Earnings Test Under Old-Age, Survivors, and Disability Insurance: Basis, Background, and Experience

by ROBERT J. MYERS*

Old-age, survivors, and disability insurance benefits are intended to provide a partial replacement of earnings lost to a family because of the breadwinner's death, disability, or retirement in old age. Retirement from gainful work in our society may occur at a clearly defined time, or it may for long periods be partial and gradual. Complete retirement has never been required as a condition for receipt of benefits; rather the test is that of substantial retirement. This article describes the evolution of the detailed provisions that have been adopted in order to give effective meaning to that concept.

THE SOCIAL SECURITY ACT provides a test on earnings so that benefits are reduced or are not payable to eligible persons under age 72 who are engaged in substantial employment. After a beneficiary attains age 72, the earnings test is no longer applicable. Frequently referred to as the "retirement test"—a misnomer, particularly with reference to young beneficiaries—the test has been the subject of discussion ever since the passage of the Social Security Act.

PHILOSOPHY OF EARNINGS TEST

Perhaps the most important reason for the earnings test lies in the purpose of old-age, survivors, and disability insurance. The program is designed to provide social insurance against presumed loss of income following withdrawal from employment and not, like private insurance, to provide annuities at a prescribed, fixed age. A retirement test is generally, however, a provision in private pension plans.

Without the earnings test, program costs would be much greater. Payment of benefits automatically when workers—whether or not they retire—attain the minimum retirement age of 62 specified in the law would increase program costs almost 1 percent of taxable payroll on a level basis. Action to meet the higher cost—increasing contribution rates, for example, or raising the minimum retirement age, or lowering the general benefit level—would then be necessary. None of these alternatives seems desirable.

Moreover, there is no social necessity for paying benefits to anyone with substantial earnings. There may be reasons, however, for paying partial or full benefits to workers in part-time or low-paid jobs. It is here that the real problem exists.

Another reason has been advanced for retaining the earnings test. Under certain economic conditions the automatic payment of benefits, without an earnings test, might depress wages because beneficiaries might be willing to work at less than the usual scale if they also had their benefits.

Arguments Against the Earnings Test

A number of arguments against the earnings test have been made in the past. Some of the arguments and the rebuttals are summarized in the following paragraphs.

Inadequacy of benefits.—Benefits are inadequate, the argument runs, and therefore retired beneficiaries should be permitted to work and earn more than $1,200 a year if they are to have enough to live on.

One fallacy here is that if the benefits, plus earnings of $1,200, are inadequate for beneficiaries who are able to work, how can beneficiaries who are unable to work—the vast majority of those on the beneficiary rolls—get along on their benefits alone? The first need, if benefits are inadequate, is to raise them for those who are unable to work and for those who can work but earn only small amounts. Moreover, if the earnings test were eliminated and retired beneficiaries were free to supplement their benefits to whatever extent they could, then benefits would be paid to individuals merely because they attain retirement age, even though they continue in their normal, lifetime

*Chief Actuary, Social Security Administration.

career jobs. It is, of course, impossible in a nationwide system covering almost all employment to define retirement from a particular job and to distinguish between a person of eligible age who is working at a job he has held for some time and a person working on a job that he might only recently have acquired to supplement his benefits.

Disincentive to work.—It is also argued that the test prevents people from working.

On the whole this statement is not correct, because generally an individual will have more income from working than from the combination of benefits and the amount of earnings exempt from the application of the earnings test. There is no legal provision in the test that forces workers to quit their jobs, even though any test undoubtedly serves to discourage some beneficiaries from engaging in productive employment.

Exemption of unearned income.—Another argument states that it is unfair to pay full benefits to beneficiaries with unearned income of whatever amount—from, say, private pensions or investments—and to reduce benefits for beneficiaries with earned income of more than $1,200 a year.

A test related to unearned income would run contrary to the spirit and practice of social insurance, which is designed to provide a floor of protection on which group and private economic security can be built. Such a test would mean that the system would deteriorate into a means test program; it would also have a serious and damaging effect on all forms of private savings.

"Right to benefits."—It is sometimes claimed that the beneficiary has "bought and paid for" his benefits because he may have been contributing for as long as 27 years.

