



## REMOVE DISINCENTIVES FOR SENIORS TO WORK

Social Security beneficiaries who have not reached their full retirement age (FRA) are subject to an additional benefit reduction if their wages exceed the threshold established in the Retirement Earnings Test (RET).<sup>1</sup> The RET reduces the Social Security benefits above that threshold and then increases the benefits for those once they reach FRA.

For 2023, Social Security recipients below the FRA will have their benefits reduced by \$1 for every \$2 of income above \$1,770 per month or \$21,240 per year.

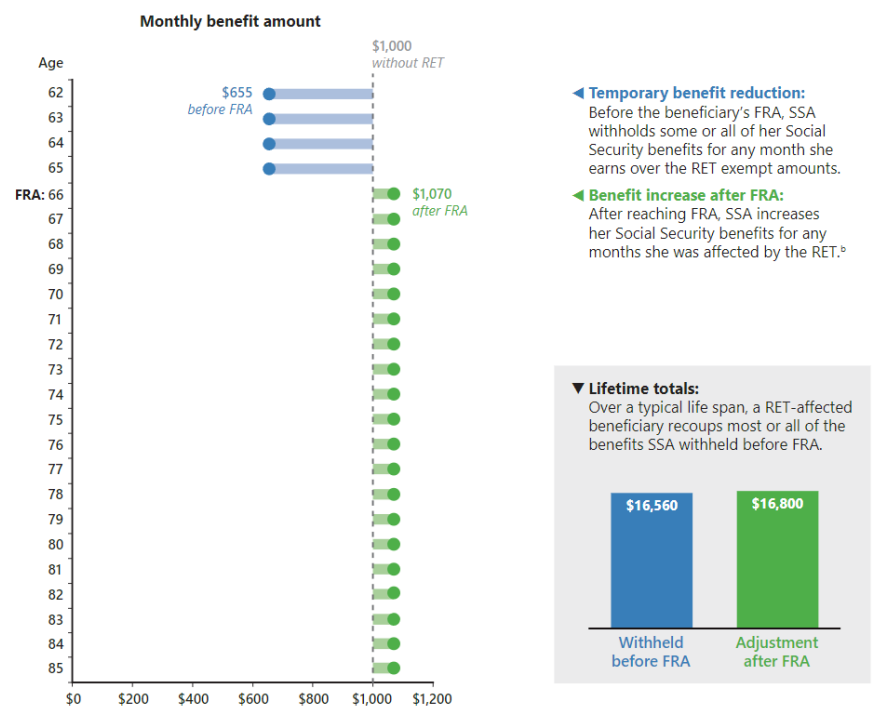
Congress should bolster the American workforce and encourage senior workforce participation by repealing the RET, which serves as red tape that interferes with productivity and financial security.

### BACKGROUND

- Full Retirement Age and Benefits**

- The full retirement age (FRA) is 66 if you were born from 1943 to 1954. FRA increases gradually if you were born from 1955 to 1960 until it reaches 67. For anyone born in 1960 or later, the FRA is 67.<sup>2</sup>
- Social Security benefits are available at a reduced rate as early as age 62.<sup>3</sup> In addition to the reduced benefit, if a beneficiary chooses to continue working before the FRA, their earnings are subject to the RET reduction.
- Recipients are slowly made whole with increased benefits over time once they reach FRA, but this delay is not optimal for many seniors.

Monthly Benefits and Lifetime Totals for Hypothetical Beneficiary Affected by RET



Source: Social Security Administration<sup>4</sup>

- Labor Shortage**

- Decreasing benefits for those who want to work while claiming Social Security creates a disincentive to work. Many will likely exit the labor force prematurely or reduce their working hours to avoid the penalty that hits their benefits.

- The United States currently faces a labor shortage, with approximately 8.8 million job openings<sup>5</sup> compared to just 6.4 million unemployed Americans as of [September 2023].<sup>6</sup> The country only has a labor force participation rate of 62.8%, which remains lower than the 63.3% in February 2020 before the COVID-19 pandemic.<sup>7</sup>
  - If the current participation rate were still 63.3%, over 1 million more Americans would be working. This would serve as a healthy cut into the gap between job openings and unemployed Americans. [For more information, see RPC’s Guide *Falling Labor Participation Undermines Prosperity*.]<sup>8</sup>
- In 2000, Congress eliminated the RET for workers between FRA and age 70. This alleviated the “bunching” phenomenon when workers work fewer hours to keep their earnings just under the RET threshold. One study found that the repeal increased weeks worked per year by 11% and hours worked per week by 17.7% for workers aged 65-69.<sup>9</sup> Another study found that 4.8% of the workforce adjusted their labor supply in response to the repeal.<sup>10</sup>
- Even though recipients are made whole after delaying their benefits if they live long enough, the process of the RET is confusing. A National Bureau of Economic Research (NBER) survey showed that only one-third of Americans 62 and older understood that their benefits are increased post-FRA due to the RET.<sup>11</sup> Given that those subject to the RET predominantly think of it as a tax, it is unsurprising that there is research to believe that it has a negative impact on the labor supply.<sup>12</sup> However, in this instance, this test imposes a disincentive to work while, unlike a tax, not increasing government revenue.<sup>13</sup>

