



# Projecting the Effects of Eliminating the Retirement Earnings Test (RET)

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## Eliminating the RET results in lifetime benefits that are about the same as current law, assuming no behavior changes by affected beneficiaries

If beneficiaries affected by the RET under current law make no work or claiming behavior changes, under RET repeal they would receive higher monthly Social Security benefits before full retirement age (FRA) because their benefits would not be temporarily withheld, and lower monthly benefits after FRA because their benefits would not be recalculated.

## However, projections show that with behavior changes such as earlier benefit claiming, higher earnings, and longer labor force participation, RET repeal would slightly lower lifetime benefits

Earlier claiming permanently reduces monthly Social Security benefits. Factoring higher earnings and longer labor force participation into the benefit calculation may or may not increase benefits.<sup>1</sup> Past research indicates more beneficiaries change their claiming behavior than their work behavior in response to RET changes.<sup>2</sup> On balance, earlier claiming affects benefits more than increased work and earnings.

## Eliminating the RET would have no effect on poverty

The RET generally does not affect lower-income beneficiaries because their earnings are below the earnings test thresholds.

## Background

- Policymakers have suggested eliminating the RET to encourage work among older workers.
- Research on past changes to the RET have found that some workers respond by increasing their earnings and labor force participation.<sup>3</sup>
- However, other research has shown that RET changes cause some beneficiaries to claim benefits at earlier ages.<sup>4</sup>
- Changes to work and claiming behaviors in response to RET elimination could affect beneficiaries' monthly and lifetime benefits.

## Key Terms

- The *retirement earnings test (RET)* applies to retired workers and their auxiliary beneficiaries and to survivors of deceased workers who are younger than FRA and have earnings from work above the test thresholds. Affected beneficiaries have some or all of their benefits withheld before FRA at which point monthly benefits are recalculated and increased.
- *Full retirement age (FRA)* is the age at which a person becomes eligible for unreduced Social Security retirement benefits; FRA varies from 65 to 67 depending on the worker's year of birth.

## Projected percentage of beneficiaries aged 60 or older with higher or lower monthly benefits under two RET repeal simulations in 2050

Age	No behavioral response			Behavioral response		
	Lower benefit	Higher benefit	Not affected	Lower benefit	Higher benefit	Not affected
Under FRA (aged 60 to 66)	0%	16%	84%	6%	18%	76%
FRA or older (aged 67 or older)	33%	0%	67%	40%	2%	58%

SOURCE: Authors' calculations using Modeling Income in the Near Term (MINT6) data.

NOTE: If the difference from scheduled benefits is equal to or greater than 1 percent, we consider an individual "affected." We consider individuals with differences of less than 1 percent to be unaffected.

**SOURCE:** All findings not otherwise referenced are from Olsen, Anya and Kathleen Romig. 2013. "Modeling Behavioral Responses to Eliminating the Retirement Earnings Test." *Social Security Bulletin* 73(1): 39–58. The paper also includes a summary of previous research on the effects of RET elimination.

**NOTES:** All content is simplified for presentation. Please see source material for full details and caveats.

The findings and conclusions presented in this summary are those of the authors and do not necessarily represent the views of the agency.

<sup>1</sup> Additional work would only increase benefits if it increases the average indexed monthly earnings.

<sup>2</sup> Song, Jae G., and Joyce Manchester. 2007. "New Evidence on Earnings and Benefit Claims Following Changes in the Retirement Earnings Test in 2000." *Journal of Public Economics* 91(3–4): 669–700.

<sup>3</sup> For example, see Song, Jae G., and Joyce Manchester. 2007. "New Evidence on Earnings and Benefit Claims Following Changes in the Retirement Earnings Test in 2000." *Journal of Public Economics* 91(3–4): 669–700 and Figinski, Theodore F. 2012. "Women and the Social Security Earnings Test." Irvine, CA: University of California, Irvine.

<sup>4</sup> For example, see Song, Jae G. 2003/2004. "Evaluating the Initial Impact of Eliminating the Retirement Earnings Test." *Social Security Bulletin* 65(1): 1–15 and Figinski, Theodore F. 2012. "Women and the Social Security Earnings Test." Irvine, CA: University of California, Irvine.