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**IMPACT OF THE SOCIAL SECURITY
RETIREMENT EARNINGS TEST
ON 62-64-YEAR-OLDS**

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The **Public Policy Institute**, formed in 1985, is part of Policy and Strategy at AARP. One of the missions of the Institute is to foster research and analysis on public policy issues of importance to mid-life and older Americans. This paper represents part of that effort.

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Foreward

Whether to retain, modify, or eliminate the Social Security Retirement Earnings Test (RET) for persons between ages 62 and the Normal Retirement Age (NRA) is an issue that Congress and the President will likely confront. The Senior Citizens' Freedom to Work Act of 2000 eliminated the RET for workers at ages at and above the Normal Retirement Age.

This paper by the Urban Institute explores the impact of the RET on individual behavior. The RET may affect two personal decisions: (1) how many hours to work (including leaving the workforce); and (2) at what age to start claiming Social Security benefits. The RET may discourage a certain group of older citizens from working. This is the group of workers aged 62 to 64 who already receive Social Security benefits and who have labor income just below the RET or between the RET threshold and the point at which the RET completely taxes away the individual's Social Security benefit. Higher earners may be affected in the opposite direction: removing the RET would allow them to receive Social Security benefits for the first time, and this might lead some high earners to cut back on their work hours. The RET may also discourage workers from taking up Social Security benefits at ages below the NRA, because it temporarily taxes away some part of Social Security benefits.

These behavioral questions have important implications for the present, and future, total incomes of workers between the ages of 62 and 64 who may be subject to the RET. The goal of this paper is to examine these potential behavioral changes and the relative importance of work effort and Social Security take-up decisions to total income levels.

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EXECUTIVE SUMMARY

The Social Security Retirement Earnings Test (RET) reduces the retirement benefits of Social Security beneficiaries whose earnings exceed the RET threshold. For workers between 62 and the Normal Retirement Age (NRA), the earnings test reduces benefits by \$1 for every \$2 of wage and salary earnings in excess of the RET threshold. The RET threshold amount for persons younger than the NRA is equal to \$11,520 in 2003 and is indexed to the growth in average earnings.

Although working beneficiaries who lose benefits because of the RET recover these benefits in actuarial terms through higher future benefits, many lawmakers perceive the RET to be a disincentive to work. Over the years, the earnings test provisions have been substantially relaxed. Most recently, the Senior Citizens' Freedom to Work Act of 2000 eliminated the RET at and above the NRA. Whether to retain, modify, or eliminate the RET for persons below the NRA is an issue that Congress and the President will likely confront.

Removing the RET may affect the labor supply and timing of Social Security benefit receipt. These potential labor supply and Social Security "take-up" responses have implications for individuals' immediate and long-term economic circumstances. For example, eliminating the RET may increase the current total incomes of those workers who currently choose not to receive early retirement benefits, but would elect to do so after elimination of the RET. But earlier receipt of Social Security benefits would reduce the annual (and monthly) benefit amounts they and their divorced or widowed spouses would receive later in life. Thus, early receipt of Social Security benefits could cause financial difficulties later in life for some beneficiaries.

Analysis

Examining patterns of Social Security claims and earnings under current law can provide information on the potential impact of RET elimination. The percent of people whose incomes would be affected by the RET elimination depends on individuals' labor supply and Social Security receipt status. At the extreme, if all 62-64-year-olds were non-working Social Security beneficiaries, then eliminating the RET would have no impact on incomes. Our report includes a descriptive analysis of 62-64-year-olds in the Census Bureau's Survey of Income and Program Participation (SIPP). We provide background data on the earnings and incomes of 62-64-year-olds in the early 1990s and a decade earlier. This allows us to highlight trends in earnings and Social Security claims behavior.

This analysis also simulates the effect of eliminating the RET for 62-64-year-olds on their Social Security benefits, earnings, and total retirement income, using data from the Health and Retirement Study (HRS). We examine three labor supply response scenarios, where each labor supply response scenario is carried out under three Social Security take-up scenarios. We derive our simulation assumptions from empirical research on the impact of previous liberalizations of the RET. Following Friedberg (1999), we allow the labor supply response to vary by the level of earnings. Accordingly, beneficiaries with earnings near the RET threshold have the most substantial increase in work effort. Individuals with earnings too high to receive Social Security under current law have no increase in work effort in some simulations, and

actually decrease their earnings in other simulations. Each of the three labor supply response scenarios are simulated with three Social Security take-up scenarios—25 percent, 50 percent, and 100 percent—for a total of nine simulations.

Results

Our descriptive SIPP analysis shows that even with the RET, most 62-64-year-olds (about 60 percent) received Social Security retirement benefits. Women were more likely to be beneficiaries than men and the less educated were more likely to be beneficiaries than those with more than a high school education. Consistent with the patterns of Social Security benefit receipt, about 60 percent of 62-64-year-olds had no wage or salary earnings in the early 1990s. A large majority of these individuals with no earnings were beneficiaries—80 percent of beneficiaries had no earnings, while 24 percent of eligible nonbeneficiaries had no earnings.

Our simulations with HRS data suggest that regardless of the labor supply and Social Security take-up response assumptions, the elimination of the RET would increase the current total incomes of 62-64-year-olds. Increases in current incomes are derived from changes in both Social Security benefits and earnings. Eliminating the RET raises the Social Security benefits of nonbeneficiaries who choose to take up benefits. It may also increase the income of beneficiaries with earnings above the RET threshold, because the amount of Social Security benefits they are eligible to receive increases. Yet wage and salary earnings may decline for some high earners. This is because some of the simulations assume, based on the literature, that high earners who did not take up Social Security before elimination of the RET, but who do so after the RET is eliminated, would reduce their labor supply. As a consequence, our results suggest that the increases in total current income are due in large part to increased Social Security benefits.

The income gains in our HRS analysis are concentrated among individuals with high lifetime earnings. This is not surprising since much of the increase in total income is derived from the increases in Social Security benefits, and individuals with low lifetime earnings are more likely to be Social Security beneficiaries before the RET elimination than individuals with high lifetime earnings. These results suggest that eliminating the RET for individuals below the NRA will only modestly increase the short-run incomes of persons with low lifetime earnings.

Conclusions

Although the earnings test is perceived as a disincentive to work, our simulation results suggest that the labor supply response to the elimination of the RET for 62-64-year-olds would be limited. Prior research indicates that the only persons who respond with increased work effort when the RET is liberalized are working beneficiaries with earnings between the RET threshold and the point at which Social Security benefits are fully taxed away. The results of our simulations suggest that the primary response to eliminating the earnings test for individuals younger than the NRA will be to increase the early take-up of benefits. Although this analysis does not simulate economic well-being of individuals beyond the initial impact of the RET removal, earlier Social Security take-up suggests that future poverty rates among elderly Social Security beneficiaries may increase as a result of the RET removal.

INTRODUCTION

The Social Security Retirement Earnings Test (RET) reduces the retirement benefits of Social Security beneficiaries whose wage or salary earnings exceed the RET threshold. For beneficiaries below the Normal Retirement Age (NRA), currently age 65 and two months, the earnings test reduces benefits by \$1 for every \$2 of wage or salary earnings in excess of the RET threshold.^{1,2} The RET threshold amount for persons below the NRA is equal to \$11,520 in 2003 and is indexed to the growth in average wage and salary earnings. Working beneficiaries who lose benefits because of the RET recover these benefits in actuarial terms through higher future annual benefits.

Prior to January 2000, an earnings test also applied to workers above the NRA. In 1999, the earnings test for workers between the NRA and age 69 reduced benefits by \$1 for every \$3 of wage or salary earnings above an earnings threshold equal to \$15,500. The Senior Citizens' Freedom to Work Act of 2000 eliminated the RET for all workers who are over the NRA.

Whether to retain, modify, or eliminate the RET for persons below the NRA is an issue that Congress and the President likely will confront.³ Removing the RET may affect labor supply and the timing of Social Security benefit receipt. These potential labor supply and take-up responses have implications for individuals' immediate and long-term economic circumstances. For example, eliminating the RET may increase current income for working nonbeneficiaries who choose to receive early Social Security retirement benefits. However, early receipt of Social Security benefits reduces the annual (and monthly) benefit amounts they and their divorced or widowed spouses receive (unless a spouse is entitled to benefits in his or her own right), and could lower their living standards later in life.

This study provides background information on the earnings⁴ and incomes of 62-64-year-olds in the early 1980s and a decade later, using data from the 1984, 1992, and 1993 panels of the Survey of Income and Program Participation (SIPP).⁵ Individuals' labor earnings and total incomes in relation to the RET threshold are presented, where individuals are classified by their Social Security benefit receipt status. We display these data for the entire population and for individuals classified by sex, marital status, and level of education. This analysis shows the growth in income and earnings for these groups between 1984 and 1992-93.

Our analysis also simulates the effect of eliminating the RET for 62-64-year-olds on their Social Security benefits, earnings, and total incomes, using data from the Health and Retirement

¹ The NRA is scheduled to gradually increase to 67 for more recent birth cohorts.

² The RET has different rules that apply in the year a person reaches the full retirement age for the months before the NRA. During that year, benefits are reduced \$1 for every \$3 of earnings over a higher exempt amount (\$30,720 in 2003) until the month the person reaches the full retirement age.

³ In December 2001, for example, Rep. E. Clay Shaw introduced legislation (H.R. 3497) that would, among other changes, repeal the RET.

⁴ In this study, earnings are defined as wage and salary earnings.

⁵ While this analysis focuses on 62-64-year-olds, the RET also applies to persons receiving survivor benefits at ages 60 and 61.

Study (HRS). We simulate the impact under nine different scenarios. The simulations are based on alternative assumptions about labor supply and Social Security take-up responses.

The next sections of this report provide a brief discussion of the RET and a review of the research on the effects of the RET. This research focuses on how elimination of the RET may affect the labor supply and timing of Social Security benefit receipt for the population aged 62 and older. Then we examine the sources of data, the sample sizes, and the assumptions made constructing the analysis files. We then describe our findings. We focus first on the findings from our descriptive analysis based on SIPP data and then turn to the simulations based on HRS data, which includes a discussion of the simulation assumptions. A final section offers some brief conclusions.

BACKGROUND ON THE RETIREMENT EARNINGS TEST

In 1935, when the Social Security system was created, individuals were not allowed to receive any benefits in a month in which they had covered wages from regular employment. Restrictions on earnings were eased with the 1939 amendments (before any Social Security benefits had been paid out), and were further relaxed with the 1950 amendments (Packard 1990). The 1939 amendments established a RET threshold and the 1950 amendments eliminated the RET for individuals age 75 and older (Packard 1990, pp. 3-4). In 1955, the RET was again relaxed by eliminating it for persons ages 72 through 74.

During the last three decades, the RET has continued to undergo changes. For persons above the NRA there were two substantial increases in the exempt amount during this period—one between 1978 and 1983 and a second between 1996 and 2000.⁶ Between 1977 and 1983, for example, the exempt amount for persons ages 65-71 more than doubled, increasing from \$3,000 in 1977 to \$6,600 in 1983. Another big change was the elimination of the RET for some age groups. In 1983 the RET was eliminated for persons aged 70-71, and the Senior Citizens Freedom to Work Act of 2000 eliminated the RET for persons between the NRA and age 69. Although there have been several major changes in the RET for persons above the NRA, Congress has not significantly changed the RET for persons between the Early Entitlement Age (EEA) of 62 and the NRA—the study population for this analysis.

REVIEW OF LITERATURE

A key question is, how do individuals respond to the Social Security Retirement Earnings Test (RET). The literature reviewed here examines how eliminating the RET may affect older Americans' labor supply and the timing of Social Security benefit take-up. There has been much written on the RET and labor supply, but the relationship between the RET and Social Security take-up has received little attention in the research community. We also briefly discuss the implications of eliminating the RET on the economic well-being of older Americans.

Analyses examining the effect of the RET on the labor supply and Social Security take-up behavior rely on prior RET policy changes to identify how the RET affects behavior. Because the RET changes over the past three decades have been for persons above the NRA,

⁶ The NRA was 65 during this time period.

findings from this literature do not directly apply to our population of interest—62-64-year-old persons (i.e., persons below the NRA). Nevertheless, this literature is relevant and provides information on how older Americans have responded to the RET.

RET Elimination and Labor Supply

Descriptive analyses of the Social Security RET have examined the extent to which Social Security beneficiaries' earnings fall near to the Social Security exempt amount (i.e., the RET earnings threshold). If a large number of beneficiaries have earnings near the exempt amount, they can be described as "clustering" around the exempt amount. Clustering around the exempt amount suggests that some individuals respond to the RET by reducing earnings to the point where they are not subject to a reduction in current benefits. Several noteworthy studies find a relatively high degree of clustering around the exempt amount for beneficiaries both above and below the NRA (Burtless and Moffitt, 1984; Friedberg, 1998 and 1999; Gruber and Orszag, 1999; Toder et al., 1999).

The presence of clustering around the exempt amount suggests that some beneficiaries have reduced their labor supply in response to the RET. Otherwise, one would expect a smooth decline in the number of workers at successively higher earnings levels instead of a sharp drop-off near the exempt amount. But this clustering does not necessarily imply that eliminating the RET will increase the aggregate labor supply of older Americans. Eliminating the RET will likely increase the labor supply of individuals with earnings near the exempt amount, but may reduce the labor supply of those with relatively high earnings. For persons whose earnings are so high that under current law their Social Security benefits would be fully taxed away by the RET, elimination of the RET could increase their income (if they claim their Social Security benefit), even if they did not change their work effort. This positive income effect might lead them to work less if the RET were removed.

Studies have looked beyond these descriptive findings by using multivariate analyses to estimate the effect of eliminating the RET on older Americans' labor supply. Broadly, analyses can be placed into two categories: those examining individuals' employment status (i.e., work versus no work) and those examining individuals' hours of work and earnings. Within the second category, some analyses allow the elimination of the RET to differently affect the behaviors of persons with different levels of earnings, while others look at the aggregate effect across all persons (or across all workers).

