



SOCIAL SECURITY
Office of the Chief Actuary

June 29, 2017

The Honorable Sam Johnson
The Honorable Jackie Walorski
United States House of Representatives
Washington, D.C. 20510

Dear Chairman Johnson and Representative Walorski:

Enactment of H.R. 3077, the “Senior Citizens’ Freedom to Work Act of 2017”, which you introduced on June 27, 2017, would eliminate the retirement earnings test (RET) applicable for OASDI beneficiaries for earnings paid in 2019 and later. Because the initial effect of the proposal would be almost entirely additional benefit payments, enactment of the proposal would increase OASDI cost by a total of \$192 billion over the period including calendar years 2017 through 2026, and would change the projected year of reserve depletion for the combined OASI and DI Trust Funds to 2033, one year earlier than projected under current law. However, most individuals who would initially have additional benefits due to the elimination of the RET would then receive a permanent reduction in their monthly benefit level that ultimately would more than offset the initial additional benefits. Therefore, in the long-range, enactment of the proposal would reduce OASDI cost. We estimate that elimination of the RET as proposed would reduce (improve) the long-range OASDI actuarial deficit by 0.01 percent of taxable payroll, and would reduce the annual deficit for the OASDI program by about 0.13 percent of payroll for 2090. Table 1, enclosed, presents annual and 75-year-summarized cost rates, income rates, balances, and changes in annual balances for the OASDI program under the proposal. The estimates presented here are based on the intermediate assumptions of the 2016 Trustees Report and reflect the combined effort of many in the Office of the Chief Actuary, but most particularly Karen Glenn, Chris Chaplain, and Daniel Nickerson.

Background

Under current law, OASDI beneficiaries who have not yet reached their normal retirement age (NRA) are generally subject to benefit withholding if their earnings exceed one of two specified thresholds.¹ For the year 2016, beneficiaries who did not attain their NRA during this year had \$1 in benefits withheld for every \$2 of annual earnings in excess of \$15,720. Beneficiaries who attained their NRA during this year had \$1 in benefits withheld for every \$3 of earnings paid in

¹ Dependents on a worker’s record can also have their benefits reduced or withheld if the worker has excess earnings above the applicable threshold.

months prior to attaining NRA in excess of \$41,880.² Upon attainment of NRA, an individual's benefit level is increased, by excluding from the early-retirement reduction calculation any prior months for which the benefit was fully or partially withheld due to the earnings test.

Proposal Specifications

Under the proposal, the RET would be eliminated, starting in 2019, for all individuals below NRA. This includes both individuals below NRA who are subject to a benefit reduction for early retirement (such as retired workers, aged spouses, and aged widow(er)s) and individuals below NRA who are not subject to a reduction for early retirement (such as child beneficiaries and spouses and surviving spouses who have a child in care). Note that disabled workers, disabled widow(er)s, and disabled adult child beneficiaries are already exempt from the retirement earnings test under current law.

Effects on Workers and Beneficiaries

Financial effects for the OASDI program would result from changes in benefit receipt and work by individuals no longer subject to benefit withholding under the current RET. The changes may be best understood by considering the following effects of the proposal: (1) beneficiaries whose benefits are reduced or withheld under the current-law RET would no longer have their benefits reduced, (2) many workers who currently do not apply for benefits because their benefits would be reduced or withheld due to the RET would now apply earlier, and (3) some workers currently subject to the RET would increase or decrease their earnings.

1) Effects for Beneficiaries Whose Benefits Are Reduced by the Current RET

Under current law, we estimate that about 520,000 beneficiaries below NRA will have their benefits reduced or completely withheld due to the RET in 2017. On average, about 33 percent of their potential benefit will be withheld during the year. If the RET were eliminated, benefits would be fully paid to these individuals, thus increasing program cost for benefits when these beneficiaries are below NRA.