A worker with the maximum covered earnings for the 27 years 1937–63 has actually contributed only $1,758. Since for a retired worker without dependents this amount represents at most only about 1 year's benefits, it is obvious that no one has yet "bought and paid for" his own benefits. Actuarial calculations indicate that the proportion of benefits paid for by a worker's contributions is now generally less than 10 percent (and is less than 1 percent for many beneficiaries now on the rolls). Later on, of course, the worker's contributions will pay for a large part of his own benefit.

Costs without the test.—Finally, the argument is occasionally made that eliminating the test will not require any increase in the contributions scheduled and the system will actually show a profit from every benefit withheld because of the test.

The cost estimates for the system—and the contribution schedule in the law, which is based on these estimates—in fact take into account the various probabilities of delayed retirement.

It is also claimed that, if the annual exempt amount is raised, beneficiaries now holding their earnings to $1,200 will raise them to the higher amount, with the result that the program will have more tax income but will pay out no more in benefits (since either way all 12 months' benefits will be payable). It is true that in this instance there would be no adverse cost effect. What is ignored is the fact that the effect of such cases would be far more than offset by others. Some beneficiaries, earning substantially more than $1,200, would—under the new exempt amount—receive partial benefits and others, who had been getting partial benefits, would receive a higher amount. Still others, who had been receiving either no benefit or a partial benefit, might reduce their earnings to the new higher exempt amount in order to receive full benefits.

HISTORY OF EARNINGS TEST

Congress has changed the earnings test many times since 1935. The legislative history of the provision illustrates the technical problems involved in implementing a relatively simple concept—that of substantial retirement.

1935 and 1939 Acts

A test of retirement was implicit in the original Social Security Act. Such a provision was not included in the bill passed by the House of Representatives, although it was in the original bill embodying the recommendations of the Executive Branch. The Senate Committee on Finance added a retirement test; it believed that the lack of a retirement condition was "an anomaly" since "there is no need for payment of old-age benefits to workers who have reached age 65 but who still continue in regular employment."[1] Moreover, the Committee stated, "this feature of the House bill materially increases the costs and would have necessitated additional taxes in future years." The provision, as enacted, stated that, for any month in which the individual received covered wages from "regular employment," monthly old-age benefits would not be paid. Regular employment was not specifically defined, however, and the law was amended before monthly benefits became payable.

Under the 1939 amendments, benefits were paid if the beneficiary earned less than $15 a month in covered employment. The test was on an "all or none" basis; earnings of $14.99 or less did not affect payment of the full benefit, but the entire benefit for the month was lost if earnings were even one cent more than that amount.

Senate Advisory Council, 1947

The 1947 Senate Advisory Council on Social Security, appointed to consider the general subject of old-age and survivors insurance, was generally agreed that the amount of earnings permitted by the earnings test was too low in view of the wage level and other factors. The Council stated also that the all-or-none provision should be modified so that beneficiaries should not have their total income reduced because of work.

A one-for-one reduction, which would permit a smooth transition between part-time and full-time employment, was among the possibilities considered. If a beneficiary's earnings were larger than a specified amount, his benefits would be reduced by the amount of the difference. Persons earning more than that amount would thus, within a certain range, maintain their total income from benefits and earnings combined. The Council, recognizing that month-by-month adjustments in benefit amounts would be costly to make, recommended quarterly adjustments.

The Advisory Council recommended setting the exempt amount in the test at $35 a month; benefits would be suspended for any month in which earnings were more than that amount. A beneficiary who had one or more benefits suspended in a given quarter would furnish a statement showing his earnings in each month of the quarter. If there was reasonable agreement between that statement and his employer's quarterly tax return, an adjustment amount would be computed for each month that benefits had been suspended. This amount would consist of any difference between his benefits (including any supplements for dependents) and his actual earnings in excess of $35. The adjustment amounts for the 3 months of the quarter would then be payable in a lump sum. The Advisory Council recognized that some modifications would have to be made for the self-employed, since their earnings would be reported annually, but it made no specific proposals for this group.

The Advisory Council also recommended that the test should not apply to beneficiaries aged 70 or over—a change that was, in effect, a compromise with those who favored elimination of the test. It was believed that the provision would appeal especially to farmers and the professional self-employed (for whom the Council recommended coverage), since it had been argued that generally these groups "never retire." It was recognized that the provision would involve some significant increase in cost but much less than if the test were completely eliminated.