Employment Status. Studies examining the relationship between the RET and the work decision suggest that elimination of the RET will not affect employment status. Gruber and Orszag (2001) used data from the 1974-1999 March supplements to the Current Population Survey (CPS) to examine the extent to which the RET affected the labor supply of older Americans. They separately examined men and women, and their regression analysis included individuals between the ages of 59 and 75.⁷ Gruber and Orszag found that changes in the RET threshold level and elimination of the RET for older workers had no impact on men's decisions

⁷ Gruber and Orszag's analysis excludes adults ages 62, 65, 70, and 72 because of uncertainty about the RET rules for these individuals. This uncertainty arises because data on age and labor supply are obtained during two different periods—the CPS asks respondents about their age at the time of the March interview, but questions about labor supply and earnings refer to the prior year (p. 14).

to work (p. 22). In their analysis of women, they found no statistically significant relationship between the RET policy parameters and employment status.

A second study by Toder, et al. (1999) examined whether increases in the RET threshold that occurred for persons 65-71 from 1978 through 1983 affected older beneficiaries' decisions to work. Using the 1984 SIPP data in conjunction with the Social Security Summary Earnings Record (SER) and the Master Beneficiary Record (MBR), they examine men's and women's behavior together. The results of their analysis suggest that increases in the RET threshold do not affect individuals' likelihood of working (pp. 173-74). Song (2002), using SIPP data, matched with the SER and MBR, also found that elimination of the RET will not affect the decision to work for older adults.

Together, these studies suggest that the Retirement Earnings Test does not significantly influence older Americans' decisions to work. We now turn to the question of hours of work and earnings.

Hours and Earnings. In general, the literature suggests that elimination of the RET affects the hours and earnings of workers, with some individuals responding to elimination of the RET by increasing their hours of work and others responding by decreasing their hours of work.

An analysis by Friedberg (1999) estimated the effect of the RET on the number of hours worked by 66-75-year-old employed men (note that she omitted nonemployed men from her analysis). Friedberg allowed the effect of the RET policy to vary with earnings. Workers fell into four groups: (1) those earning less than the exempt amount, (2) those earning near the exempt amount,⁸ (3) those earning more than the exempt amount but less than the point at which Social Security benefits are fully taxed away (i.e., the breakeven point), and (4) those earning too much to receive Social Security benefits (i.e., above the breakeven point). Using CPS data for the three years before and after the 1983 elimination of the RET for persons ages 70 and 71, Friedberg found that the effect of eliminating the RET differed substantially across these four groups: (1) workers with earnings below the exempt amount had no change in earnings, (2) workers with earnings near the exempt amount increased earnings by 50 percent, (3) workers with earnings above the exempt amount but below the breakeven point increased their earnings by 18 percent, and (4) workers with earnings above the breakeven point *decreased* their earnings by four percent (p. 20).⁹

An earlier study by Honig and Reimers (1989) also provides estimates of the effect of eliminating the RET on hours worked at varying levels of earnings. The pattern of results in this study is consistent with those from Friedberg (1999), but the magnitudes differ somewhat. Honig and Reimers' analysis suggested that the effect of eliminating the RET was as follows: (1) workers with earnings at the RET threshold increased their wage or salary earnings by 20 percent, (2) workers with earnings above the threshold but below the breakeven point increased

⁸ Friedberg defined persons to be earning *at* the RET threshold if their earnings were within 10 percent of the threshold. The definitions for being below and above the threshold were adjusted accordingly.

⁹ Friedberg's analysis assumed that individual wage rates were fixed, so a 50 percent increase in hours, for example, translated into a 50 percent increase in earnings.

their earnings by 13 percent; and (3) workers with earnings above the breakeven point decreased their earnings by one percent (p. 106).¹⁰

Burtless and Moffitt (1984) estimated a joint retirement and hours of work model to examine, among other things, how eliminating the RET might affect labor supply. Using data from the 1969-79 Retirement History Survey (RHS), the results of their analysis suggested that the RET substantially reduced hours worked by individuals who had earnings near the exempt amount (p. 164). A drawback of their analysis is that it was based on data prior to the 1983 elimination of the RET for 70-71-year-olds and during a period when the RET policies were virtually unchanged (Friedberg 1999, p.7). The limited variation makes it difficult to identify the effect of eliminating the RET on labor supply.¹¹

The study by Gruber and Orszag (2001) also looked at *aggregate* hours and earnings, rather than allowing the effect to differ for persons with different levels of earnings. Results from their analysis suggest that eliminating the RET will not significantly affect the labor supply of men. The authors concluded that there was some evidence suggesting that the RET might affect the labor supply and earnings of women. The results of their various model specifications for women, however, were mixed—coefficients on key policy variables had unanticipated signs and often were statistically insignificant. Results from only one of six models that examined the relationship between the RET and the earnings of women suggested that elimination of the RET would increase the earnings of women.¹² The estimated effects from this one model were large—the results suggested that eliminating the RET would raise women's earnings by \$1,072, where the sample mean of women's earnings was \$2,140 (p. 21).

That Gruber and Orszag's analysis provides little evidence that the RET affects the *aggregate* labor supply of older Americans is not surprising. The majority of studies that have examined the aggregate labor supply effects of the RET have found only minor effects. A 1990 review by Leonesio, for example, concluded that "economic research indicates that the Social Security retirement test plays a relatively small role in determining the aggregate labor supply of older workers."¹³

Overall, the literature suggests that elimination of the RET will not affect employment status, but it may affect the hours and earnings of workers. Although the aggregate labor supply

¹⁰ Honig and Reimers assume that persons with earnings below the RET threshold will not change their level of earnings with removal of the RET .

¹¹ Gustman and Steinmeier (1986) also used data from the 1969-79 RHS to jointly examine the retirement and post-retirement labor supply (Friedberg 1999, p.7).

¹² Three of the six models examined the income of female workers and nonworkers (jointly), while the other three models looked at the earnings of female workers only. Of the three models that examined the earnings of both female workers and nonworkers, one model produced statistically significant coefficients that had the anticipated signs on the RET policy variables (as mentioned above), a second model produced statistically significant coefficients that had *unanticipated* signs on the RET policy variables, and the third model produced "right-signed" but statistically insignificant coefficients. For the additional three models that examined earnings of workers, all three models produced coefficients on the policy variables that were statistically insignificant.

¹³ Leonesio (1990) reviewed many studies of the RET including Burtless and Moffitt (1984, 1985), Gustman and Steinmeier (1985, 1986), Honig and Reimers (1989), Packard (1988), and Vroman (1985). Packard (1990) also found that eliminating the RET for persons age 65-69 was not likely to have a large aggregate labor supply effect (p. 15).

response to eliminating the RET is expected to be small, the literature suggests that workers with earnings at and above the Social Security exempt amount would likely increase their labor supply, while workers with much higher earnings might decrease their labor supply.

RET Elimination and Social Security Take-Up

The relationship between elimination of the RET and Social Security take-up was examined by Gruber and Orszag (2001) and Song (2002).¹⁴ The results of Gruber and Orszag's RET and Social Security take-up analysis were considerably more robust than their analysis of the relationship between the RET and earnings. Their analysis suggested that removal of the RET leads to earlier Social Security take-up for both men and women. They found that eliminating the RET increased the share of men receiving Social Security benefits by between 5.2 and 13.5 percentage points and increased the share of women receiving Social Security benefits by between 6.8 and 20.0 percentage points. These effects were large relative to the percentage of persons who were nonbeneficiaries, and suggested, at the upper end of the estimated range, that eliminating the RET could lead to a 100 percent Social Security take-up rate.¹⁵

Song (2002) examined how the 2000 elimination of the RET for individuals above the NRA affected the Social Security take-up behavior of 65-69-year-olds. Results from the analysis suggest that approximately two percent of all individuals in this age group may have taken-up Social Security benefits in response to the RET elimination (p. 26). Roughly 10 percent of Song's sample of 65-69-year-olds were nonbeneficiaries, suggesting that 20 percent of nonbeneficiaries in the age group took up benefits in response to the RET elimination. The group of nonbeneficiaries in Song's sample included individuals who were not eligible to receive Social Security benefits, so the percentage of *eligible* nonbeneficiaries who began receiving benefits would be higher than 20 percent. Finally, since Song's analysis used data only through the year the RET was eliminated (2000), her estimate of the effect of eliminating the RET on Social Security take-up behavior may be a lower bound estimate of the true effect. This is because people may alter their behavior to a greater extent in years after the policy change.

RET Elimination and Economic Well-Being

Removing the RET has the potential to increase poverty among older retirees, because earlier benefit take-up results in a lower initial Social Security benefit level, and in lower annual (and monthly) amounts throughout a beneficiary's life. Aznick and Weaver (2000) examine this issue by calculating poverty rates under two scenarios—eliminating the RET at the Early Entitlement Age (EEA) and eliminating the RET at the NRA. Poverty rates were calculated under four assumptions about the timing of Social Security take-up. In calculating the effect of

¹⁴ Gruber and Orszag (2001) said that "the past literature has not considered the impact of the earnings test on benefit receipt" (p. 2)

¹⁵ Among Gruber and Orszag's sample of 71-year-olds—persons who experienced the elimination of the RET—88.6 percent of men and 85.9 percent of women were beneficiaries. Adding to these percentages the upper bound estimates of 13.5 and 20.0 percentage points for men and women respectively, brings the estimated percentage of men and women who were Social Security beneficiaries to 100 percent. It is also important to note that Gruber and Orszag's calculations of the percentage of persons who were Social Security beneficiaries are based on a sample of all persons, not the subsample of persons who were *eligible* to receive Social Security benefits. The percent of Social Security-eligible individuals who were beneficiaries was higher than the percentages presented above.

eliminating the RET at the EEA and NRA, Aznick and Weaver varied the assumed percentages of nonbeneficiaries who would have filed at the EEA and NRA if there were no earnings test. The alternative assumed that shares were: (1) 0 percent (i.e., no effect of elimination), (2) 20 percent, (3) 50 percent, and (4) 100 percent. The analysis suggested that the impact of eliminating the earnings test for persons above the NRA was minimal under all four assumptions. However, this was not the case when they examined the impact on poverty rates of eliminating the earnings test at the EEA. Under the assumption of larger behavioral responses (i.e., higher early take-up rates), the increase in poverty rates was substantial—up to two percentage points. They also found that the poverty rate increases would be more severe among women, widows/widowers, and persons ages 70-79.

Gruber and Orszag (2001) also expressed concern about eliminating the RET at the EEA. They concluded that "the finding of no robust evidence of labor supply response, but clear evidence for early benefit receipt, appears to weaken the case for relaxing or removing the remaining earnings test at younger ages" (p. 23).

Summary of Literature

The studies reviewed here used data from the last three decades to examine the effect of the RET on older Americans' labor supply. During this time period, most of the changes to the RET have occurred for persons above the NRA, and as a result, analyses rely on this variation to identify the effect of the RET on labor supply and Social Security take-up. Because the employment rate, earnings, and Social Security receipt differ for persons below and above the NRA, it is unlikely that the estimated effect of eliminating the RET for older workers directly applies to younger workers. Nonetheless, these estimates do provide us with information on how individuals have responded to an elimination of the RET.

The literature suggests that elimination of the RET will affect the hours and earnings of workers, with some groups increasing their earnings and others decreasing earnings. In addition, Gruber and Orszag's (2001) and Song's findings suggest that eliminating the RET will result in earlier Social Security take-up, and the study by Aznick and Weaver suggests that earlier take-up of benefits will raise poverty rates among older retirees. Taken together, these studies suggest that eliminating the RET at the EEA of 62 may have little advantage because it will not significantly increase labor supply but does risk increasing the future poverty of older retirees.

DATA

Our analysis uses data from both the Census Bureau's Survey of Income and Program Participation (SIPP) and the Health and Retirement Study (HRS). The SIPP data provide a descriptive analysis of earnings and incomes of 62-64-year-olds in the early 1990s and a decade earlier, whereas the HRS data allow us to simulate the effect of eliminating the RET for individuals below the normal retirement age. These two data sets are discussed in turn.

SIPP

We use data from the 1984, 1992, and 1993 panels of the SIPP. Each SIPP panel is a nationally representative (non-institutional) sample of households whose members are

interviewed over a 32- to 40- month period.¹⁶ Households are interviewed every four months, and data are collected on earnings, income, and labor force activity for each of the preceding four months. Each of these four month periods is referred to as a “wave.” In addition, information from special topical modules such as employment history and wealth are collected at each wave of interviews. For this analysis, we use data from the core SIPP data files and the employment history topical modules in each of the three panels. The employment history topical module is used to obtain an estimate of individuals’ eligibility for Social Security.

Our analysis examines the Social Security status and economic status of 62-64-year-olds in the early 1990s and compares them to conditions from the previous decade. To accomplish this, we create two separate SIPP files: a concatenated 1992-93 data file and a 1984 data file.¹⁷ Although the SIPP is longitudinal in nature, we only use data from a single wave from each panel—the one with the employment history topical module. In the 1992 and 1993 panels, the employment history topical module formed part of the first wave, and in the 1984 panel, this topical module was a part of the third wave. Using this method to select our sample, there are 1,848 respondents ages 62-64 in the 1992-93 combined file and 1,274 respondents ages 62-64 in the 1984 file.¹⁸

For our analysis, we create several variables including Social Security receipt, Social Security eligibility, earnings, and various components of income such as pension and Social Security income. We classify respondents as Social Security recipients if they have positive Social Security income for all four months in the wave that the employment history topical module was asked. Requiring Social Security income to be positive in all four months minimizes any anomalous earnings patterns immediately surrounding retirement and Social Security receipt.¹⁹

The SIPP data do not enable us to determine Social Security eligibility with precision. We classify respondents as eligible for Social Security benefits if they or their spouses worked for at least 10 years. This definition does not take into consideration the fact that some adults work in jobs that are not covered by Social Security, such as some federal and state government workers. This may cause us to overstate the share of people eligible for benefits.

We calculate annual earnings and income from each source based on the four months of data collected during the period over which the employment history topical module was asked. Monthly earnings and income amounts are summed over these four months and multiplied by three to calculate annual amounts. We calculate five separate components of income: earnings, pension income, asset income, Social Security income, and income from other sources. Pension income includes income from any private, federal, state, and local plans, and asset income includes income from savings accounts, money markets accounts, stocks or mutual funds, rental

¹⁶ The 1984 and 1993 panels have 32 months of data, while the 1992 panel is a 40-month longitudinal file.