Example: Consider an individual who applies for benefits at age 63 in 2025, with a PIA of \$2,000 and a benefit of \$1,500 (25 percent early-retirement reduction), and worked at an earnings level high enough to fully suspend all benefits from age 63 to attainment of NRA. Under current law, this individual, at NRA, would receive a benefit equaling the full PIA of \$2,000 because no benefits would have been received for months where the RET would apply (between 63 and NRA), thus eliminating the related early-retirement reduction for those months. Under the proposal, this individual would receive the \$1,500 benefit beginning at age 63 and at the reduced monthly benefit level for life.

About 400,000 of the beneficiaries whose benefits are reduced by the current RET in 2017 are receiving benefits that are subject to a permanent early-retirement reduction for months of

² For subsequent years, these earnings threshold amounts increase each year based on changes in SSA's average wage index.

benefit receipt below NRA. For these beneficiaries, the additional program cost for paying their benefits below NRA without any RET reduction would be more than offset in the long run by program savings due to additional early-retirement reductions in their monthly benefits after reaching NRA. This overall net decrease in benefits occurs because of changes over time in life expectancy and interest rates. However, over the period 2019 through 2026, we estimate the additional benefits paid for this group as a result of enacting the Bill would be about \$17 billion.

For the roughly 120,000 beneficiaries reduced by the current earnings test who are not subject to a reduction for early retirement in 2017 (such as child beneficiaries and spouses and surviving spouses who have a child in care), the additional benefits paid as a result of RET elimination would be a cost to the program, with no offsetting savings in later years. Over the period 2019 through 2026, we estimate the additional benefits paid for this group as a result of enacting the Bill would be about \$4 billion.

2) Effects for Workers Who Would Apply for Benefits Earlier, While Still Working

In 2017, about 5 million of about 14 million individuals at ages 62 through 65 who are fully insured for receipt of retired worker benefits (1) have not applied for a Social Security benefit as early as they could and (2) have earnings at a level that would reduce their benefit if they had applied earlier. If the RET were eliminated, we estimate that about 30 percent of these workers (1.5 million) would apply earlier and would on average receive benefits for 8 months in the year as a result of this earlier application. This additional benefit receipt below NRA would significantly increase benefit cost. Over the period 2019 through 2026, we estimate the additional benefits paid for this group as a result of enacting the Bill would be about \$152 billion. However, because they would start benefit receipt earlier, their monthly benefit amount would be lower for the rest of their lives.

Example: Consider an individual who applies for benefits at age 63 in 2025 under current law, with a PIA of \$2,000 and a benefit of \$1,500 (25 percent early-retirement reduction). If that same individual were induced to apply at age 62 in 2024 because of the RET elimination, the benefit would be \$1,400 in 2024 (assuming the same \$2,000 PIA) because of an extra year of early-retirement reduction (increasing the reduction from 25 to 30 percent). Thus, under the proposal, ignoring cost-of-living adjustments, the individual would receive \$1,400 each month in 2024 versus \$0 under current law, but \$100 per month less (\$1,400 versus \$1,500) in years 2025 and later.

As described in 1) above, the permanent reduction in monthly benefit level would, on average, more than offset the value of additional benefit payments from earlier claiming over the long run.

We also estimate that there are about 250,000 workers in 2017 who: (1) are below NRA, (2) are eligible for benefits that are not subject to reduction for early retirement (such as child beneficiaries and spouses and surviving spouses who have a child in care), (3) have not applied for benefits because their benefits would be reduced by the RET, and (4) would apply for benefits payable for about 10 months, on average, in the year if the RET were eliminated. The additional benefits paid to these individuals would not be offset in later years because no reduction for earlier benefit receipt would apply. Over the period 2019 through 2026, we

estimate the additional benefits paid for this group as a result of enacting the Bill would be about \$19 billion.

3) Effects for Workers Who Would Increase or Decrease Their Earnings

Elimination of the RET is estimated to have two largely offsetting effects on earnings. For beneficiaries who have decided not to work or whose benefits are reduced (not completely withheld) by the current-law RET, any additional earnings would “on the margin” be partially offset by the 50-percent benefit withholding of the current RET. If the RET were eliminated, then additional earnings would be fully realized and many of these individuals would increase their earnings to some degree.