1950 and 1952 Amendments

The amount of earnings permitted under the test was raised by the 1950 amendments to $50 a month, with no restrictions for workers aged 75 or over. The test remained on an all-or-none basis for wage earners. For the newly covered self-employed, a "unit reduction" procedure was adopted. One month's benefit was withheld for each $50 (or remaining fraction thereof) of annual covered earnings in excess of $600.

Application of the test of substantial retirement was thus different for wage earners and for the self-employed, but for both it related only to earnings in covered employment. If a worker earned covered wages of more than $50 in a month, his benefits and those of his dependents were suspended for that month. The self-employed, who are generally able to determine their net earnings only on a taxable-year basis, were considered retired if, throughout the year, their covered self-employment earnings were not

[1] Senate Report No. 628, Seventy-fourth Congress, page 10.

more than $600 (12 times $50). For each unit of $50 or fraction thereof in excess of that amount, the beneficiary lost 1 month's benefit for himself and his dependents. Self-employment earnings of $601–$650 in a year, for example, meant that only 11 months' benefits were paid; when such earnings were $651–$700, only 10 months' benefits; and so on until, when earnings were $1,101–$1,150, only 1 month's benefit was paid. The number of monthly benefit deductions, however, could never exceed the number of months during which the person was substantially self-employed.

Benefits for wages and for self-employment earnings could not be withheld concurrently. A person with self-employment earnings of $625 in a year and wages of more than $50 in a particular month had 2 months' benefits withheld unless he engaged in substantial self-employment only in the month in which he earned the wages.

The test had a "double-exemption" feature. No benefits were withheld if the beneficiary had self-employment earnings of $600 or less in a year and wages of $50 or less in several, or even all, months.

The 1952 amendments did not change the basic nature of the earnings test but merely increased the monthly amount of exempt wages from $50 to $75, the annual amount of exempt self-employment from $600 to $900, and the self-employment units from $50 to $75.

Need for Change in 1950–52 Basis

Under the earnings test provisions in the 1950 amendments, as modified in 1952, a number of situations occurred—particularly for wage earners—that aroused considerable criticism. If, for example, a man's primary insurance amount was $60, and he had a wife aged 65 or over, the benefit for the couple was $90. In the month that his earnings were $75, his total income was $165. If he earned $80, however, he lost both his own benefit and his wife's benefit and had only the $80 from his work. The problem became less acute for him, of course, as his earnings approached the amount of his benefits plus $75. (Most beneficiaries who worked and were affected by the test earned substantially more than their withheld benefits plus the $75 exempt amount.)

Similarly, the beneficiary who worked only occasional months for wages that, though moderate, were more than $75 lost benefits for such months. He was, in fact, substantially retired—certainly as much as a $75-a-month, 12-month worker who perhaps had been able to adjust his wages downward so that he could receive benefits in all months.

Because the test applied only to covered employment, individuals engaged full time in noncovered employment, and by no means retired, could at the same time receive full benefits. Noncovered employment, for which earnings reports are not available, was not counted in the operation of the earnings test, principally because of the administrative problems involved under the coverage in effect at that time.

1954 and 1958 Amendments

The 1954 amendments made old-age benefits payable to a person with insured status, aged 65–71, only if he was substantially retired, and they continued to provide for payments to eligible dependents who had no substantial employment. A worker aged 72 or over received benefits whether or not he retired; for dependents under age 72 who were substantially employed, benefits were suspended. Survivor beneficiaries also had to meet the earnings test, but the test applied to each individual separately. Thus, if a widow entitled to mother's benefits engaged in substantial employment, benefits were continued to the eligible children.

The earnings test logically applied to earnings in all types of employment in the United States (including Puerto Rico and the Virgin Islands), as well as in covered employment outside the United States. Logically, also, a single test was applied to wages and self-employment income combined. Under a provision that applied only to noncovered earnings outside the United States, benefits were suspended for every month during which the worker engaged in noncovered remunerative activity on 7 or more calendar days. This type of provision—on a monthly basis and without a monetary amount—was necessary for administrative reasons and because of international differences in wage scales; earnings that might indicate effective retirement in the United States might represent full-time earnings in some countries.

The annual exempt amount of earnings was set at $1,200. When earnings were in excess of this amount, 1 month's benefit could be withheld for each excess of $80 or fraction thereof. No benefits, however, were suspended for any month in which the beneficiary did not have wages of more than $80 and had not rendered substantial service as a self-employed individual.