¹⁷ All figures in our analysis are weighted.

¹⁸ The 1992-93 combined file began with 2,343 respondents, but 495 are not included in our final analysis because of missing employment history information. There is no missing employment history information among 62-64-year-olds in the 1984 file.

¹⁹ In the 1992-93 combined file, there are only 79 observations in which we see Social Security receipt in some, but not all four months. In the 1984 file, there are 37 such observations. These cases are classified as eligible nonbeneficiaries in our analysis.

property, real estate, or other royalties and financial assets. Other income is derived from a variety of sources, such as life insurance policies, annuities, and public assistance programs.

HRS

Data from the first three waves of the HRS are used to simulate the effect of eliminating the RET for individuals below the NRA. These data are supplemented with administrative Social Security data from the HRS's Earnings and Benefit File (EBF).²⁰ The HRS is a longitudinal data set consisting of a nationally representative sample of respondents from the 1931 through 1941 birth cohorts and their spouses.²¹ The HRS was first administered in 1992 and re-interviews take place every two years. In 1992, sample respondents were between 51 and 61 years old. By the third interview (i.e., "wave"), which was administered in 1996, these respondents were between 55 and 65 years old. Our analysis focuses on respondents from the earliest two birth cohorts—1931 and 1932, who were 60-61 in 1992 and 64-65 in 1996.

Each wave of the survey asks respondents about their total earnings in the previous year (i.e., 1991, 1993, and 1995) and about their wage and hours of work at the time of the survey (i.e., 1992, 1994, and 1996). Because the earnings-related information collected for 1996 does not capture earnings over the entire 1996 calendar year, we use 1995 as our reference year rather than 1996. In 1995, individuals in the 1931 and 1932 birth cohorts were ages 63-64 and 62-63, respectively. Our analysis file includes 959 individuals.

Linked Social Security data were used to calculate individuals' Average Indexed Monthly Earnings (AIME) and Primary Insurance Amounts (PIA) in 1995.^{22,23} We use the Social Security earnings data from the EBF in conjunction with individuals' self-reported 1992-95 earnings collected in the three waves of the HRS.²⁴ If a respondent had less than 40 quarters of coverage by 1995, they were deemed ineligible for Social Security benefits based on their own earnings record. However, in addition to calculating PIAs for each of the individuals in our sample, in the case of married individuals we also link to spousal PIAs. An individual's PIA is then computed as the greater of two amounts: (a) the PIA based on their own earnings record; or (b) half the PIA based on their spouse's earnings records.

²⁰ The HRS Restricted Earnings and Benefit File contains covered Social Security earnings from 1951 through 1991.

²¹ Spouses may fall outside the 1931–1941 cohorts.

²² In general, the AIME is the average of a worker's highest-earning 35 years from Social Security-covered employment (indexed for wage inflation), and is used by the Social Security Administration to calculate Social Security retirement benefit amounts. The PIA, which is based on the AIME, is the unadjusted value of Social Security benefits prior to reductions for early retirement or credits for delayed retirement.

²³ Our analysis file only includes respondents with matched Social Security records. In the 1992 baseline HRS sample, approximately 75 percent of respondents gave permission for their Social Security earnings records to be matched to their survey responses.

²⁴ When updating earnings for 1992 through 1995, we use an annualized figure based on self-reported wage and hours to calculate earnings in 1992 and 1994 and we use self-reported total earnings for 1993 and 1995. Note also that these earnings are capped at the appropriate annual taxable maximum for 1992–1995.

FINDINGS

Description of 62-64-Year-Olds' Incomes Using the 1992-93 and 1984 SIPP

Using SIPP data, we examined the earnings and incomes of 62-64-year-olds by their level of earnings relative to the Social Security RET threshold (i.e., the exempt amount). In addition to the full population of 62-64-year-olds, we looked at individuals by benefit receipt status: (1) receiving Social Security retirement benefits, (2) eligible for Social Security based on work history but not receiving benefits, and (3) not eligible for Social Security benefits. Differences across other dimensions including sex, marital status, and educational attainment were also examined. We focused first on benefit receipt status and then on the distribution of earnings, level of income, and composition of income. Unless noted, the differences described are statistically significant at the 10 percent level.

Benefit Receipt Status of 62-64-Year-Olds. The distribution of 62-64-year-olds across these Social Security benefit receipt statuses and by selected characteristics are presented in Table 1. In 1992-93, 57 percent of 62-64-year-olds received Social Security benefits. We found that benefit receipt status differed by both sex and educational attainment. In 1992-93, for example, females were more likely to be beneficiaries than males (61 percent vs. 53 percent), and persons with high school educations or less were more likely to be beneficiaries than individuals with more than high school educations (63 percent vs. 45 percent). Unmarried individuals were about equally as likely to be beneficiaries as married individuals (58 percent vs. 56 percent).

The distribution of all 62-64-year-olds across the three benefit receipt statuses was similar in 1992-93 and 1984, but there were some noteworthy subpopulation differences across the two time periods. Females were less likely to be beneficiaries in 1992-93 than in 1984, while men were about equally likely to be beneficiaries. This reduction in Social Security take-up among 62-64-year-old females in the early 1990s decreased the gap between the proportion of males and females who were beneficiaries. There was a 12 percentage point gap between females and males in 1984 (65 percent vs. 53 percent) and an 8 percentage point gap in 1992-93 (61 percent vs. 53 percent). Similarly, the gap between married and unmarried persons decreased between 1984 and 1992-93, so that by the early 1990s the proportion of married and unmarried persons receiving benefits was virtually the same (about 57 percent).

Earnings Distribution of 62-64-Year-Olds in Relation to the RET Threshold. This section provides information about the distribution of earnings relative to the RET threshold by Social Security benefit receipt status, year, sex, marital status, and educational attainment.²⁵ The majority (58 percent) of 62-64-year-olds had zero earnings in 1992-93 (Table 2.1). In the subset of persons with earnings, most had earnings above the RET threshold. For instance, of those with positive earnings in 1992-93, 74 percent had earnings in excess of the RET threshold. Table 2.1 also shows significant variation in the earnings distributions across the three benefit receipt statuses. Although 80 percent of beneficiaries had zero earnings, only 24 percent of eligible nonbeneficiaries had zero earnings. Almost all beneficiaries (97 percent) had earnings less than 150 percent of the RET threshold, which is not surprising since individuals lose 50 cents of benefits for every dollar of earnings above the RET threshold. In contrast, only 37

²⁵ In 1984, the RET was equal to \$5,160 and in 1992 and 1993 it was equal to \$7,440 and \$7,680, respectively.

percent of eligible nonbeneficiaries had earnings less than 150 percent of the RET threshold and 43 percent had earnings at least 3 times the RET threshold.

Between 1984 and 1992-93 the percentage of 62-64-year-olds with positive earnings increased from 35 percent to 42 percent. This increase in work effort from 1984 to 1992-93 occurred for all beneficiary status groups. The share with earnings increased from 17 to 20 percent among beneficiaries, from 64 to 76 percent among eligible nonbeneficiaries, and from 14 to 32 percent among ineligible nonbeneficiaries.²⁶ The increase in the share of 62-64-year-olds with earnings is related to two other characteristics: a reduction in the share of 62-64-year-olds who claimed Social Security benefits (as shown in Table 1) and an increase in the share of beneficiaries and nonbeneficiaries with positive earnings.

Distribution of Earnings by Sex. Among 62-64-year-olds in 1992-93, the distribution of earnings differed for males and females (Table 2.2, columns 1 and 2). Females were more likely than males to have no earnings and less likely than males to have earnings in excess of three times the RET. For example, 61 percent of females had zero earnings, compared with only 55 percent of males. Earnings differences between males and females existed for the subpopulation of beneficiaries and eligible nonbeneficiaries, but not for the subpopulation of ineligible nonbeneficiaries (see Appendix Table A-1a).

Between the early 1980s and the early 1990s, there were noteworthy changes in the distribution of earnings by sex. In particular, the gap between males' and females' earnings diminished. The share of females with zero earnings declined from 73 percent in 1984 to 61 percent in 1992-93, while the share of men with zero earnings remained roughly stable at about 55 percent. In addition to more females working, females were moving up the earnings distribution at a time when men were not. The share of females with very high earnings (greater than three times the RET threshold) increased from five percent to 10 percent between the early 1980s and early 1990s, while the share of males with this high level of earnings was roughly stable at 25 to 27 percent. These changes highlight cohort differences in which females were increasing their labor force participation, even later into life.

Distribution of Earnings by Marital Status. The distribution of 1992-93 earnings differed for married and unmarried persons (Table 2.2, columns 3 and 4). In 1992-93, married persons were more likely than unmarried persons to have zero earnings, but also were more likely to have very high earnings (greater than three times the RET threshold). The difference in earnings of married and unmarried persons came primarily from the different earnings of married and unmarried beneficiaries, not nonbeneficiaries (see Appendix Table A-1b). We also found that the distribution of earnings by marital status has changed over time. For example, unmarried persons were less likely to have zero earnings and more likely to have very high earnings in the early 1990s compared to the early 1980s.

Distribution of Earnings by Educational Attainment. Earnings of 62-64-year-olds also differ by level of education (Table 2.2, columns 5 and 6). Those with educations beyond high school degrees were more likely to be working (i.e., have positive earnings) than those with high

²⁶ Although these percentages are statistically different, the *earnings distribution* differs significantly across the two time periods only for eligible nonbeneficiaries.

school degrees or less. In 1992-93, 62 percent of persons with high school degrees or less had zero earnings, compared with 50 percent of persons with more than high school educations. Among workers, persons with more education had higher earnings—75 percent of the more educated group earned more than 150 percent of the RET, compared with 56 percent of the less-educated group. Differences in the earnings distributions were driven by the subpopulation of Social Security-eligible nonbeneficiaries, not the subpopulation of beneficiaries or ineligible nonbeneficiaries (see Appendix Table A-1c).

Between 1984 and 1992-93, the distribution of earnings was similar for persons with more than high school degrees but differed for those with high school degrees or less. The proportion of less-educated individuals with positive earnings increased from 31 percent in 1984 to 38 percent in 1992-93. In addition, the proportion of individuals in the highest earnings category (i.e., earnings greater than three times the RET threshold) increased during this time period—from 10 percent to 12 percent.

Income Levels of 62-64-Year-Olds. This section examines the income of 62-64-year-olds. Income is presented in real (1992-93) dollars in order to make comparisons across the 1984 and 1992-93 periods.²⁷ Similar to the previous section, we looked at income by benefit receipt status and relative to the RET threshold, as well as by sex, marital status, and educational attainment.

Examining 1992-93 incomes across the three categories of benefit receipt status showed that, on average, eligible nonbeneficiaries had almost twice as much income as beneficiaries: \$30,968 versus \$16,355 (Table 3.1). Because earnings were a significant component of income, and beneficiaries had lower average earnings than nonbeneficiaries, this finding is not surprising. But the story is different when beneficiaries are compared to nonbeneficiaries at the same earnings level. Within many earnings groups, beneficiaries had higher incomes than nonbeneficiaries. This higher income in part reflects the fact that beneficiaries received Social Security benefits, while nonbeneficiaries did not. Individuals ineligible for Social Security had the lowest average incomes—lower than either beneficiaries or eligible nonbeneficiaries.

Between 1984 and 1992-93, real incomes of 62-64-year-olds increased from \$19,206 to \$21,716 (Table 3.1). This increase occurred for two of the three beneficiary status groups—beneficiaries and eligible nonbeneficiaries. Real income showed a slight decline over time for individuals ineligible for Social Security, but the decline was not statistically significant.

Incomes by Sex. In 1992-93, the income of males exceeded the income of females for all beneficiary status groups. Overall, the average income of males was nearly twice that of females (Table 3.2, columns 1 and 2). While males had an average income of \$28,341 in 1992-93, the average income of females was only \$14,666. However, the real income of females increased substantially between 1984 and 1992-93, while the real income of males remained roughly constant. The rise in females' income was especially large for eligible nonbeneficiaries, reflecting the increase over time in earnings of female workers (see Appendix Table A-2a).

²⁷ The 1984 dollar amounts were inflated by a factor of 1.37, which is an average of the 1992 and 1993 inflation factors.

Incomes by Marital Status. For the population of 62-64-year-olds in 1992-93, the average income of married persons was about 10 percent higher than the average income of unmarried people—\$22,409 versus \$20,059 (Table 3.2, columns 3 and 4).²⁸ Although average income was lower for unmarried than married individuals in 1992-93, unmarried persons experienced a higher rate of income growth over the 1984 to 1992-93 period.²⁹ On average, the real income of unmarried individuals grew twice as fast as the growth of the income of married persons (22 percent versus 11 percent) between 1984 and 1992-93. This higher income growth for the unmarried was primarily due to the rapid income growth of unmarried eligible nonbeneficiaries (see Appendix Table A-2b).

Incomes by Educational Attainment. In 1992-93, the income of 62-64-year-olds with more than a high school diploma was almost two times the income of a high school graduate or less: \$31,705 versus \$16,564 (Table 3.2, columns 5 and 6). Not surprisingly, the higher income among persons with more than a high school degree held across the three categories of benefit receipt (see Appendix Table A-2c). Over the 1984 to 1992-93 period, real income increased to a greater extent for less-educated persons than for more-educated persons, reducing slightly the education-income gap. The income of less-educated people increased by 12.7 percent (from \$14,699 to \$16,564), while the income of more-educated persons increased by only 2.9 percent (from \$30,799 to \$31,705).

Composition of 62-64-Year-Olds' Income. This section examines the income of 62-64 year-olds, disaggregated into five components—earnings, pension income, asset income, Social Security income, and other income.³⁰ These income sources are displayed by individuals' earnings relative to the RET threshold and by benefit receipt status.