However, for individuals who have earnings at a level where benefits are or would be totally withheld under the current RET, elimination of the RET would allow them to receive their full benefit in addition to the earnings. With the availability of full benefits, these individuals could work less and still maintain the same or a higher standard of living (total income). We assume that some of these individuals would reduce work effort to a small degree based on this “income effect”.

We estimate that the increase in earnings under the first of these effects would be larger than the reduction in earnings from the second effect. We estimate that the net effect would be equivalent to additional annual earnings averaging 10 percent of the national average wage for 150,000 workers. We assume that the incentive to limit earnings under the current RET is modest. As indicated above, for any month for which benefits are withheld or reduced due to the RET, there is an offsetting increase at NRA in the monthly benefit level for life, that has on average a higher value than the benefit reductions from the RET before NRA. Over the period 2019 through 2026, we estimate the additional payroll tax revenue received by the OASI and DI Trust Funds as a result of this net change in earnings as a result of enacting the Bill would be about \$1 billion.

We hope these estimates are helpful. Please let me know if we may provide further assistance.

Sincerely,

A handwritten signature in black ink that reads "Stephen C. Goss". The signature is written in a cursive, flowing style.

Stephen C. Goss, ASA, MAAA
Chief Actuary

Enclosure

Table 1 - OASDI Cost Rate, Income Rate, Annual Balance, and Trust Fund Ratio

H.R. 3077 Introduced by Chairman Sam Johnson and Representative Jackie Walorski. Beginning for earnings in January 2019, eliminate the retirement earnings test for all OASDI beneficiaries under normal retirement age (NRA)