In the operation of the earnings test under the 1954 amendments, two steps were involved. First, the total earnings for the year were considered and the maximum number of deductions determined. If, for example, a worker earned a total of $1,400, the deductions were for a maximum of 3 months, since the excess of $200 represented three $80 units of "excess earnings."

The second step was to consider the number of months in the calendar year for which deductions could be made because the beneficiary earned more than $80 in wages or rendered substantial self-employment services. If the number of these potentially deductible months equaled or was greater than the number for which deductions would be made under the first step, then the maximum determined under the first step was applied. If the number of potentially deductible months was smaller, the deductions for only that number of months were made. If, in the illustration above, the worker had 3 or more potentially deductible months, he lost 3 months' benefits. If he had only 2 potentially deductible months (if, for example, his earnings of $1,400 were concentrated more or less equally in 2 months), then he lost only 2 months' benefits.

It is important to note that in the first step only the year's total earnings were considered; their distribution throughout the calendar months of the year was ignored. It should be noted further that benefits were not necessarily paid for months before the $1,200 exempt amount was earned because subsequent earnings might affect those earlier months. If, for example, a man earned wages of $200 for each of the 12 months of the year, he received no benefits for the first 6 months—although his total earnings during that period did not exceed $1,200. There were two reasons—his annual earnings amounted to $2,400 (resulting in more than 12 "$80 units of excess earnings"), and he had earnings of more than $80 in every month (that is, 12 potentially deductible months).

The maximum amount of earnings that a beneficiary could have in a year and be certain of getting at least 1 month's benefit was $2,080, since any larger amount would mean 12 "$80 units of excess earnings." Actually, anyone who earned $2,080 might get from 1 to 11 months' benefits, depending on how many potentially deductible months he had. Conversely, a man could earn more than $2,080 and still get benefits for some months—those in which he earned wages of $80 or less and had no substantial self-employment services.

Thus, anyone earning wages of $1,200 in January and exactly $80 in each of the other 11 months would have had wages of $2,080 and 11 "$80 units of excess earnings." Only his January benefit would have been withheld, since that was the only potentially deductible month. The result would have been the same even though he had had wages of far more than $1,200 in January.

The monthly test is especially necessary and advantageous for persons who retire in the middle of a calendar year. If there were only an annual test the amount of earnings in the early part of the year might be at the normally high rate associated with full-time employment and could prevent payment of benefits for the remainder of the year when there was complete retirement.

Under the 1954 amendments the eventual benefit might be increased if the beneficiary was employed after he reached age 65 and if the employment increased his average wage. Employment after age 65 could not, however, reduce the benefit to less than it would have been if the individual had retired at the earliest possible time after reaching age 65. Contributions were payable on all covered employment after the worker reached age 65, even though he was receiving benefits—when, for example, his annual earnings were $1,200 or less or when he was aged 72 or over.

The 1958 amendments liberalized the monthly earnings test by increasing from $80 to $100 the wages that could be earned in a month without affecting the benefit (unless there were substantial self-employment services in that month). This change made the monthly test apparently consistent with the annual exempt amount.

Need for Change in 1954–58 Basis

Although the basis of the earnings test was considerably more equitable under the 1954 amendments than it had been, certain difficulties and inequities still existed. Subsequently, improvements and new developments in administration permitted considerations of an even better basis for the test.

The test as it existed before the 1960 amendments presented certain definite disincentives to continued work by older men and women, although by no means as much as public criticism and discussion sometimes implied. The principal problem was in connection with the $80 units. In many instances, beneficiaries were better off if they held their earnings down to $1,200 a year than if they earned somewhat more because their total income might then actually be reduced.

Such an illogical situation could arise in several ways. If, for example, the total family benefit was $150, the beneficiary would lose $70 in total family income for every $80 that he earned in excess of $1,200 until he had earned more than $2,080. At that point he would receive no benefits, and he would, in fact, not have more total income because of working until he earned more than $3,000.

Even when the family benefit was less than $80, the beneficiary could suffer some loss in total income if he earned more than $1,200, because partial units of $80 beyond the $1,200 figure were counted as full units. A person with a total family benefit of $50, for example, would lose 1 month's benefit of $50 if he earned only $20 in excess of the $1,200 exempt amount. If he earned $90 in excess of the exempt amount, he would lose 2 months' benefits or $100, a net loss of $10.