The largest source of income for 62-64-year-olds in 1992-93 was earnings, which accounted for 47 percent of all income (Table 4.1a). Social Security was the second largest income source at 19 percent, followed by private pensions (17 percent), income from assets (12 percent), and all other income sources (6 percent). The income shares varied substantially by individuals' level of earnings. Those with no earnings received 38 percent of their income from Social Security, 34 percent from pensions, and 19 percent from asset income. Those with very high earnings—at least 3 times the RET threshold—received 88 percent of their income from earnings, 7 percent from assets, and just over 5 percent from all other sources, including Social Security benefits.

The dollar value of income by source is presented in Table 4.1b. This table shows the large dollar variation in Social Security incomes across persons with different levels of earnings. For example, people with no earnings on average received \$5,649 in Social Security income, while individuals with earnings above three times the threshold on average received only \$204 in Social Security income. This reflects the effect of the RET on individuals' take-up and on the dollar value of Social Security benefits.

²⁸ Although these incomes were statistically different, the 1984 and 1992-93 *income distributions* did not differ significantly.

²⁹ The average income of unmarried persons differed in 1984 and 1992-93 (\$16,480 versus \$20,059), although the 1984 and 1992-93 *income distributions* did not differ significantly.

³⁰ These other income sources are defined in the data section.

The relative importance of income sources did not change between 1984 and 1992-93. In 1984, earnings were the largest source of income followed by Social Security income, pension income, asset income, and other income (Table 4.2a). There were, however, some changes in the real dollar value of some income sources. Real earnings and real Social Security income significantly increased between 1984 and 1992-93, while income from other sources did not significantly change (Tables 4.1b and 4.2b).

The composition of income sources differed greatly by benefit receipt status (Tables 4.3 and 4.4). In 1992-93, the biggest income source for beneficiaries was Social Security benefits (42 percent), and earnings rank fourth (nine percent) after pension and asset income. On the other hand, the largest source of income for eligible nonbeneficiaries was earnings (76 percent), followed by pension and asset income. Some beneficiaries, however, receive substantial income from earnings. For example, for beneficiaries with earnings between 1.5 and two times the RET threshold, 59 percent of their income was from earnings and 34 percent was from Social Security.³¹ The relative importance of income sources was similar in 1984 and 1992-93 for both beneficiaries and eligible nonbeneficiaries (Tables 4.3 and 4.4).

Summary. This descriptive analysis shows that in both 1984 and 1992-93, most 62-64-year-olds (about 60 percent) received Social Security retirement benefits. Women were more likely to be beneficiaries than men and the less educated were more likely to receive benefits than those with more than high school educations. Consistent with the patterns of benefit receipt, about 60 percent of 62-64-year-olds had no earnings in the early 1990s. The vast majority of these individuals with no earnings were beneficiaries—80 percent of beneficiaries had no earnings, while 25 percent of eligible nonbeneficiaries had no earnings.

The average real incomes of 62-64-year-olds increased between 1984 and 1992-93. Our analysis also shows that, on average, earnings were the largest source of income for 62-64-year-olds. However, for those with earnings below the RET threshold, Social Security benefits were the largest income source.

Eliminating the Retirement Earnings Test for 62-64-Year-Olds

This section describes the simulations designed to estimate the effect of eliminating the RET on the incomes of 62-64-year-olds. Using HRS data, we simulate nine different scenarios. Below we discuss the simulation assumptions, and then present a descriptive analysis before moving on to the simulation results.

³¹ Only 1.3 percent of beneficiaries had earnings in this range.

Simulation Assumptions. The simulations use alternative assumptions about labor supply changes and Social Security take-up. We examine three labor supply response scenarios, and each one is carried out under three different Social Security take-up scenarios (for a total of nine simulations). The labor supply response scenarios are based on Friedberg (1999) and the Social Security take-up scenarios are similar to those analyzed by Aznick and Weaver (2000). Although other research has examined the impact of the RET on labor supply (Honig and Reimers, 1989; Burtless and Moffitt, 1984; Gruber and Orszag, 2001), we use Friedberg's results because we believe her analysis is the most thorough and convincing in the literature.

Consistent with findings from the literature, we have assumed that elimination of the RET does not affect the decision to work—it only affects the amount of labor supplied (hours worked) by workers. Friedberg's (1999) analysis concluded that eliminating the RET would (1) not change the earnings of workers below the RET threshold, (2) increase by 50 percent the earnings of workers near the RET threshold, (3) increase by 18 percent the earnings of workers above the RET threshold but below the breakeven point, and (4) *decrease* by 4 percent the earnings of workers above the breakeven point.

This analysis examines three different scenarios of labor supply response, each of which partitions workers into four groups according to their distance from the RET threshold:

Earnings Group ³²	Labor Supply Change of Workers (Percent)		
	Scenario 1	Scenario 2	Scenario 3
(1) Below the RET threshold	0 %	0 %	0 %
(2) Near the RET threshold	50	75	100
(3) Between the RET threshold and the breakeven point	20	30	40
(4) Above the breakeven point	-5	-2.5	0

The first scenario uses Friedberg's estimates, although we round the 18 percent to 20 percent and the 4 percent to 5 percent. The second and third scenarios assume that people work more hours than in the first scenario. We examine these scenarios because Friedberg's estimates are based on persons ages 70 and 71, and we expect 62-64-year-olds (the focus of this analysis) to work more than 70-71-year-olds. The labor supply response in the second scenario differs by 50 percent as compared to the first scenario, and the labor supply response in the third scenario is such that people work more than in the second scenario. Note that while the labor supply of earnings groups 2 and 3 is higher in scenarios 2 and 3 as compared to scenario 1, the labor supply of earnings group 4 is less negative in scenarios 2 and 3 as compared to scenario 1.

For individuals with earnings between the RET threshold and the breakeven point (earnings groups 2 and 3), only individuals who are beneficiaries prior to the policy change experience the above described increase in labor supply. Nonbeneficiaries who become beneficiaries after the policy change are not simulated to increase their labor supply because their labor supply was not constrained by the RET prior to the policy change (as it was for beneficiaries). In fact, this group of individuals who become beneficiaries with the RET's

³² We define individuals as having earnings near the exempt amount if their earnings fall between 90 and 110 percent of the threshold.

elimination may reduce their labor supply since their incomes increase with no additional work effort (i.e., they face an income effect only). Although the labor supply of these individuals may fall, the literature does not provide a direct estimate of the labor supply effect for this group, so the labor supply change for this small group of individuals is set to zero.

Under each of the three labor supply response scenarios, we present three Social Security take-up scenarios. In the take-up scenarios, we vary the share of 62-64-year-old nonbeneficiaries who are assumed to take up Social Security benefits if the RET is eliminated. The three scenarios are:

- (1) 25 percent of persons with earnings at or above the RET threshold take up benefits,
- (2) 50 percent of persons with earnings at or above the RET threshold take up benefits, and
- (3) 100 percent of persons with earnings at or above the RET threshold take up benefits.

This analysis assumes that no person with earnings below the RET threshold takes up their *own* benefit. For individuals with earnings below the RET threshold, benefits can increase only if spousal benefits rise (if the spouse has earnings above the RET threshold). Because nonbeneficiaries with earnings below the RET threshold are not financially affected by the RET, it is unlikely that their behavior would change with its elimination. Each of the three labor supply response scenarios are simulated with the three Social Security take-up scenarios—25 percent, 50 percent, and 100 percent—for a total of nine simulations. We now turn to the descriptive analysis.

Descriptive Analysis. The percent of individuals whose incomes will be affected by possible RET elimination depends on individuals' labor supply and Social Security receipt status. At the extreme, if all 62-64-year-olds were non-working Social Security beneficiaries, then eliminating the RET would have no impact on incomes. In this section we discuss the earnings levels and Social Security receipt status of the 959 62-64-year-olds in our HRS sample. We examine these measures for the full sample and by family Average Indexed Monthly Earnings (AIME) quintiles, where the AIME is a measure of lifetime earnings.³³ Examining earnings and Social Security receipt by (family) AIME quintile gives insight into the distributional implications of the RET elimination. Although the AIME is not a perfect proxy for financial well-being in retirement, it does provide some important information about the economic status of individuals.³⁴

We found that of persons eligible to receive Social Security benefits, a slight majority—53.7 percent—have no earnings and another 11.2 percent have positive earnings less than the RET threshold (Table 5). People in the lower AIME quintiles are more likely than those in higher quintiles to have earnings below the RET threshold (i.e., exempt amount), and thus, are less likely to be affected by the RET elimination. Persons with earnings below the exempt

³³ The AIME is the Social Security Administration's measure of lifetime earnings. As mentioned above, it is generally an average of an individual's highest-earning 35 years from Social Security covered employment, indexed for wage inflation. In our analysis, we classify individuals by family AIME. For a single individual, family AIME equals the individual's AIME. For married couples, family AIME is an average of the Social Security AIME of the husband and wife, thereby providing a measure of per capita lifetime earnings.

³⁴ Since the AIME only includes earnings from Social Security covered employment, an individual with a lifetime of uncovered work may be in the lowest quintile even though he or she was actually a high lifetime earner.

amount are less likely to be affected by this policy change because they would not change their labor supply and could only change their Social Security receipt status if they were eligible for a spousal benefit. Although 82.6 percent of persons in the *lowest* AIME quintile have no earnings or earnings below the Social Security exempt amount, for example, only 53 percent of people in the *highest* AIME quintile have no earnings or earnings below the exempt amount. Across the sample of Social Security-eligible persons, less than one-fifth (17.3 percent) have a level of earnings that would prohibit them from receiving Social Security benefits—their earnings are above the breakeven point. Table 5 shows that the percentage of Social Security-eligible persons with earnings above the breakeven point increases with the AIME quintiles, from 6.8 percent for the lowest AIME quintile to 29.5 percent for the highest AIME quintile.

In addition to earnings changes, income can change via a change in Social Security benefits. That is, a Social Security-eligible nonbeneficiary can become a Social Security beneficiary. Table 6 shows Social Security eligibility status, by family AIME quintile, for the sample of 62-64-year-olds. Of the 959 62-64-year-olds in the sample, roughly one-third (30 percent) are eligible to receive Social Security but have not chosen to take up benefits. These individuals are spread throughout the family lifetime earnings distribution, although a larger share of individuals from high family AIME quintiles are eligible nonbeneficiaries—21.0 percent for the lowest AIME quintile and 36.7 percent for the highest AIME quintile. As a result, persons simulated to take up benefits will disproportionately come from higher AIME quintiles.

Table 7 shows the percentage of people whose incomes are affected by the elimination of the RET under the three Social Security take-up scenarios.³⁵ With the 25 percent take-up scenario, 17.3 percent of all individuals experience an income change, and under the 100 percent take-up scenario, more than twice as many individuals (36.0 percent) experience an income change. Differences across family AIME quintiles are rather substantial. With the 100 percent Social Security take-up scenario, for example, 15.2 percent of individuals in the lowest AIME quintile experience an income change, compared to 49.0 percent—three times as many—of individuals in the highest AIME quintile. Overall, these descriptive results suggest that individuals with higher family AIMEs are more affected by the repeal of the RET because they have higher earnings and are less likely to be beneficiaries under current law.

Simulation Results. This section presents simulation results with the lowest and highest work effort labor supply responses (labor supply scenarios 1 and 3) under the three Social Security take-up scenarios. For each scenario, we discuss how elimination of the RET for 62-64-year-olds would affect current Social Security income, earnings, and total income.³⁶ This is done first for the labor supply response with the lowest work effort (Table 8) and then for the response with the largest work effort (Table 10). Results of the middle labor supply response (scenario 2) are presented in Table 9, but are not discussed here.³⁷

³⁵ The percentage of persons whose incomes change with the elimination of the RET is the same across the three labor supply scenarios.

³⁶ These simulations are not carried out for sub-populations, such as by sex, because the sample size is not large enough.

³⁷ All of the simulations take account of the fact that there is no longer a RET for individuals above the NRA. This "current law" adjustment increases the Social Security benefits of some people because some 62-64-year-olds in the sample are eligible for spousal benefits from their spouses who are above the NRA. This analysis assumes that all

Simulations for First Labor Supply Scenario. Table 8 presents the results of three simulations—the lowest work effort (labor supply scenario 1) with the three Social Security take-up scenarios. The three panels of the table show how these scenarios affect Social Security benefits, earnings, and total incomes, respectively. The first column shows the current law value of the corresponding income category (by earnings quintile) and columns two through four present the percent change in the income category under the three Social Security take-up scenarios.

Social Security income increases across the three simulations for the full sample and for each of the five AIME quintiles (Table 8, first panel). For the full sample, Social Security income increases from the current law value by 13.2 percent under the 25 percent take-up scenario and by 49.7 percent under the 100 percent take-up scenario. Within each of the three simulations, the differences across the quintiles are substantial. While individuals in the first quintile experience a 2.8 percent increase in Social Security income under the 25 percent take-up scenario, individuals in the highest AIME quintile experience a 20.0 percent increase. Similarly, under the 100 percent take-up scenario the percentages for the first and fifth quintiles are 16.0 percent and 71.9 percent, respectively. Our finding that Social Security income increases by a greater degree in the highest (fifth) quintile as compared to the lowest (first) quintile is not surprising since many more adults in the highest quintile (as compared to the lowest quintile) are eligible nonbeneficiaries who take-up benefits after the RET elimination—36.7 percent versus 21.0 percent (see Table 6).

The earnings patterns differ from the Social Security income patterns. As the Social Security income increases (moving from column 2 to column 4 in Table 8), average earnings fall for the full sample and for some of the AIME quintiles. For the lowest quintile, for example, earnings increase from the current law value by 2.2 percent under the 25 percent take-up scenario and only by 0.9 percent under the 100 percent take-up scenario (Table 8, second panel). For the two highest AIME quintiles, the change in earnings is actually negative under the 50 percent and 100 percent take-up scenarios. The lower level of earnings under the higher take-up rates result from the assumption that individuals with earnings above the breakeven point who take up Social Security after elimination of the RET reduce their earnings by five percent.³⁸ Across the full sample, average earnings increase modestly under the 25 and 50 percent take-up scenarios (by 1.6 percent and 0.5 percent, respectively), and decrease under the 100 percent take-up scenario (by 1.1 percent). Current earnings have the potential to affect future Social Security benefits. Persons who increase their earnings may receive higher Social Security benefits in subsequent years if earnings from the year of the increase are factored into the calculation of their Social Security benefits (i.e., it is one of the 35 highest years of earnings).