Year	Proposal			Trust Fund Ratio 1-1-year	Change from Present Law		
	Expressed as a percentage of present-law taxable payroll				Expressed as a percentage of present-law taxable payroll		
	Cost Rate	Income Rate	Annual Balance		Cost Rate	Income Rate	Annual Balance
2016	14.05	12.94	-1.10	303	0.00	0.00	0.00
2017	13.72	12.92	-0.80	293	0.00	0.00	0.00
2018	13.86	12.96	-0.90	277	0.00	0.00	0.00
2019	14.32	12.98	-1.34	255	0.34	0.02	-0.32
2020	14.44	13.00	-1.44	239	0.30	0.02	-0.29
2021	14.55	13.02	-1.53	223	0.28	0.02	-0.27
2022	14.76	13.05	-1.71	206	0.27	0.02	-0.26
2023	15.02	13.07	-1.95	189	0.26	0.01	-0.25
2024	15.28	13.11	-2.17	171	0.25	0.01	-0.24
2025	15.53	13.12	-2.40	153	0.24	0.01	-0.23
2026	15.70	13.14	-2.56	135	0.23	0.01	-0.22
2027	15.86	13.16	-2.71	118	0.22	0.01	-0.20
2028	16.00	13.17	-2.83	100	0.19	0.01	-0.18
2029	16.13	13.18	-2.95	83	0.17	0.01	-0.16
2030	16.24	13.19	-3.05	65	0.14	0.01	-0.13
2031	16.34	13.20	-3.14	47	0.12	0.01	-0.11
2032	16.42	13.21	-3.21	28	0.09	0.01	-0.09
2033	16.48	13.21	-3.27	10	0.08	0.01	-0.07
2034	16.52	13.22	-3.31	---	0.06	0.00	-0.05
2035	16.54	13.22	-3.32	---	0.04	0.00	-0.04
2036	16.58	13.22	-3.36	---	0.02	0.00	-0.02
2037	16.60	13.23	-3.37	---	0.00	0.00	0.00
2038	16.60	13.23	-3.37	---	-0.02	0.00	0.02
2039	16.58	13.23	-3.35	---	-0.03	0.00	0.03
2040	16.55	13.23	-3.32	---	-0.04	0.00	0.04
2041	16.51	13.23	-3.28	---	-0.05	0.00	0.05
2042	16.48	13.23	-3.25	---	-0.05	0.00	0.05
2043	16.44	13.23	-3.22	---	-0.05	0.00	0.05
2044	16.41	13.23	-3.18	---	-0.06	0.00	0.06
2045	16.39	13.23	-3.16	---	-0.06	0.00	0.06
2046	16.36	13.23	-3.13	---	-0.06	0.00	0.06
2047	16.33	13.23	-3.11	---	-0.07	0.00	0.07
2048	16.31	13.23	-3.08	---	-0.07	0.00	0.07
2049	16.29	13.23	-3.06	---	-0.08	0.00	0.07
2050	16.28	13.23	-3.05	---	-0.08	0.00	0.08
2051	16.28	13.23	-3.05	---	-0.08	0.00	0.08
2052	16.29	13.23	-3.06	---	-0.08	0.00	0.08
2053	16.31	13.23	-3.08	---	-0.08	0.00	0.08
2054	16.35	13.24	-3.11	---	-0.08	0.00	0.08
2055	16.38	13.24	-3.14	---	-0.08	0.00	0.08
2056	16.43	13.24	-3.18	---	-0.08	0.00	0.08
2057	16.47	13.25	-3.22	---	-0.09	0.00	0.08
2058	16.51	13.25	-3.26	---	-0.09	0.00	0.09
2059	16.56	13.25	-3.30	---	-0.10	0.00	0.10
2060	16.60	13.26	-3.34	---	-0.10	0.00	0.10
2061	16.65	13.26	-3.39	---	-0.11	0.00	0.10
2062	16.70	13.26	-3.43	---	-0.11	0.00	0.11
2063	16.74	13.27	-3.48	---	-0.11	0.00	0.11
2064	16.79	13.27	-3.52	---	-0.11	-0.01	0.11
2065	16.84	13.27	-3.57	---	-0.11	-0.01	0.11
2066	16.89	13.28	-3.61	---	-0.12	-0.01	0.11
2067	16.94	13.28	-3.66	---	-0.12	-0.01	0.11
2068	16.99	13.28	-3.71	---	-0.12	-0.01	0.11
2069	17.05	13.29	-3.76	---	-0.12	-0.01	0.11
2070	17.10	13.29	-3.81	---	-0.12	-0.01	0.11
2071	17.14	13.29	-3.85	---	-0.12	-0.01	0.12
2072	17.18	13.30	-3.88	---	-0.12	-0.01	0.12
2073	17.21	13.30	-3.91	---	-0.13	-0.01	0.12
2074	17.23	13.30	-3.93	---	-0.14	-0.01	0.13
2075	17.25	13.30	-3.95	---	-0.14	-0.01	0.14
2076	17.26	13.30	-3.95	---	-0.15	-0.01	0.14
2077	17.26	13.30	-3.95	---	-0.15	-0.01	0.14
2078	17.26	13.30	-3.95	---	-0.15	-0.01	0.15
2079	17.25	13.30	-3.95	---	-0.15	-0.01	0.14
2080	17.25	13.30	-3.95	---	-0.15	-0.01	0.14
2081	17.25	13.30	-3.95	---	-0.15	-0.01	0.14
2082	17.26	13.30	-3.96	---	-0.14	-0.01	0.14
2083	17.28	13.31	-3.97	---	-0.14	-0.01	0.13
2084	17.30	13.31	-4.00	---	-0.14	-0.01	0.13
2085	17.33	13.31	-4.03	---	-0.13	-0.01	0.13
2086	17.37	13.31	-4.06	---	-0.13	-0.01	0.13
2087	17.41	13.31	-4.10	---	-0.13	-0.01	0.13
2088	17.45	13.32	-4.14	---	-0.13	-0.01	0.13
2089	17.50	13.32	-4.18	---	-0.13	-0.01	0.13
2090	17.54	13.32	-4.22	---	-0.14	-0.01	0.13
2091	17.58	13.32	-4.26	---	-0.14	-0.01	0.13

Summarized Rates: OASDI				
	Cost Rate	Income Rate	Actuarial Balance	Year of reserve depletion ¹
2016 - 2090	16.49%	13.85%	-2.65%	2033

Summarized Rates: OASDI		
Change in Cost rate	Change in Income Rate	Change in Actuarial Balance
-0.01%	0.00%	0.01%

Based on Intermediate Assumptions of the 2016 Trustees Report.

¹ Under present law the year of combined Trust Fund reserve depletion is 2034.