Report on Earnings Test

The Committee on Ways and Means of the House of Representatives, in its report on the 1958 bill to amend the Social Security Act,[2] requested that a study be made of the earnings test. It was especially concerned that "a person may have very high earnings in a single month and yet get benefits for the remaining eleven months in the year."

The Department of Health, Education, and Welfare complied with this request in a report, *The Retirement Test Under Old-Age and Survivors Insurance*, submitted March 29, 1960, and published as a Committee Print. Several possible methods were suggested for solving the problem on which the Ways and Means Committee had requested specific study. The conclusion was reached, however, that neither eliminating the monthly test nor having a separate test for beneficiaries with high earnings would be desirable, since such changes would create more difficulties than they would solve.

The report also discussed several proposals to improve the test by creating incentives for beneficiaries to continue working or by eliminating disincentives in the existing test. One proposal was to increase the anual exempt amount, and another was to increase the amount of the excess earnings unit. There were also several proposals for reducing benefits in proportion to the amount of earnings: (a) deduction of $1 in benefits for each $1 earned in excess of $1,200 a year, (b) deduction of $1 in benefits for each $2 of excess earnings, and (c) a combination of (a) and (b), under which $1 in benefits would be withheld for each $2 of the first $1,200 of excess earnings and $1 in benefits for each additional $1 of excess earnings (that is, on total earnings of more than $2,400).

1960 Amendments

The 1960 amendments, as enacted, made a significant revision in the method of reducing benefits for earnings in excess of the exempt amount of $1,200 but made no change in the monthly test. The revised annual test provided that, for earnings in excess of $1,200 a year, benefits would be reduced by $1 for every $2 of earnings from $1,201 to $1,500 and on a $1-for-$1 basis for earnings in excess of $1,500. If, for example, a beneficiary earned $1,350 in a calendar year, the most that his benefits were reduced was $75. Such a reduction, however, occurred only for months in which he either earned more than $100 in wages or engaged in substantial self-employment (taking into account, that is, the monthly test). If he earned $1,700, he would lose $350 in benefits (computed as 50 percent of the first $300 of earnings in excess of $1,200, plus 100 percent of the remaining $200).

When the family benefit was substantial, at least partial benefits could be paid even if earnings were relatively high. In the case of a husband

[2] House Report No. 2288, Eighty-fifth Congress, second session.

and wife receiving the maximum monthly benefit of $190.50, with the monthly test of retirement not applicable, it was not until annual earnings reached $3,636 that no benefits at all were payable.

In the actual administration of the earnings test, the same general procedure was followed as before. Beneficiaries were asked to estimate in advance their annual earnings. If the estimate was for more than $1,200, it was suggested to the beneficiary that he forego benefits for a certain number of months in order to balance, more or less, the reductions in benefits under the earnings-test provisions. After the end of the year, a final accounting was made on the basis of the actual earnings, and an appropriate adjustment made with the beneficiary.

The earnings test in the 1960 law was the first to be based on the important principle that a beneficiary will always increase his total income if he works. The "band" where the $1 reduction in benefits for every $2 of earnings occurs was only $300, compared with the figure of $1,200 used as an illustration in the report submitted earlier in 1960 by the Department. The new basis was effective for the beneficiary's taxable years beginning after 1960—that is, generally for the calendar year 1961 and thereafter.

1961 Amendments

The 1961 amendments to the Social Security Act changed the "band" (where there was a $1 reduction in benefits for each $2 of earnings) from $300 to $500 but left at $1,200 the annual exempt amount. The resulting increase in the cost of the system—0.02 percent of taxable payroll on a level basis—was met by advancing the year in which the ultimate tax rates are scheduled to become effective from 1969 to 1968.

Since this change in the test was effective for taxable years ending after June 30, 1961, for the great majority of the beneficiaries it was effective for the calendar year 1961. As a result, the $300 band provided by the 1960 law was applicable in only a few instances.

Current Provisions

Under the law as it stands today (May 1964), no benefit is withheld when the beneficiary has earnings of $1,200 or less. If he earns more than $1,200 a year, his benefit may be reduced by $1 for each $2 of earnings between $1,200 and $1,700 and $1 for $1 for earnings in excess of $1,700. Regardless of total earnings for the year, benefits are payable for any month in which wages are $100 or less and in which the beneficiary has not performed substantial services in self-employment. Full benefits are also payable, regardless of earnings, when the beneficiary has attained age 72.