We found that the pattern for total income is similar to the pattern for Social Security income, suggesting that the increases in Social Security income dominate the changes in earnings. Total incomes increase across the three simulations for the full sample and for each of the five earnings quintiles (Table 8, bottom panel). For the full sample, total income increases

individuals above the NRA take up benefits. These current law adjustments result in very small changes for our sample.

³⁸See section on Simulation Assumptions.

by 3.4 percent, 5.2 percent, and 9.2 percent under the 25 percent, 50 percent, and 100 percent take-up scenarios, respectively. For each of the three simulations, individuals in the first AIME quintile have the lowest percent increase in total income and persons in the second AIME quintile rank either third or fourth depending on the simulation. That is, the percent income gains of persons in the lower quintiles are less than the gains of persons in the higher quintiles. Under the 100 percent take-up scenario, individuals in the lowest quintile experience an income increase of 3.8 percent in the current year (or \$547) and those in the second quintile experience an income increase of 7.6 percent (or \$1,276). This is compared to an income increase of 10.3 percent (or \$3,825) for the highest quintile.³⁹

Since these increases in income result in large part from increased Social Security benefits, they come at a cost. Individuals who take up their Social Security benefits earlier because of the RET elimination will have permanently lower benefits relative to the benefits they would have received if they had waited to take up benefits. Although some persons may have higher Social Security benefits in subsequent years due to increased current earnings, the aggregate effect will be modest. Overall, accelerated Social Security take-up with a modest labor supply response suggests that increases in short-run economic well-being may come at the cost of reduced economic well-being in the long run. Since early benefit take-up also lowers the benefit that the individual's survivor is eligible to receive, the elimination of the RET may be particularly hard on widows.

Simulations for Third Labor Supply Scenario. The simulations for the labor supply response scenarios with the highest work effort produce the same pattern for Social Security income as the simulations with the lowest work effort (Table 10, first panel). Social Security income is the same across the two sets of simulations because the changes in current Social Security benefits are not affected by the labor supply response.⁴⁰ The pattern for total income is similar to the prior set of simulations, but the earnings patterns differ. Unlike the simulations for the first labor supply scenario described above, under the third labor supply scenario average earnings do not decline for any quintile under any of the three take-up scenarios—all of the changes are positive (Table 10, panel 2). This occurs because individuals with earnings above the breakeven point do not reduce their earnings with the elimination of the RET under this labor supply response scenario (scenario 3), as they do under the first labor supply response scenario. The simulations with the highest level of work effort presented in Table 10 show that earnings do not change across the three take-up scenarios. The change in earnings is constant because of the labor supply assumptions—that persons above the breakeven point do not change their labor supply and the only persons below the breakeven point who change their labor supply are those who are beneficiaries before the elimination of the RET.⁴¹

For the full sample, earnings increase by 5.0 percent under the three take-up scenarios (Table 10, panel 2). Looking across the five quintiles, the largest percent increase in earnings occurs in quintile 3 (10.8 percent). This is followed by quintiles 2 and 1 (7.5 percent and 5.0 percent, respectively) and then by quintiles 5 and 4 (3.4 percent and 2.9 percent, respectively).

³⁹ Appendix Table A-3a presents the changes in dollar amounts. These dollar amounts do not contain the rounding error that will be generated if one carries out the calculations with the data provided in Table 8.

⁴⁰ Labor supply changes in the current year have the potential to change Social Security benefits in subsequent years, but do not change Social Security benefits in the current year.

⁴¹ See section on Simulation Assumptions.

Since the current law values differ substantially across the quintiles, the absolute increases in earnings do not follow the same pattern. Average earnings increase by the largest dollar amount for quintile 3 (\$1,042), followed by quintile 5 (\$752) and quintiles 4 and 2 (\$559 and \$525, respectively).⁴² With the low current law earnings of \$4,603 for persons in quintile 1, it is not surprising that the average earnings of this group increase by the lowest amount (\$228).

Total income increases across the three simulations for the full sample and for each of the five earnings quintiles (Table 10, bottom panel). For the full sample, total income increases by 5.1 percent, 7.4 percent, and 12.3 percent under the 25 percent, 50 percent, and 100 percent Social Security take-up scenarios, respectively. Like the simulations with the lowest work effort, the first earnings quintile has the lowest percent increase in total income for each of the three simulations, and persons in the second earnings quintile rank either third or fourth depending on the simulation. Under the 100 percent take-up scenario, for example, individuals in the lowest quintile experience an income increase of 5.1 percent (or \$733) and those in the second quintile experience an income increase of 10.3 percent (or \$1,744). This is compared to an income increase of 13.9 percent (or \$5,145) for the highest quintile.⁴³ Once again, these increases in income come in large part from increased Social Security benefits. As discussed earlier, this is a concern, particularly for low-income persons, because individuals who take up their Social Security benefits earlier will have permanently lower benefits. The possibility of increased future poverty rates among elderly Social Security beneficiaries raises concern.

Across all of the simulations, current average total income increases relative to current law levels of income for the full population of 62-64-year-olds and for each of the five AIME quintiles. The increase in average total income is, in general, lower for persons in the two lowest earnings quintiles when compared to those in the higher earnings quintiles. This is not surprising since much of the increase in total income comes from the increases in Social Security benefits, and individuals with low lifetime earnings are more likely to be Social Security beneficiaries before the RET elimination than individuals with higher lifetime earnings. These results suggest that eliminating the RET for individuals below the NRA will only modestly increase the short-run incomes of persons with low lifetime earnings.

Further, our analysis indicates that there will be no immediate impact on poverty (and near poverty) with the elimination of the RET. We found that the share of persons below 100 percent and 150 percent of poverty (4.6 percent and 9.6 percent, respectively) will not change with the RET elimination. However, the share of persons below 200 percent of poverty drops somewhat from the current law value of 15.4 percent—to 15.1 percent under the 25 percent take-up scenario and to 14.8 percent under the 100 percent take-up scenario.⁴⁴ Although there would be no immediate reduction in poverty, there is reason to be concerned about future poverty rates. We have not simulated the economic well-being of individuals beyond the initial impact of the RET's removal, but earlier Social Security take-up suggests that future poverty rates among elderly Social Security beneficiaries may increase as a result of the RET's removal.

⁴² See Appendix Table A-3c, second panel.

⁴³ See Appendix Table A-3c, bottom panel.

⁴⁴ The share of persons below 200 percent of poverty is the same across the three labor supply scenarios.

CONCLUSIONS

In 2000, Congress eliminated the Retirement Earnings Test (RET) for workers above the NRA. Whether to retain, modify, or eliminate the RET for persons below the NRA is an issue that Congress has considered, and will likely revisit in the future. This study provides information for this policy discussion.

The Social Security RET reduces the current retirement benefits of workers ages 62-64 (below the NRA) with earnings above a threshold amount. Eliminating the RET for persons below the NRA will likely increase the number of 62-64-year-olds who claim early retirement benefits and alter their work effort. Changes in Social Security take-up and labor supply will, in turn, affect the earnings and incomes of 62-64-year-olds, and these changes may differ for persons with different levels of economic well-being. This study examines the economic status of the 62-64-year-old population, using the 1984 and 1992-93 SIPP panels. In addition, we simulate the effect of eliminating the RET below the NRA on the incomes of 62-64-year-olds, using data from the HRS.

Our descriptive SIPP analysis shows that in both 1984 and 1992-93, three fifths of 62-64-year-olds received Social Security retirement benefits. Women were more likely to be beneficiaries than men and the less educated were more likely to receive benefits than those with more than high school educations. Consistent with the patterns of benefit receipt, about 60 percent of 62-64-year-olds had no earnings in the early 1990s. The vast majority of these individuals with no earnings were beneficiaries—80 percent of beneficiaries had no earnings, while 25 percent of eligible nonbeneficiaries had no earnings.

The average real incomes of 62-64-year-olds increased between 1984 and 1992-93. Our analysis also shows that, on average, earnings were the largest source of income for 62-64-year-olds. However, for those with earnings below the RET threshold, Social Security benefits were the largest income source.

We have simulated the effect of eliminating the RET on the current incomes of 62-64-year-olds under nine different scenarios, using HRS data. Our study examines three labor supply response scenarios, where each labor supply scenario is carried out under three Social Security take-up scenarios. The labor supply response scenarios are based on Friedberg (1999) and the Social Security take-up scenarios are similar to those investigated by Aznick and Weaver (2000). We have examined the impact of these nine scenarios on the full sample and by family AIME quintiles.

Current total income increases across all simulations for the full sample and for each of the five earnings quintiles. The income gains of persons in the lower quintiles, however, are less than the gains of persons in the higher quintiles. In fact, across all nine simulations, persons in the lowest AIME quintile gained the least both in percentage and absolute terms.

We found that increases in current income result from changes in both earnings and Social Security income. Eliminating the RET would raise the Social Security incomes of beneficiaries with earnings above the RET threshold and for nonbeneficiaries who choose to take up benefits because the amount they are eligible to receive increases. Although changes in

Social Security income are always positive, average earnings actually decline in some of the simulations. Earnings decline because some of the simulations assume (following Friedberg) that some high earners, who owing to the RET had not previously claimed Social Security, would after elimination of the RET both claim Social Security and reduce their labor supply. Our results suggest that the increases in total current income are due in large part to increases in Social Security incomes.

Higher Social Security benefits in the short run may come at a cost. Individuals who take up their Social Security benefits earlier because of the RET elimination will have permanently lower benefits relative to the benefits they would have received if they had taken up benefits later. In many cases, taking up benefits sooner will reduce, not increase, the net present value of benefits, especially if workers or their surviving spouses live a long time. Overall, the results of this analysis suggest that the short-run incomes of 62-64-year-olds will increase with the elimination of the RET, but that elimination may lead to lower incomes at older ages.

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Table 1
Demographic Characteristics of 62-64-Year-Olds
By Benefit Receipt Status: 1984 and 1992-93 SIPP

	Beneficiaries	Nonbeneficiaries		Total
		Eligible for SS	Not Eligible for SS	
1984 SIPP				
Total Population	<i>59.8%</i>	38.6%	<i>1.6%</i>	100.0%
Male	53.2	46.3	0.6	100.0
Female	65.2	32.4	2.4	100.0
Married	58.2	41.5	0.3	100.0
Unmarried	63.8	31.2	4.9	100.0
High School or Less	63.8	34.4	<i>1.9</i>	100.0
More than High School	49.6	49.5	<i>0.9</i>	100.0
1992-1993 SIPP				
Total Population	<i>56.8%</i>	38.5%	<i>4.7%</i>	100.0%
Male	52.9	45.4	1.7	100.0
Female	61.0	31.2	7.9	100.0
Married	56.4	39.8	3.8	100.0
Unmarried	57.7	35.4	7.0	100.0
High School or Less	62.7	32.0	5.3	100.0
More than High School	45.3	51.1	3.6	100.0

Source: Authors' tabulations from weighted SIPP data.

Note: Bold indicates that the differences *within* the decade are significant at the 10% level. Italics indicate that the differences *across* the decades are significant at the 10% level.

Table 2.1
Earnings Distribution of 62-64-Year-Olds
By Benefit Receipt Status: 1984 and 1992-93 SIPP

Earnings Relative to Retirement Earnings Threshold = R	Beneficiaries		Nonbeneficiaries				Total Population	
			Eligible for SS		Not Eligible for SS			
	1984 SIPP (n=763)	1992-93 SIPP (n=1,052)	1984 SIPP (n=490)	1992-93 SIPP (n=710)	1984 SIPP (n=21)	1992-93 SIPP (n=86)	1984 SIPP (n=1,274)	1992-93 SIPP (n=1,848)
Zero Earnings	83.3%	79.9%	<i>35.8%</i>	<i>23.8%</i>	86.3%	67.9%	<i>65.0%</i>	<i>57.7%</i>
0.00 < R <= 0.50	4.9	6.4	<i>3.1</i>	<i>3.1</i>	0.0	2.3	<i>4.1</i>	<i>5.0</i>
0.50 < R <= 1.00	4.7	7.3	<i>3.4</i>	<i>4.7</i>	0.0	3.3	<i>4.1</i>	<i>6.1</i>
1.00 < R <= 1.50	4.0	3.4	<i>3.6</i>	<i>5.1</i>	4.7	6.0	<i>3.9</i>	<i>4.2</i>
1.50 < R <= 2.00	0.8	1.4	<i>6.2</i>	<i>7.0</i>	4.7	4.5	<i>3.0</i>	<i>3.7</i>
2.00 < R <= 2.50	0.6	0.6	<i>3.7</i>	<i>6.8</i>	4.2	3.9	<i>1.8</i>	<i>3.1</i>
2.50 < R <= 3.00	0.4	0.3	<i>7.5</i>	<i>6.8</i>	0.0	4.4	<i>3.1</i>	<i>3.0</i>
R > 3.00	1.3	0.8	<i>36.8</i>	<i>42.8</i>	0.0	7.8	<i>15.0</i>	<i>17.3</i>
Total	100.0	100.0	<i>100.0</i>	<i>100.0</i>	100.0	100.0	<i>100.0</i>	<i>100.0</i>

Source: Authors' tabulations from weighted SIPP data.

Note: Italics indicate that the differences between the distributions of earnings *across* the decades are significant at the 10% level.

