The analysis in this note is based on the measure of retirement that results from the application of "the retirement test". This means that if a worker is paid a retirement benefit for a specific month in accordance with the retirement test, for the purpose of this note that worker is considered to be retired for that month, regardless of how he would be classified under any other measure or test of retirement or of how he would be classified by the same social security retirement test in future months. In this sense it is not possible to speak properly about retirement age since workers could be moving continuously in and out of retirement in accordance with the test and, therefore, there is no specific age at which we could say that the individual left employment permanently and became a retiree

for the rest of his life. This being the case, the natural means by which to study retirement under social security is to analyze the proportions of insured workers who receive monthly old-age insurance benefits at given moments in time. These proportions will be referred to in this note as "prevalence rates of retirement".

Table A gives the prevalence rates of retirement for those aged 65-71 from the beginning of calendar years 1966 to 1976. For example, it indicates that at the beginning of 1976, out of 100 insured men aged 65, there were 79 drawing monthly old-age insurance benefits. Presumably the remaining 21 were working. Similarly, Table B indicates that at the beginning of 1976, out of 100 insured men aged 65, there were 61 drawing actuarially reduced benefits, that is, benefits which were reduced because the beneficiary started drawing them before age 65. This means that of the 79 who were drawing benefits, 61 were receiving reduced benefits while 18 were receiving full benefits. Most of the remaining 21 will eventually draw full benefits. The values in Table B could be regarded as being prevalence rates of early retirement.

In this note only the prevalence rates of retirement for those age 65-71 are studied. For long-range cost purposes, there is no need to analyze the rates for retirees ages 62-64, because, with their benefits being on a close to actuarial-reduction basis, the long-range cost of the program is not significantly affected by them. The rates for those age 72 and over are not analyzed here because at those ages the earnings test is not applicable and therefore practically everyone who is eligible draws benefits.

As may be noted from Table A, the prevalence rates of retirement for ages 65-71 combined were relatively stable from 1966 to 1970. After initial increases in 1967, the rates actually declined slightly from 1968 to 1970. Two factors relating to the 1965 Social Security Amendments made the 1966-67 rates higher than they might other-

wise have been. First, entitlement to old-age benefits was made a requirement for eligibility for the Hospital Insurance part of the Medicare program. Second, changes made in the earnings test made it possible for beneficiaries to have larger amounts of earned income without any reduction of social security cash benefits. Immediately prior to the 1965 Amendments, beneficiaries could earn up to \$1,200 a year without loss of benefits. In addition, \$1 of benefits could be retained for every \$2 of earnings between \$1,200 and \$1,700. These earnings limits were increased to \$1,500 and \$2,700 effective for calendar year 1966, and this made it possible for a larger group of individuals to draw retirement benefits while still working. Slight declines in prevalence rates of retirement for 1968-1970 possibly resulted from improving general economic conditions, with a corresponding favorable employment situation for older workers.

Prevalence rates of retirement increased significantly for both sexes from 1971 to 1976. Much of this increase is attributable to changes in the social security program. Monthly old-age benefits were increased in this period by about 58 percent, and they were made subject to automatic adjustments under the provisions of the Social Security Amendments of 1972. In 1973 the range of earnings for which \$1 of benefit is withheld for every \$2 of earnings was extended to cover all earnings above the exempt amount, which previously had made subject to automatic adjustments. These changes combined made retirement, or partial retirement, more attractive for some individuals aged 62-71 who might otherwise have continued to work full time. We believe that these changes caused much of the substantial increase in the 1974 rates (see Table A), and that their effect continued to be felt through 1975-76, as the maturation process of the changes took place. Note from Table B that the proportions of retirees receiving actuarially-reduced benefits increased markedly from 1974 to 1976. This may have been caused in part by the impact the changes had in inducing earlier retirement.

Other factors have also contributed to the increase in prevalence rates of retirement. Our collective social preference for additional leisure has probably increased the prevalence rates of retirement during the 1971-76 period. Some involuntary or premature retirements have been caused by adverse economic conditions during 1974-75 and by mandatory retirement policies. Part of the upward trend in female prevalence rates of retirement could be due to women who worked only at young ages and who are now qualifying for benefits. For example, those reaching age 65 over the

period 1971-76 would have been in their mid 20's to early 30's when the social security program started in 1937 and possibly have had some attachment to the labor force during the World War II years. A large portion of these workers could be assumed to have high prevalence rates of retirement, since they have been out of the labor force for a relatively long time by the time they reach age 65. We believe that the above factors have contributed to the recent increases in prevalence rates of retirement and should be considered in projecting future rates.