EXPERIENCE UNDER EARNINGS TEST

Monthly benefits have been payable under the old-age, survivors, and disability insurance system since January 1940. Accordingly, data are available for more than 20 years of operation. The earnings test, it should be noted, does not apply to disability beneficiaries—either disabled workers or the disabled children of retired, disabled, or deceased workers. (If the disabled worker, after a trial work period of 1 year, returns to substantial employment, he will no longer be eligible for disability benefits.)

The "average retirement ages" of workers who were awarded old-age benefits during 1940–61 are shown in table 1. The term "retirement age" is itself a misnomer, in that filing a claim for benefits does not always indicate complete retirement

TABLE 1.—Average age of workers awarded old-age benefits, 1940–61

Year of award	Average age at award [1]	
	Male	Female
1940	68.2	67.5
1941	69.2	68.2
1942	69.1	68.2
1943	69.2	68.1
1944	69.4	68.2
1945	69.5	68.4
1946	69.5	68.7
1947	69.1	68.6
1948	68.9	68.5
1949	68.6	68.3
1950	68.7	68.0
1951	69.2	68.2
1952	68.6	68.2
1953	68.6	68.2
1954	68.0	67.6
1955	68.4	67.8
1956	68.4	66.2
1957	69.0	66.2
1958	67.9	66.1
1959	67.2	65.6
1960	66.8	65.2
1961	65.8	65.0

[1] The minimum retirement age was lowered from 65 to 62, effective November 1956 for women and effective August 1961 for men.

but—because of low-paid or irregular employment or reduction in employment activity—may instead denote substantial retirement, with earnings not sufficiently high to cause suspension of all benefits payable on the worker's account. These data are not precise and are not completely comparable for a number of reasons.

During the first year or so of program operations, the worker's actual age on his birthday in the year of retirement (that is, the year of application for benefits) was reported. After that, and until mid-1955, the award was considered to be effective as of the first month for which a benefit was payable, including any retroactive period, and age was shown as of the birthday in the year in which the award was effective.[3] In some cases, also, the date of award was reported as the beginning date of the month for which benefits were first payable, and in other cases an isolated earlier month might be used. When the original award was amended, some of the early information referred to the date that the amended award was effective, rather than the date of the initial award.

Beginning about the middle of 1955 and through 1961 the "true" date of initial retirement was generally used, and an average retirement age was computed from the worker's age on his birthday in the year of retirement. (The true date of retirement may not have been the initial month of benefit payment because there could have been, under the earnings test, eligibility for some earlier months for which retroactive benefits were paid while the worker was still employed.) There were a few instances, however, in which the date that the award was processed was used, rather than the date it was effective. The overall effect of these differences is thought to be comparatively minor. On the whole, the average generally takes into account both the delay after attainment of retirement age in filing a claim and the time necessary for administrative action in making the award.

Because the data are neither precise nor comparable, they are no longer compiled and are not available for years after 1961. Nevertheless, when their limitations are kept in mind, the data do show the trends that developed and to some extent the effect of liberalizing amendments.

The average retirement age for men was between 69 and 69½ during World War II and then declined to about 68 in the mid-1950's (table 1). The slight increase in 1951 was the result of two changes made by the 1950 amendments—(1) the liberalized eligibility requirement under which a large number of persons past age 65, who had already ceased working, first became eligible and (2) the elimination of the earnings test for beneficiaries aged 75 and over, with the result that some persons who were still working filed for and received benefits. The rise in the average age from 1954 to 1957 was a result of liberalized eligibility and coverage requirements under the 1954 amendments. The average age then declined to slightly less than 66 in 1961.

For women, the same general trend prevailed, with a wartime peak of about 68½ and a slight decline thereafter to age 65 in 1961. It will be recalled that the minimum retirement age for women was lowered from 65 to 62, effective November 1956; for men, this change was made effective in August 1961.

The average retirement age for men with wives aged 65 or over, and therefore also immediately eligible for benefits, is from 1½ years to 2 years higher than the average for all male beneficiaries. This difference is to be expected, since normally husbands are several years older than their wives. Thus, men just over age 65 rarely have wives who have reached age 65. Married men

TABLE 2.—Awards made during year to workers claiming old-age benefits at age 65 as percent of all awards, 1940–60

Year of entitlement	Percent	
	Male	Female
1940	18	22
1941	24	30
1942	24	31
1943	22	30
1944	18	28
1945	17	25
1946	17	23
1947	25	28
1948	29	31
1949	30	32
1950	23	24
1951	40	49
1952	33	38
1953	39	47
1954	38	46
1955	38	48
1956	32	27
1957	41	20
1958	48	18
1959	52	18
1960	53	20

[3] Before 1946, benefits were not payable for any month before the date of filing; retroactive payments were allowed for 3 months by the 1946 amendments, for 6 months by the 1950 amendments, and for 12 months by the 1954 amendments.

whose wives are under age 65 have an average retirement age somewhat lower than that for all men combined.