- **Economic Impact on Americans**

- Whether workers live long enough to receive an actuarially fair increase in their benefits after they reach FRA or not, the RET still temporarily removes money from the pockets of American seniors who choose to receive benefits early. In 2019, the Social Security Administration (SSA) estimated that 520,000 beneficiaries would have their benefits reduced or entirely withheld, with an average of about a 33% reduction withheld.<sup>14</sup>
  - A person might want to receive benefits early for various reasons. For instance, they might have low liquidity due to low or no personal savings, so waiting to claim until later is forgoing income that can increase the quality of life today. NBER found that 21% of early claimants cited a need for money as the reason for claiming before FRA.<sup>15</sup>
  - Another reason for early claiming while working is valuing money today over tomorrow, especially if beneficiaries want to maximize the assets they will pass down to their heirs.<sup>16</sup>
- For those with earnings close to the RET earnings threshold, earnings rose by 15 to 20% after the 2000 repeal.<sup>17</sup>
- Administering the RET is also an undue burden on the taxpayer. In 1999, before the 2000 reform, implementing the RET was estimated to cost SSA \$100-\$150 million annually, equivalent to \$275 million in 2023 dollars.<sup>18</sup>
- In his 2023 testimony to the Subcommittee on Social Security of the House Committee on Ways and Means, Dr. Phillip Swagel, the Director of the Congressional Budget Office, stated that the RET does not significantly impact the long-term outlook for the Social Security system’s finances.<sup>19</sup>

## **POLICY SOLUTIONS**

Congress should ensure that the scheduled distribution of Social Security benefits payments does not dissuade Americans from acting rationally with their labor or finances. To facilitate a strong labor force while protecting senior benefits, Congress should pass reforms like those included in H.R. 5193,<sup>20</sup> the *Senior Citizens Freedom to Work Act*, that would fully repeal the RET.<sup>21</sup>

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- <sup>1</sup> Retirement Earnings Test. Social Security Administration. <https://www.ssa.gov/policy/docs/program-explainers/retirement-earnings-test.html>
- <sup>2</sup> Retirement Benefits. Social Security Administration. <https://www.ssa.gov/pubs/EN-05-10035.pdf>
- <sup>3</sup> *Id.*
- <sup>4</sup> Retirement Earnings Test. Social Security Administration. <https://www.ssa.gov/policy/docs/program-explainers/retirement-earnings-test.html>
- <sup>5</sup> Job Openings and Labor Turnover. Bureau of Labor Statistics - U.S. Department of Labor. <https://www.bls.gov/news.release/pdf/jolts.pdf>
- <sup>6</sup> The Employment Situation. Bureau of Labor Statistics – U.S. Department of Labor. <https://www.bls.gov/news.release/pdf/empst.pdf>
- <sup>7</sup> Labor Force Participation Rate. FRED. <https://fred.stlouisfed.org/series/CIVPART>
- <sup>8</sup> Falling Labor Participation Undermines Prosperity. House Republican Policy Committee. <https://republicanpolicy.house.gov/sites/evo-subsites/republicanpolicy.house.gov/files/evo-media-document/official-unemployment-rate-misleading-final-for-comms-lay-outspaces-fixed.pdf>
- <sup>9</sup> Social Security Retirement Earnings Test: How Earnings Affect Benefits. Congressional Research Service. <https://crsreports.congress.gov/product/pdf/R/R41242>
- <sup>10</sup> Steven J. Haider, David S. Loughran. The Effect of the Social Security Earnings Test on Male Labor Supply. The Journal of Human Resources. <https://jhr.uwpress.org/content/43/1/57>
- <sup>11</sup> Robert Clark, John Shoven, Sita Slavov. Employee Attitudes and Reactions to Policy Changes: New Survey Results. National Bureau of Economic Research. [https://conference.nber.org/conf\\_papers/f145902.slides.pdf](https://conference.nber.org/conf_papers/f145902.slides.pdf)
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- <sup>13</sup> Sita Nataraj Slavov. It's Time to Do Away with the Social Security Earnings Test. American Enterprise Institute. <https://www.aei.org/op-eds/its-time-to-do-away-with-the-social-security-earnings-test/>
- <sup>14</sup> Letter from Stephen C. Goss, Chief Actuary at the Social Security Administration (SSA), to Representative Jackie Walorski. Social Security Administration. [https://www.ssa.gov/oact/solvency/JWalorski\\_20190514.pdf](https://www.ssa.gov/oact/solvency/JWalorski_20190514.pdf)
- <sup>15</sup> John B. Shoven, Sita Nataraj Slavov, David A. Wise. Social Security Claiming Decisions: Survey Evidence. National Bureau of Economic Research. <https://www.nber.org/papers/w23729>
- <sup>16</sup> Jason J Fichtner, Gary Koenig, Shai Akabas, Nicko Gladstone. How to Help Americans Claim Social Security at the Right Age. Bipartisan Policy Center. <https://bipartisanpolicy.org/report/how-to-help-americans-claim-social-security-at-the-right-age/>
- <sup>17</sup> *Id.*
- <sup>18</sup> Jonathan Gruber, Peter R. Orszag. What to Do about the Social Security Earnings Test? Center for Retirement Research at Boston College. <https://crr.bc.edu/what-to-do-about-the-social-security-earnings-test/>
- <sup>19</sup> Answer to Questions for the Record Following a Hearing on Social Security's Finances. Congressional Budget Office. <https://www.cbo.gov/publication/59223>
- <sup>20</sup> H.R. 5193 – Senior Citizens' Freedom to Work Act of 2023. U.S. House of Representatives - 118<sup>th</sup> Congress. <https://www.congress.gov/bill/118th-congress/house-bill/5193>
- <sup>21</sup> Murphy Introduces the Senior Citizens' Freedom to Work Act. U.S. Congressman Gregory F. Murphy, M.D. <https://murphy.house.gov/media/press-releases/murphy-introduces-senior-citizens-freedom-work-act>