A comparison of prevalence rates of retirement by sex indicates that the proportion of insured workers aged 65-71 receiving monthly old-age insurance benefits is now higher for males than for females. This has been the case since 1974. The prevalence rates of retirement for both sexes have followed the same trends over the 1966-76 period, but the trends have differed in relative magnitude. For example, from 1971 to 1976, the rates of males increased 11.3 percent, while the rates of females increased 6.8 percent. This differential may be because recently males generally have had high retirement benefits relative to pre-retirement earnings and can more easily afford to stop working or enter into part-time employment.

From Table B it can be seen that there has been a continual increase in prevalence rates of early retirement. The proportion of insured males choosing to receive old-age insurance benefits before age 65 has been growing faster than that of insured females, and could possibly reach the level for females in the future. It may be noted from Table B that, at the beginning of 1976, 61 percent of insured males age 65 and 68 percent of insured females age 65 had decided to receive retirement benefits before age 65. In interpreting Table B it should be kept in mind that social security benefits may be claimed retroactively for up to twelve months and that in some instances it takes several months to process the claim. This has the effect of increasing early retirement prevalence rates from one year to the next for cohorts around age 65.

From this analysis, several tentative conclusions may be reached regarding the past experience in prevalence rates of retirement from 1966 to 1976 and the trends which they may follow in the future. After holding steady from 1966 to 1970, there has been a relatively fast rate of increase in the rates from 1971 to 1976. The increases in the rates may be attributed in part to high retirement benefits which the beneficiary can retain even when he is partially employed. Other factors that may have contributed to the increases are the slowdown in the national

economy and the stronger preference for more leisure. Based on these observations, assuming normal economic conditions and no changes in the social security law which would encourage earlier retirement, and in the absence of any evi-

dence that the rates may decrease, we anticipate that prevalence rates of retirement will maintain a slower, but steady rate of increase for several more years and then stabilize before the turn of the century.

Table A
Proportions of Insured Workers at Ages 65-71 Who Were Receiving Retirement Benefits
at the Beginning of Calendar Years 1966-76

<u>Age</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
	MALES										
65	63%	58%	63%	63%	63%	66%	67%	71%	77%	77%	79%
66	69	77	70	75	74	76	79	78	84	86	86
67	79	76	82	76	81	81	82	84	85	89	89
68	82	85	79	86	80	86	86	86	90	89	90
69	89	86	87	82	89	83	90	89	90	93	92
70	91	93	89	90	85	92	86	92	93	94	96
71	93	94	95	90	92	87	95	88	96	96	96
65-71	79.6	80.2	79.5	79.3	79.4	80.5	82.4	83.2	87.1	88.2	89.6
	FEMALES										
65	71	68	72	72	70	72	71	74	81	80	80
66	72	82	75	79	78	78	80	79	83	86	85
67	79	78	84	78	83	83	82	84	84	87	88
68	79	84	79	86	81	86	85	85	88	87	89
69	86	84	85	81	88	83	88	88	89	91	89
70	90	90	86	88	83	90	85	91	91	91	92
71	92	94	92	88	89	85	92	87	93	94	92
65-71	80.4	81.9	81.3	81.2	81.2	81.9	82.5	83.2	86.6	87.4	87.5

Table B

Proportions of Insured Workers at Ages 65-71 Who Were Receiving Actuarially-Reduced Retirement Benefits at the Beginning of Calendar Years 1966-76

Age	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
MALES											
65	45%	43%	46%	47%	46%	48%	49%	51%	58%	59%	61%
66	42	48	45	47	47	47	49	49	53	57	59
67	43	42	47	44	47	48	48	49	50	52	57
68	37	43	42	47	44	48	48	48	50	50	53
69	--	37	43	41	47	44	48	48	48	50	50
70	--	--	36	42	41	47	45	48	49	48	50
71	--	--	--	36	42	41	47	44	48	49	49
65-71	--	--	--	43.9	45.2	46.3	47.7	48.3	51.2	52.6	54.5
FEMALES											
65	61	58	60	59	60	61	60	62	68	69	68
66	57	63	59	61	61	61	62	61	62	68	68
67	59	57	60	59	62	62	61	63	60	64	67
68	57	59	56	62	59	62	62	61	61	62	64
69	57	57	59	56	62	59	62	62	60	64	62
70	54	57	57	59	57	62	59	62	61	62	63
71	53	54	57	57	59	56	62	60	62	63	62
65-71	57.0	58.0	58.2	58.9	60.0	60.6	61.2	61.6	62.2	64.6	65.2