Another indication of retirement experience is the proportion of retirements that occur among persons attaining age 65 in any one calendar year, as shown in table 2. These data are subject to the same limitations as those shown in table 1, and their collection has also been discontinued.

Of the men who became entitled during the 1940's, the proportion retiring at exactly age 65 ranged from about 20 percent in a year to 30 percent, although it dropped to about 18 percent in the war years. In 1951 the proportion rose to 40 percent and, except in years immediately after liberalizing amendments, increased generally each year to a high of 53 percent in 1960.

The proportion of women who retired at exactly age 65 varied in a slightly higher range during the 1940's. The highest proportion—49 percent—occurred in 1951. Since 1955 this proportion has dropped to approximately 20 percent, since so many women have been retiring either at the earliest possible date—their attainment of age 62—or between the ages of 62 and 65. The number retiring at exactly age 62 rose from 14 percent of the total in 1956 to 31 percent in 1960, when about 50 percent of all retired-worker awards to women were made to women under age 65.

TABLE 3.—Old-age beneficiaries aged 65 and over with benefits in current-payment status, as percent of all fully insured persons at beginning of year, 1941–63

Beginning of year	Exempt from earnings test[1]			Subject to earnings test		
	Total	Male	Female	Total	Male	Female
1941				20	20	25
1942				29	29	37
1943				31	30	41
1944				30	29	41
1945				30	29	40
1946				35	34	42
1947				43	42	46
1948				48	48	51
1949				53	52	55
1950				59	59	61
1951	86	86	84	50	50	50
1952	94	94	93	59	56	67
1953	90	91	85	54	52	61
1954	94	95	92	60	58	67
1955	89	89	88	61	58	69
1956	94	95	91	65	62	75
1957	90	90	90	62	58	71
1958	94	95	92	68	65	76
1959	97	97	95	72	69	79
1960	97	97	96	76	73	82
1961	98	98	97	76	74	80
1962	98	98	98	78	76	80
1963	98	98	98	80	79	81

[1] For 1951–54, persons aged 75 and over; after 1954, persons aged 72 and over.

Another way of viewing retirement experience is to consider those whose benefits are actually in current-payment status as a proportion of all persons who are eligible to retire because they have attained minimum retirement age and are fully insured. These data are shown in table 3. It will be recalled that, under the 1950 amendments, the earnings test did not apply to beneficiaries aged 75 and over and that the 1954 amendments lowered this age to 72. The beneficiaries aged 65 and over as a percentage of all fully insured persons are therefore shown separately for those subject to the test and for those exempt because of age.

The percentage subject to the test who were receiving benefits has risen from about 30 percent during World War II to the present level of 80 percent, with women consistently showing a somewhat higher rate than men. Among individuals exempt from the earnings test, the percentage in receipt of benefits has risen from 86 percent in 1951 to 98 percent.

The proportion of women beneficiaries aged 62–64 has increased from 16 percent of fully insured women of these ages in 1957 to about 40 percent in 1959–63. The percentage for men aged 62–64 as of January 1, 1963, was 24 percent.

Many individuals are awarded benefits and continue in or later return to covered employment, and their benefits are then suspended. The data in the preceding analysis thus underestimate the effective average retirement age. A measurement that has more validity is based on the average initial retirement age, adjusted to allow for the fact that those individuals who return to work after having been awarded benefits have, in effect, a later retirement age.[4]

Table 4 shows, as a percentage of all old-age beneficiaries, those whose benefits were suspended during 1950–62 because of the earnings test. The number of persons with benefits suspended is affected not only by changes in employment conditions but also, to some extent, by changes in administrative procedures and policies and in filing practices and experience.

During 1940–42, benefits suspended because of

[4] For a detailed, technical discussion of this matter, see Robert J. Myers, "Problems Involved in Measurement of Average Retirement Ages under Old-Age Pension Systems," *Proceedings*, Second International Conference of Social Security Actuaries and Statisticians, Rome, 1959.