Table 2.2
Earnings Distribution of 62-64-Year-Olds
By Sex, Marital Status, and Educational Attainment: 1984 and 1992-93 SIPP

Earnings Relative to Retirement Earnings Threshold = R	Sex		Marital Status		Educational Attainment	
	Male	Female	Married	Unmarried	High School or Less	More Than High School
1984 SIPP						
Zero Earnings	54.9%	<i>73.1%</i>	64.9%	<i>65.1%</i>	69.1%	<i>54.4%</i>
0.00 < R <= 0.50	3.0	<i>5.1</i>	3.8	<i>4.9</i>	4.1	<i>4.2</i>
0.50 < R <= 1.00	2.7	<i>5.3</i>	4.1	<i>4.2</i>	4.1	<i>4.2</i>
1.00 < R <= 1.50	3.5	<i>4.1</i>	3.3	<i>5.4</i>	4.8	<i>1.5</i>
1.50 < R <= 2.00	3.0	<i>2.9</i>	2.6	<i>3.8</i>	3.5	<i>1.7</i>
2.00 < R <= 2.50	2.8	<i>1.1</i>	1.6	<i>2.5</i>	1.5	<i>2.7</i>
2.50 < R <= 3.00	3.1	<i>3.1</i>	2.9	<i>3.8</i>	3.1	<i>3.1</i>
R > 3.00	27.0	<i>5.3</i>	16.8	<i>10.4</i>	9.9	<i>28.3</i>
Total	100.0	<i>100.0</i>	100.0	<i>100.0</i>	100.0	<i>100.0</i>
1992-93 SIPP						
Zero Earnings	54.5%	<i>61.1%</i>	58.6%	<i>55.6%</i>	61.8%	<i>49.8%</i>
0.00 < R <= 0.50	4.6	<i>5.4</i>	5.1	<i>4.6</i>	4.9	<i>5.1</i>
0.50 < R <= 1.00	4.5	<i>7.8</i>	5.0	<i>8.7</i>	6.7	<i>4.9</i>
1.00 < R <= 1.50	2.9	<i>5.6</i>	3.7	<i>5.5</i>	5.1	<i>2.4</i>
1.50 < R <= 2.00	3.2	<i>4.2</i>	3.5	<i>4.1</i>	4.1	<i>2.8</i>
2.00 < R <= 2.50	3.0	<i>3.2</i>	3.4	<i>2.5</i>	2.9	<i>3.6</i>
2.50 < R <= 3.00	2.8	<i>3.1</i>	2.6	<i>3.7</i>	2.8	<i>3.3</i>
R > 3.00	24.6	<i>9.5</i>	18.1	<i>15.3</i>	11.7	<i>28.2</i>
Total	100.0	<i>100.0</i>	100.0	<i>100.0</i>	100.0	<i>100.0</i>

Source: Authors' tabulations from weighted SIPP data.

Note: Bold indicates that the differences between the distributions of earnings *within* the decade are significant at the 10% level. Italics indicate that the differences between the distributions of earnings *across* the decades are significant at the 10% level.

Table 3.1
Average Income of 62-64-Year-Olds
By Earnings and Benefit Receipt Status: 1984 and 1992-93 SIPP

Earnings Relative to Retirement Earnings Threshold = R	Beneficiaries		Nonbeneficiaries				Total	
			Eligible for SS		Not Eligible for SS			
	1984 SIPP (n=763)	1992-93 SIPP (n=1,052)	1984 SIPP (n=490)	1992-93 SIPP (n=710)	1984 SIPP (n=21)	1992-93 SIPP (n=86)	1984 SIPP (n=1,274)	1992-93 SIPP (n=1,848)
Zero Earnings	<i>\$ 13,945</i>	<i>\$ 15,882</i>	<i>\$ 8,730</i>	<i>\$ 13,983</i>	<i>\$ 10,893</i>	<i>\$ 4,761</i>	<i>\$ 12,771</i>	<i>\$ 14,965</i>
0.00 < R <= 0.50	<i>14,167</i>	<i>14,115</i>	<i>7,647</i>	<i>13,243</i>	*	*	<i>12,292</i>	<i>13,834</i>
0.50 < R <= 1.00	<i>14,680</i>	<i>17,066</i>	<i>11,071</i>	<i>10,431</i>	*	*	<i>13,526</i>	<i>14,934</i>
1.00 < R <= 1.50	<i>17,958</i>	<i>18,409</i>	<i>14,791</i>	<i>13,132</i>	*	*	<i>16,670</i>	<i>16,090</i>
1.50 < R <= 2.00	*	<i>22,364</i>	<i>15,697</i>	<i>17,932</i>	*	*	<i>16,378</i>	<i>18,765</i>
2.00 < R <= 2.50	*	*	<i>19,986</i>	<i>21,666</i>	*	*	<i>21,925</i>	<i>22,091</i>
2.50 < R <= 3.00	*	*	<i>22,911</i>	<i>23,199</i>	*	*	<i>23,063</i>	<i>23,493</i>
R > 3.00	<i>66,635</i>	*	<i>49,657</i>	<i>50,883</i>	*	*	<i>50,560</i>	<i>50,513</i>
Total	<i>15,049</i>	<i>16,355</i>	<i>25,972</i>	<i>30,968</i>	<i>11,172</i>	<i>10,751</i>	<i>19,206</i>	<i>21,716</i>

Source: Authors' tabulations from weighted SIPP data.

Notes: (1) All amounts are in 1992-93 dollars.

(2) Asterisk indicates that the sample size is less than 10 and too small to report.

(3) Bold indicates that the differences between the income distributions *within* the decade are significant at the 10% level. Italics indicate that the differences between the income distributions *across* the decades are significant at the 10% level.

Table 3.2
Average Income of 62-64-Year-Olds
By Earnings, Sex, Marital Status, and Educational Attainment: 1984 and 1992-93 SIPP

Earnings Relative to Retirement Earnings Threshold = R	Sex		Marital Status		Educational Attainment	
	Male	Female	Married	Unmarried	High School or Less	More Than High School
1984 SIPP						
Zero Earnings	\$18,089	\$ 9,528	<i>\$12,634</i>	\$13,120	\$10,749	\$19,379
0.00 < R <= 0.50	19,129	9,049	<i>13,315</i>	10,233	10,346	17,169
0.50 < R <= 1.00	16,114	12,474	<i>13,600</i>	13,344	13,118	14,540
1.00 < R <= 1.50	19,868	14,478	<i>17,207</i>	15,837	15,186	*
1.50 < R <= 2.00	18,568	14,532	<i>17,278</i>	14,777	16,935	*
2.00 < R <= 2.50	23,580	*	<i>23,009</i>	*	20,391	*
2.50 < R <= 3.00	24,198	22,156	<i>23,085</i>	23,021	20,369	30,147
R > 3.00	54,500	34,203	<i>53,290</i>	39,309	41,074	59,100
Total	28,332	11,807	<i>20,275</i>	16,480	14,699	30,799
1992-93 SIPP						
Zero Earnings	\$20,295	\$ 9,912	<i>\$15,516</i>	\$13,577	\$11,997	\$22,106
0.00 < R <= 0.50	14,695	13,056	<i>14,317</i>	12,548	13,058	15,276
0.50 < R <= 1.00	19,126	12,363	<i>15,508</i>	14,146	13,784	18,011
1.00 < R <= 1.50	19,276	14,366	<i>16,631</i>	15,232	15,940	16,716
1.50 < R <= 2.00	21,854	16,289	<i>19,784</i>	16,676	17,168	23,334
2.00 < R <= 2.50	23,884	20,314	<i>22,242</i>	21,603	19,722	25,810
2.50 < R <= 3.00	24,585	22,434	<i>22,354</i>	25,422	23,648	23,233
R > 3.00	53,256	42,981	<i>50,562</i>	50,374	41,426	57,787
Total	28,341	14,666	<i>22,409</i>	20,059	16,564	31,705

Source: Authors' tabulations from weighted SIPP data.

Notes: (1) All amounts are in 1992-93 dollars.

(2) Asterisk indicates that the sample size is less than 10 and too small to report.

(3) Bold indicates that the differences between the income distributions *within* the decade are significant at the 10%

Table 4.1a
Distribution of Income Sources for 62-64-Year-Olds by
Earnings Relative to Retirement Earnings Threshold (R)
1992-93 SIPP

Earnings Relative to Retirement Earnings Threshold = R	Earnings	Pension Income	Asset Income	Social Security	Other Income	Total
Total Population						
Zero Earnings	0.0%	33.7%	18.8%	37.7%	9.8%	100.0%
0.0 < R <= 0.5	15.5	24.6	11.7	35.7	12.5	100.0
0.5 < R <= 1.0	39.0	11.6	11.2	30.6	7.6	100.0
1.0 < R <= 1.5	57.7	8.4	9.1	19.5	5.3	100.0
1.5 < R <= 2.0	70.8	7.6	11.1	9.4	1.1	100.0
2.0 < R <= 2.5	76.3	7.1	9.6	3.7	3.3	100.0
2.5 < R <= 3.0	87.8	4.9	4.1	2.9	0.3	100.0
R > 3.0	87.5	3.5	7.1	0.4	1.4	100.0
Total	46.6	17.0	12.2	18.7	5.5	100.0

Table 4.1b
Income Levels by Source for 62-64-Year-Olds by
Earnings Relative to Retirement Earnings Threshold (R)
1992-93 SIPP

Earnings Relative to Retirement Earnings Threshold = R	Earnings	Pension Income	Asset Income	Social Security	Other Income	Total
Total Population						
Zero Earnings	\$ 0	\$5,042	\$2,806	\$5,649	\$1,469	\$14,965
0.0 < R <= 0.5	2,147	3,406	1,615	4,932	1,735	13,834
0.5 < R <= 1.0	5,825	1,727	1,674	4,574	1,134	14,934
1.0 < R <= 1.5	9,284	1,359	1,463	3,132	852	16,090
1.5 < R <= 2.0	13,291	1,433	2,081	1,758	201	18,765
2.0 < R <= 2.5	16,863	1,565	2,130	815	718	22,091
2.5 < R <= 3.0	20,629	1,149	969	672	74	23,493
R > 3.0	44,221	1,774	3,585	204	730	50,513
Total	10,123	3,683	2,654	4,060	1,197	21,716

Source: Authors' tabulations from weighted SIPP data.

Note: All amounts are in 1992-93 dollars.

Table 4.2a
Distribution of Income Sources for 62-64-Year-Olds by
Earnings Relative to Retirement Earnings Threshold (R)
1984 SIPP

Earnings Relative to Retirement Earnings Threshold = R	Earnings	Pension Income	Asset Income	Social Security	Other Income	Total
Total Population						
Zero Earnings	0.0%	28.1%	23.2%	38.1%	10.5%	100.0%
0.0 < R <= 0.5	14.9	27.5	15.0	34.5	8.2	100.0
0.5 < R <= 1.0	41.6	12.5	10.7	29.2	6.1	100.0
1.0 < R <= 1.5	52.0	3.3	15.7	20.6	8.4	100.0
1.5 < R <= 2.0	76.8	11.8	3.2	7.9	0.3	100.0
2.0 < R <= 2.5	72.8	6.8	13.2	5.3	2.0	100.0
2.5 < R <= 3.0	83.5	5.5	7.4	2.4	1.1	100.0
R > 3.0	82.3	7.7	8.9	0.5	0.5	100.0
Total	42.5	17.0	15.4	19.5	5.5	100.0

Table 4.2b
Income Levels by Source for 62-64-Year-Olds by
Earnings Relative to Retirement Earnings Threshold (R)
1984 SIPP

Earnings Relative to Retirement Earnings Threshold = R	Earnings	Pension Income	Asset Income	Social Security	Other Income	Total
Total Population						
Zero Earnings	\$ 0	\$3,592	\$2,969	\$4,869	\$1,341	\$12,771
0.0 < R <= 0.5	1,828	3,374	1,843	4,237	1,008	12,292
0.5 < R <= 1.0	5,624	1,686	1,444	3,943	829	13,526
1.0 < R <= 1.5	8,675	547	2,615	3,426	1,406	16,670
1.5 < R <= 2.0	12,586	1,926	522	1,292	52	16,378
2.0 < R <= 2.5	15,954	1,488	2,889	1,158	436	21,925
2.5 < R <= 3.0	19,261	1,258	1,718	564	263	23,063
R > 3.0	41,619	3,909	4,514	259	259	50,560
Total	8,161	3,274	2,965	3,748	1,058	19,206

Source: Authors' tabulations from weighted SIPP data.
Note: All amounts are in 1992-93 dollars.

Table 4.3
Distribution of Income Sources by Benefit Receipt Status and
Earnings Relative to Retirement Earnings Threshold (R)
1992-93 SIPP

Earnings Relative to Retirement Earnings Threshold = R	Earnings	Pension Income	Asset Income	Social Security	Other Income	Total
Beneficiary						
Zero Earnings	0.0%	31.4%	17.7%	44.1%	6.8%	100.0%
0.0 < R <= 0.5	15.8	16.6	10.8	45.8	10.9	100.0
0.5 < R <= 1.0	34.8	10.4	11.7	37.9	5.2	100.0
1.0 < R <= 1.5	49.0	10.9	1.9	32.2	6.1	100.0
1.5 < R <= 2.0	59.4	6.0	1.0	33.7	0.0	100.0
2.0 < R <= 2.5	*	*	*	*	*	100.0
2.5 < R <= 3.0	*	*	*	*	*	100.0
R > 3.0	*	*	*	*	*	100.0
Total	9.1	26.8	15.5	42.1	6.5	100.0
Nonbeneficiary						
Zero Earnings	0.0%	50.2%	24.3%	5.3%	20.3%	100.0%
0.0 < R <= 0.5	14.1	52.6	13.0	5.3	14.9	100.0
0.5 < R <= 1.0	53.7	16.9	10.0	5.5	13.9	100.0
1.0 < R <= 1.5	72.7	7.0	10.1	6.3	3.9	100.0
1.5 < R <= 2.0	74.2	8.8	15.4	1.3	0.3	100.0
2.0 < R <= 2.5	78.0	8.6	8.8	0.6	3.9	100.0
2.5 < R <= 3.0	89.3	5.3	4.2	0.9	0.4	100.0
R > 3.0	87.9	3.3	7.2	0.2	1.4	100.0
Total	75.7	9.8	9.5	1.1	3.9	100.0
Nonbeneficiary, Ineligible						
Zero Earnings	0.0%	2.1%	22.0%	0.0%	65.6%	100.0%
0.0 < R <= 0.5	*	*	*	*	*	100.0
0.5 < R <= 1.0	*	*	*	*	*	100.0
1.0 < R <= 1.5	*	*	*	*	*	100.0
1.5 < R <= 2.0	*	*	*	*	*	100.0
2.0 < R <= 2.5	*	*	*	*	*	100.0
2.5 < R <= 3.0	*	*	*	*	*	100.0
R > 3.0	*	*	*	*	*	100.0
Total	50.7	3.9	17.0	0.0	25.3	100.0

Source: Authors' tabulations from weighted SIPP data.