TABLE 4.—Benefits suspended under earnings test as percent of all benefits in current-payment status, 1950–62

End of year	Type of benefit				
	Old-age	Wife's or husband's [1]	Widow's or widower's	Mother's	Parent's
1950	9.9	0.4	0.9	23.6	0.3
1951	10.0	0.6	1.1	23.3	0.3
1952	8.7	0.5	1.0	20.2	0.3
1953	7.2	0.4	0.8	19.4	0.2
1954	5.7	0.3	0.7	20.6	0.1
1955	4.0	0.3	0.5	21.2	0.1
1956	3.8	0.3	0.5	22.0	0.1
1957	3.2	0.2	0.8	22.1	0.1
1958	2.9	0.2	1.0	21.2	0.1
1959	2.9	0.4	1.1	23.1	0.1
1960	2.8	0.5	1.1	21.2	0.1
1961	2.9	0.7	1.1	18.7	0.1
1962	3.2	0.7	1.1	17.8	0.1

[1] Excludes benefits suspended because of employment of old-age beneficiary.

employment had represented about 12 percent of all benefits in force. The proportion rose to about 18 percent during most of World War II and then declined fairly steadily, reaching 10 percent by 1950 and about 3 percent in 1957–62. This decrease and the rise in the number of beneficiaries in relation to all fully insured persons reflect the changes in the earnings test that have made it possible for beneficiaries to continue in low-paid or part-time work and still receive benefits.

Some indication of the effect of the earnings test for other types of beneficiaries may be obtained by considering benefits withheld because of the beneficiary's employment. Only about 1 percent of the benefits in force for wives and husbands, widows and widowers, and parents, but about 20 percent of the mother's benefits, were suspended because of the beneficiary's own employment.

COST EFFECTS OF POSSIBLE MODIFICATIONS

As indicated previously, if the earnings test were abolished, the "level cost" of the old-age, survivors, and disability insurance system would be increased by almost 1 percent of taxable payroll (0.96 percent). To finance this change the combined employer-employee tax rate would have to be increased by 1 percent in all future years. The additional benefit disbursements would be about $2 billion in the first full year.

An increase in the annual exempt amount to $2,400 (with a corresponding change in the monthly test but with the $500 "band" in the annual test unchanged) would have a "level cost" of 0.52 percent of taxable payroll and a first-year cost of about $1 billion. Corresponding figures for an $1,800 annual exempt amount are 0.24 percent and $500 million.

If the band in which the benefits are reduced by $1 for each $2 of earnings were to be increased from $500 to $1,200, with no other change, the increased "level cost" is estimated at 0.04 percent of taxable payroll on a level basis and about $80 million in the first full year.

TABLE 5.—Effect of changes in earnings test on total family benefits of $100 per month [1]

Annual earnings [2]	Amount of benefits payable			Additional amount payable	
	$1,200 annual exemption, $500 band [3]	$1,800 annual exemption, $500 band	$1,200 annual exemption, $1,200 band	Increase in exempt amount	Increase in band
$1,500	$1,050	$1,200	$1,050	$150	----------
1,800	850	1,200	900	350	$50
2,100	550	1,050	750	500	200
2,400	250	850	600	600	350
2,700	----------	550	300	550	300
3,000	----------	250	----------	250	----------

[1] Ignores effect of monthly test.
[2] Assumes even distribution throughout year.
[3] Based on present law.

The reason that raising the annual exempt amount results in a much greater cost than increasing the band is illustrated in table 5. If the exempt amount is increased, not only would full benefits be paid in a larger spread of earnings at the lower end of the earnings scale but also partial benefits would be paid for a longer interval of earnings at the middle of the scale.

The incentive element is also involved in the cost-effect analysis. A beneficiary, for example, who formerly restricted his earnings to $1,200 in order to receive full benefits would, if the annual exempt amount were increased, have an incentive to raise his earnings to the new limit. Under such circumstances, the gain to the system would be only the relatively small amount of additional contributions paid. If, on the other hand, the band is increased, the beneficiary has an incentive to increase his earnings by the same amount. The result is higher total income for the beneficiary from benefits and earnings combined and a savings to the program in an amount equal to half the earnings, as well as additional income from taxes. These factors are, of course, considered in estimating the "level cost" of proposed changes.