Note: Asterisk indicates that the sample size is less than 10 and too small to report.

Table 4.4
Distribution of Income Sources by Benefit Receipt Status and
Earnings Relative to Retirement Earnings Threshold (R)
1984 SIPP

Earnings Relative to Retirement Earnings Threshold = R	Earnings	Pension Income	Asset Income	Social Security	Other Income	Total
Beneficiary						
Zero Earnings	0.0%	27.4%	19.9%	44.6%	8.0%	100.0%
0.0 < R <= 0.5	12.6	26.1	15.2	40.4	5.7	100.0
0.5 < R <= 1.0	38.5	14.4	9.2	37.9	0.0	100.0
1.0 < R <= 1.5	47.3	4.9	15.3	30.1	2.4	100.0
1.5 < R <= 2.0	*	*	*	*	*	100.0
2.0 < R <= 2.5	*	*	*	*	*	100.0
2.5 < R <= 3.0	*	*	*	*	*	100.0
R > 3.0	76.2	5.4	10.6	7.3	0.5	100.0
Total	10.9	23.9	18.0	40.6	6.7	100.0
Nonbeneficiary						
Zero Earnings	0.0%	34.9%	37.9%	5.3%	21.8%	100.0%
0.0 < R <= 0.5	25.1	33.6	14.2	7.5	19.7	100.0
0.5 < R <= 1.0	50.3	7.1	14.7	4.6	23.4	100.0
1.0 < R <= 1.5	60.4	0.0	16.9	1.3	21.4	100.0
1.5 < R <= 2.0	81.2	12.8	3.3	2.3	0.4	100.0
2.0 < R <= 2.5	80.4	2.6	15.6	0.8	0.6	100.0
2.5 < R <= 3.0	84.0	5.9	8.1	0.8	1.2	100.0
R > 3.0	82.8	7.9	8.8	0.0	0.5	100.0
Total	71.3	11.1	12.5	1.0	4.1	100.0
Nonbeneficiary, Ineligible						
Zero Earnings	0.0%	5.7%	59.4%	0.5%	34.4%	100.0%
0.0 < R <= 0.5	*	*	*	*	*	100.0
0.5 < R <= 1.0	*	*	*	*	*	100.0
1.0 < R <= 1.5	*	*	*	*	*	100.0
1.5 < R <= 2.0	*	*	*	*	*	100.0
2.0 < R <= 2.5	*	*	*	*	*	100.0
2.5 < R <= 3.0	*	*	*	*	*	100.0
R > 3.0	*	*	*	*	*	100.0
Total	15.6	4.8	50.2	0.4	29.0	100.0

Source: Authors' tabulations from weighted SIPP data.

Note: Asterisk indicates that the sample size is less than 10 and too small to report.

Table 5
Earnings Group for Social Security-Eligible Population
By Family AIME Quintile

Family AIME Quintile	No Earnings	Positive Earnings Below the Exempt Amount	Earnings Near the Exempt Amount	Earnings Between Exempt Amount and the Breakeven Point	Earnings Above the Breakeven Point
Quintile 1	71.1%	11.5%	1.8%	8.8%	6.8%
Quintile 2	63.3	11.0	2.8	12.7	10.2
Quintile 3	49.3	12.7	7.2	16.5	14.3
Quintile 4	47.5	8.1	3.7	16.8	23.8
Quintile 5	40.3	12.7	1.8	15.8	29.5
All	53.7	11.2	3.5	14.3	17.3

Source: Authors' calculations of weighted HRS data.

Table 6
Social Security Eligibility Status
By Family AIME Quintile

Family AIME Quintile	Beneficiaries	Nonbeneficiaries		All
		Eligible for SS	Not Eligible for SS	
Quintile 1	62.3%	21.0%	16.7%	100.0%
Quintile 2	76.4	21.9	1.6	100.0
Quintile 3	68.7	30.7	0.6	100.0
Quintile 4	59.3	39.6	1.1	100.0
Quintile 5	63.3	36.7	0.0	100.0
All	66.0	30.0	4.0	100.0

Source: Authors' calculations of weighted HRS data.

Table 7
Percent of Individuals with Income Changes after RET Elimination
By Family AIME Quintile

Family AIME Quintile	Simulation 1: 25% Above RET Take-Up	Simulation 2: 50% Above RET Take-Up	Simulation 3: 100% Above RET Take-Up
Quintile 1	6.9%	10.8%	15.2%
Quintile 2	14.9	16.5	26.9
Quintile 3	23.0	30.5	42.4
Quintile 4	20.7	30.2	46.8
Quintile 5	21.1	29.2	49.0
All	17.3	23.4	36.0

Source: Authors' calculations of weighted HRS data.

Table 8
Percent Change in Social Security Benefits, Earnings, and Income
After the RET Removal With the Lowest Labor Supply Response (Scenario 1)¹
By Family AIME Quintile

Family AIME Quintile	Current Law Value	Simulation 1: 25% Above RET Take-Up	Simulation 2: 50% Above RET Take-Up	Simulation 3: 100% Above RET Take-Up
Social Security				
Quintile 1	\$ 3,147	2.8%	9.1%	16.0%
Quintile 2	4,956	7.2	10.4	24.6
Quintile 3	5,107	12.8	26.2	46.6
Quintile 4	5,446	17.5	37.7	70.1
Quintile 5	6,112	20.0	33.6	71.9
All	4,952	13.2	25.2	49.7
Earnings				
Quintile 1	\$ 4,603	2.2%	1.3%	0.9%
Quintile 2	6,980	2.8	3.3	0.8
Quintile 3	9,639	4.5	3.9	2.5
Quintile 4	19,029	0.5	-1.3	-2.5
Quintile 5	22,457	0.7	-0.5	-2.5
All	12,532	1.6	0.5	-1.1
Income				
Quintile 1	\$14,419	1.3%	2.4%	3.8%
Quintile 2	16,871	3.3	4.4	7.6
Quintile 3	20,192	5.4	8.5	13.0
Quintile 4	37,002	2.8	4.9	9.0
Quintile 5	37,089	3.7	5.2	10.3
All	25,100	3.4	5.2	9.2

Source: Authors' calculations of weighted HRS data.

¹ Lowest labor supply response: 50% near the exempt amount, 20% between the exempt amount and the breakeven, -5% above the breakeven point.

Note: The Current Law adjustment removes the RET for individuals above the Normal Retirement Age.

Table 9
Percent Change in Social Security Benefits, Earnings, and Income
After the RET Removal With the Medium Labor Supply Response (Scenario 2)¹
By Family AIME Quintile

Family AIME Quintile	Current Law Value	Simulation 1: 25% Above RET Take-Up	Simulation 2: 50% Above RET Take-Up	Simulation 3: 100% Above RET Take-Up
Social Security				
Quintile 1	\$ 3,147	2.8%	9.1%	16.0%
Quintile 2	4,956	7.2	10.4	24.6
Quintile 3	5,107	12.8	26.2	46.6
Quintile 4	5,446	17.5	37.7	70.1
Quintile 5	6,112	20.0	33.6	71.9
All	4,952	13.2	25.2	49.7
Earnings				
Quintile 1	\$ 4,603	3.6%	3.1%	2.9%
Quintile 2	6,980	5.2	5.4	4.2
Quintile 3	9,639	7.7	7.3	6.6
Quintile 4	19,029	1.7	0.8	0.2
Quintile 5	22,457	2.0	1.4	0.4
All	12,532	3.3	2.7	1.9
Income				
Quintile 1	\$ 14,419	1.8%	3.0%	4.4%
Quintile 2	16,871	4.3	5.3	9.0
Quintile 3	20,192	6.9	10.1	15.0
Quintile 4	37,002	3.4	6.0	10.4
Quintile 5	37,089	4.5	6.4	12.1
All	25,100	4.2	6.3	10.8

Source: Authors' calculations of weighted HRS data.

¹ Medium labor supply response: 75% near the exempt amount, 30% between the exempt amount and the breakeven, -2% above the breakeven point.

Note: The Current Law adjustment removes the RET for individuals above the Normal Retirement Age.

Table 10
Percent Change in Social Security Benefits, Earnings, and Income
After the RET Removal With the Highest Labor Supply Response (Scenario 3)¹
By Family AIME Quintile

Family AIME Quintile	Current Law Value	Simulation 1: 25% Above RET Take-Up	Simulation 2: 50% Above RET Take-Up	Simulation 3: 100% Above RET Take-Up
Social Security				
Quintile 1	\$ 3,147	2.8%	9.1%	16.0%
Quintile 2	4,956	7.2	10.4	24.6
Quintile 3	5,107	12.8	26.2	46.6
Quintile 4	5,446	17.5	37.7	70.1
Quintile 5	6,112	20.0	33.6	71.9
All	4,952	13.2	25.2	49.7
Earnings				
Quintile 1	\$ 4,603	5.0%	5.0%	5.0%
Quintile 2	6,980	7.5	7.5	7.5
Quintile 3	9,639	10.8	10.8	10.8
Quintile 4	19,029	2.9	2.9	2.9
Quintile 5	22,457	3.4	3.4	3.4
All	12,532	5.0	5.0	5.0
Income				
Quintile 1	\$ 14,419	2.2%	3.6%	5.1%
Quintile 2	16,871	5.2	6.2	10.3
Quintile 3	20,192	8.4	11.8	16.9
Quintile 4	37,002	4.1	7.1	11.8
Quintile 5	37,089	5.3	7.6	13.9
All	25,100	5.1	7.4	12.3

Source: Authors' calculations of weighted HRS data.

¹ Highest labor supply response: 100% near the exempt amount, 40% between the exempt amount and the breakeven, 0% above the breakeven point.

Note: The Current Law adjustment removes the RET for individuals above the Normal Retirement Age.

Appendix Table A-1a
Earnings Distribution of 62-64-Year-Olds
By Benefit Receipt Status and Sex: 1984 and 1992-93 SIPP

Earnings Relative to Retirement Earnings Threshold = R	Beneficiaries		Nonbeneficiaries				Total Population	
			Eligible for SS		Not Eligible for SS			
	Male	Female	Male	Female	Male	Female	Male	Female
1984 SIPP								
Zero Earnings	81.9%	84.1%	23.4%	50.1%	*	83.8%	54.9%	73.1%
0.00 < R <= 0.50	4.7	5.1	1.0	5.5	*	0.0	3.0	5.1
0.50 < R <= 1.00	2.8	5.9	2.5	4.5	*	0.0	2.7	5.3
1.00 < R <= 1.50	4.8	3.5	2.1	5.3	*	5.6	3.5	4.1
1.50 < R <= 2.00	1.0	0.7	5.4	7.1	*	5.6	3.0	2.9
2.00 < R <= 2.50	1.2	0.2	4.6	0.0	*	5.0	2.8	1.1
2.50 < R <= 3.00	0.6	0.3	6.0	9.2	*	0.0	3.1	3.1
R > 3.00	3.1	0.2	54.9	15.9	*	0.0	27.0	5.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1992-93 SIPP								
Zero Earnings	82.1%	77.8%	22.5%	25.8%	50.7%	71.9%	54.5%	61.1%
0.00 < R <= 0.50	5.6	7.2	3.5	2.5	0.0	2.9	4.6	5.4
0.50 < R <= 1.00	5.3	9.2	3.7	6.1	0.0	4.1	4.5	7.8
1.00 < R <= 1.50	3.0	3.9	2.6	9.0	6.2	5.9	2.9	5.6
1.50 < R <= 2.00	1.4	1.3	4.9	10.1	10.6	3.0	3.2	4.2
2.00 < R <= 2.50	0.9	0.2	5.6	8.8	0.0	4.9	3.0	3.2
2.50 < R <= 3.00	0.4	0.2	5.4	8.8	9.4	3.2	2.8	3.1
R > 3.00	1.3	0.3	51.8	28.9	23.1	4.2	24.6	9.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Authors' tabulations from weighted SIPP data.

Notes: (1) Asterisk indicates that the sample size is less than 10 and too small to report.

(2) Bold indicates that the differences between the distributions of earnings *within* the decade are significant at the 10% level. Italics indicate that the differences between the distributions of earnings *across* the decades are significant at the 10% level.

Appendix Table A-1b
Earnings Distribution of 62-64-Year-Olds
By Benefit Receipt Status and Marital Status: 1984 and 1992-93 SIPP

Earnings Relative to Retirement Earnings Threshold = R	Beneficiaries		Nonbeneficiaries				Total Population	
	Married	Unmarried	Eligible for SS		Not Eligible for SS		Married	Unmarried
	Married	Unmarried	Married	Unmarried	Married	Unmarried	Married	Unmarried
1984 SIPP								
Zero Earnings	4.2%	81.1%	37.9%	28.5%	*	89.1%	64.9%	65.1%
0.00 < R <= 0.50	5.0	4.7	2.2	6.0	*	0.0	3.8	4.9
0.50 < R <= 1.00	4.4	5.4	3.7	2.4	*	0.0	4.1	4.2
1.00 < R <= 1.50	2.9	6.6	3.8	2.9	*	5.4	3.3	5.4
1.50 < R <= 2.00	0.8	0.8	5.2	9.6	*	5.4	2.6	3.8
2.00 < R <= 2.50	0.4	1.0	3.0	5.9	*	0.0	1.6	2.5
2.50 < R <= 3.00	0.5	0.0	6.1	12.1	*	0.0	2.9	3.8
R > 3.00	1.7	0.4	38.1	32.5	*	0.0	16.8	10.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1992-93 SIPP								
Zero Earnings	82.8%	73.0%	23.8%	23.6%	63.3%	73.7%	58.6%	55.6%
0.00 < R <= 0.50	6.7	5.8	3.1	3.1	2.2	2.4	5.1	4.6
0.50 < R <= 1.00	5.4	11.8	4.6	4.9	4.0	2.5	5.0	8.7
1.00 < R <= 1.50	2.1	6.6	5.8	3.2	4.2	8.3	3.7	5.5
1.50 < R <= 2.00	1.1	2.0	6.6	7.9	6.4	2.0	3.5	4.1
2.00 < R <= 2.50	0.8	0.0	6.7	7.1	7.0	0.0	3.4	2.5
2.50 < R <= 3.00	0.3	0.3	6.0	8.9	3.2	5.9	2.6	3.7
R > 3.00	0.9	0.5	43.3	41.4	9.7	5.2	18.1	15.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Authors' tabulations from weighted SIPP data.

Notes: (1) Asterisk indicates that the sample size is less than 10 and too small to report.

(2) Bold indicates that the differences between the distributions of earnings *within* the decade are significant at the 10% level. Italics indicate that the differences between the distributions of earnings *across* the decades are significant at the 10% level.

Appendix Table A-1c
Earnings Distribution of 62-64-Year-Olds
By Benefit Receipt Status and Educational Attainment: 1984 and 1992-93 SIPP

Earnings Relative to Retirement Earnings Threshold = R	Beneficiaries		Nonbeneficiaries				Total Population	
			Eligible for SS		Not Eligible for SS			
	High School or Less	More Than High School	High School or Less	More Than High School	High School or Less	More Than High School	High School or Less	More Than High School
1984 SIPP								
Zero Earnings	84.2%	80.2%	<i>40.3%</i>	<i>27.7%</i>	83.7%	*	<i>69.1%</i>	<i>54.4%</i>
0.00 < R <= 0.50	4.2	7.3	<i>4.1</i>	1.2	0.0	*	<i>4.1</i>	4.2
0.50 < R <= 1.00	4.5	5.3	<i>3.5</i>	3.2	0.0	*	<i>4.1</i>	4.2
1.00 < R <= 1.50	4.7	1.9	<i>5.0</i>	1.1	5.7	*	<i>4.8</i>	1.5
1.50 < R <= 2.00	1.1	0.0	<i>7.8</i>	3.4	5.6	*	<i>3.5</i>	1.7
2.00 < R <= 2.50	0.2	2.1	<i>3.9</i>	3.3	5.0	*	<i>1.5</i>	2.7
2.50 < R <= 3.00	0.4	0.5	<i>8.5</i>	5.7	0.0	*	<i>3.1</i>	3.1
R > 3.00	0.9	2.8	<i>27.1</i>	54.3	0.0	*	<i>9.9</i>	28.3
Total	100.0	100.0	<i>100.0</i>	100.0	100.0	100.0	<i>100.0</i>	100.0
1992-93 SIPP								
Zero Earnings	80.3%	78.8%	<i>23.7%</i>	23.8%	72.9%	53.6%	<i>61.8%</i>	49.8%
0.00 < R <= 0.50	6.2	7.0	<i>2.8</i>	3.5	1.7	4.1	<i>4.9</i>	5.1
0.50 < R <= 1.00	7.0	8.2	<i>6.6</i>	2.3	4.5	0.0	<i>6.7</i>	4.9
1.00 < R <= 1.50	3.7	2.6	<i>7.7</i>	2.0	6.5	4.5	<i>5.1</i>	2.4
1.50 < R <= 2.00	1.4	1.4	<i>9.7</i>	3.6	3.2	8.2	<i>4.1</i>	2.8
2.00 < R <= 2.50	0.5	0.7	<i>7.7</i>	5.8	2.7	7.5	<i>2.9</i>	3.6
2.50 < R <= 3.00	0.2	0.3	<i>7.6</i>	5.7	4.1	5.1	<i>2.8</i>	3.3
R > 3.00	0.7	1.0	<i>34.3</i>	53.2	4.5	17.0	<i>11.7</i>	28.2
Total	100.0	100.0	<i>100.0</i>	100.0	100.0	100.0	<i>100.0</i>	100.0

Source: Authors' tabulations from weighted SIPP data.

Notes: (1) Asterisk indicates that the sample size is less than 10 and too small to report.

(2) Bold indicates that the differences between the distributions of earnings *within* the decade are significant at the 10% level. Italics indicate that the differences between the distributions of earnings *across* the decades are significant at the 10% level.

Appendix Table A-2a
Average Income of 62-64-Year-Olds
By Earnings, Benefit Receipt Status, and Sex: 1984 and 1992-93 SIPP

Earnings Relative to Retirement Earnings Threshold = R	Beneficiaries		Nonbeneficiaries				Total	
			Eligible for SS		Not Eligible for SS			
	Male	Female	Male	Female	Male	Female	Male	Female
1984 SIPP								
Zero Earnings	\$ 19,450	\$ 10,400	\$ 13,282	\$ 6,260	*	\$ 12,127	\$ 18,089	\$ 9,528
0.00 < R <= 0.50	20,928	10,041	*	7,191	*	*	19,129	9,049
0.50 < R <= 1.00	*	13,963	*	8,517	*	*	16,114	12,474
1.00 < R <= 1.50	20,368	15,771	*	13,115	*	*	19,868	14,478
1.50 < R <= 2.00	*	*	17,483	14,122	*	*	18,568	14,532
2.00 < R <= 2.50	*	*	21,345	*	*	*	23,580	*
2.50 < R <= 3.00	*	*	23,883	22,168	*	*	24,198	22,156
R > 3.00	*	*	53,589	33,935	*	*	54,500	34,203
Total	21,224	10,963	36,771	13,468	5,229	12,259	28,332	11,807
1992-93 SIPP								
Zero Earnings	\$ 21,069	\$ 10,831	\$ 18,001	\$ 8,558	*	\$ 4,115	\$ 20,295	\$ 9,912
0.00 < R <= 0.50	15,652	13,000	12,908	*	*	*	14,695	13,056
0.50 < R <= 1.00	22,900	13,935	12,821	8,179	*	*	19,126	12,363
1.00 < R <= 1.50	22,232	15,705	15,182	12,209	*	*	19,276	14,366
1.50 < R <= 2.00	*	*	21,521	15,214	*	*	21,854	16,289
2.00 < R <= 2.50	*	*	23,796	19,585	*	*	23,884	20,314
2.50 < R <= 3.00	*	*	24,365	22,085	*	*	24,585	22,434
R > 3.00	*	*	53,651	43,191	*	*	53,256	42,981
Total	21,302	11,790	36,858	21,838	20,109	8,547	28,341	14,666

Source: Authors' tabulations from weighted SIPP data.

Notes: (1) All amounts are in 1992-93 dollars.

(2) Asterisk indicates that the sample size is less than 10 and too small to report.

(3) Bold indicates that the differences between the income distributions *within* the decade are significant at the 10% level. Italics indicate that the differences between the income distributions *across* the decades are significant at the 10% level. Because of the small sample of ineligible nonbeneficiaries, the statistical tests are carried out only on the totals for this group, not the distribution.

Appendix Table A-2b
Average Income of 62-64-Year-Olds
By Earnings, Benefit Receipt Status, and Marital Status: 1984 and 1992-93 SIPP

Earnings Relative to Retirement Earnings Threshold = R	Beneficiaries		Nonbeneficiaries				Total	
			Eligible for SS		Not Eligible for SS			
	Married	Unmarried	Married	Unmarried	Married	Unmarried	Married	Unmarried
1984 SIPP								
Zero Earnings	<i>\$13,886</i>	\$14,086	\$ 8,863	\$ 8,128	*	\$11,883	<i>\$12,634</i>	\$13,120
0.00 < R <= 0.50	<i>14,870</i>	12,429	*	*	*	*	<i>13,315</i>	10,233
0.50 < R <= 1.00	<i>14,669</i>	14,700	11,823	*	*	*	<i>13,600</i>	13,344
1.00 < R <= 1.50	<i>20,106</i>	15,737	14,064	*	*	*	<i>17,207</i>	15,837
1.50 < R <= 2.00	*	*	16,445	<i>14,321</i>	*	*	<i>17,278</i>	14,777
2.00 < R <= 2.50	*	*	21,609	*	*	*	<i>23,009</i>	*
2.50 < R <= 3.00	*	*	16,676	<i>23,021</i>	*	*	<i>23,085</i>	23,021
R > 3.00	*	*	52,297	<i>39,171</i>	*	*	<i>53,290</i>	39,309
Total	<i>15,303</i>	14,459	27,340	<i>21,336</i>	6,617	11,845	<i>20,275</i>	16,480
1992-93 SIPP								
Zero Earnings	\$16,401	\$14,505	\$13,732	<i>\$14,664</i>	\$5,283	\$4,182	<i>\$15,516</i>	\$13,577
0.00 < R <= 0.50	15,143	11,334	12,233	*	*	*	<i>14,317</i>	12,548
0.50 < R <= 1.00	19,040	14,962	10,050	<i>11,390</i>	*	*	<i>15,508</i>	14,146
1.00 < R <= 1.50	20,045	17,201	13,703	*	*	*	<i>16,631</i>	15,232
1.50 < R <= 2.00	*	*	18,991	<i>15,548</i>	*	*	<i>19,784</i>	16,676
2.00 < R <= 2.50	*	*	21,690	<i>21,603</i>	*	*	<i>22,242</i>	21,603
2.50 < R <= 3.00	*	*	21,945	<i>25,461</i>	*	*	<i>22,354</i>	25,422
R > 3.00	*	*	50,950	<i>50,696</i>	*	*	<i>50,562</i>	50,374
Total	16,962	14,935	31,017	<i>30,835</i>	13,040	7,786	<i>22,409</i>	20,059

Source: Authors' tabulations from weighted SIPP data.

Notes: (1) All amounts are in 1992-93 dollars.

(2) Asterisk indicates that the sample size is less than 10 and too small to report.

(3) Bold indicates that the differences between the income distributions *within* the decade are significant at the 10% level. Italics indicate that the differences between the income distributions *across* the decades are significant at the 10% level. Because of the small sample of ineligible nonbeneficiaries, the statistical tests are carried out only on the totals for this group, not the distribution.

Appendix Table A-2c
Average Income of 62-64-Year-Olds

By Earnings, Benefit Receipt Status, and Educational Attainment: 1984 and 1992-93 SIPP

Earnings Relative to Retirement Earnings Threshold = R	Beneficiaries		Nonbeneficiaries				Total	
			Eligible for SS		Not Eligible for SS			
	High School Or Less	More Than High School	High School Or Less	More Than High School	High School Or Less	More Than High School	High School Or Less	More Than High School
1984 SIPP								
Zero Earnings	\$11,809	<i>\$21,362</i>	\$ 7,182	<i>\$12,746</i>	\$5,891	*	<i>\$10,749</i>	<i>\$19,379</i>
0.00 < R <= 0.50	11,434	<i>19,386</i>	8,291	*	*	*	<i>10,346</i>	<i>17,169</i>
0.50 < R <= 1.00	14,760	<i>14,451</i>	9,200	*	*	*	<i>13,118</i>	<i>14,540</i>
1.00 < R <= 1.50	16,356	*	13,453	*	*	*	<i>15,186</i>	*
1.50 < R <= 2.00	*	*	16,248	*	*	*	<i>16,935</i>	*
2.00 < R <= 2.50	*	*	20,509	*	*	*	<i>20,391</i>	*
2.50 < R <= 3.00	*	*	20,042	<i>30,473</i>	*	*	<i>20,369</i>	<i>30,147</i>
R > 3.00	*	*	40,444	<i>57,861</i>	*	*	<i>41,074</i>	<i>59,100</i>
Total	12,648	<i>22,997</i>	18,917	<i>38,567</i>	7,040	32,736	<i>14,699</i>	<i>30,799</i>
1992-93 SIPP								
Zero Earnings	\$13,010	<i>\$23,734</i>	\$ 9,541	<i>\$19,355</i>	\$3,580	\$ 9,329	<i>\$11,997</i>	<i>\$22,106</i>
0.00 < R <= 0.50	13,726	<i>15,041</i>	10,646	<i>15,781</i>	*	*	<i>13,058</i>	<i>15,276</i>
0.50 < R <= 1.00	16,322	<i>18,781</i>	8,928	*	*	*	<i>13,784</i>	<i>18,011</i>
1.00 < R <= 1.50	18,178	*	13,155	*	*	*	<i>15,940</i>	<i>16,716</i>
1.50 < R <= 2.00	21,901	*	16,101	<i>23,860</i>	*	*	<i>17,168</i>	<i>23,334</i>
2.00 < R <= 2.50	*	*	18,944	<i>25,993</i>	*	*	<i>19,722</i>	<i>25,810</i>
2.50 < R <= 3.00	*	*	23,481	<i>22,743</i>	*	*	<i>23,648</i>	<i>23,233</i>
R > 3.00	*	*	41,078	<i>58,550</i>	*	*	<i>41,426</i>	<i>57,787</i>
Total	13,913	<i>22,914</i>	23,031	<i>40,599</i>	8,888	16,045	<i>16,564</i>	<i>31,705</i>

Source: Authors' tabulations from weighted SIPP data.

Notes: (1) All amounts are in 1992-93 dollars.

(2) Asterisk indicates that the sample size is less than 10 and too small to report.

(3) Bold indicates that the differences between the income distributions *within* the decade are significant at the 10% level. Italics indicates that the differences between the income distributions *across* the decades are significant at the 10% level. Because of the small sample of ineligible nonbeneficiaries, the statistical tests are carried out only on the totals for this group, not the distribution.

Appendix Table A-3a
Dollar Change in Social Security Benefits, Earnings, and Income
After the RET Removal with the Lowest Labor Supply Response (Scenario 1)¹
By Family AIME Quintile

Family AIME Quintile	Current Law Value	Simulation 1: 25% Above RET Take-Up	Simulation 2: 50% Above RET Take-Up	Simulation 3: 100% Above RET Take-Up
Social Security				
Quintile 1	\$ 3,147	\$ 88	\$ 286	\$ 505
Quintile 2	4,956	358	513	1,219
Quintile 3	5,107	651	1,337	2,380
Quintile 4	5,446	950	2,053	3,816
Quintile 5	6,112	1,219	2,053	4,393
All	4,952	653	1,247	2,460
Earnings				
Quintile 1	\$ 4,603	\$101	\$ 59	\$ 42
Quintile 2	6,980	194	230	58
Quintile 3	9,639	437	371	237
Quintile 4	19,029	89	-238	-471
Quintile 5	22,457	153	-120	-568
All	12,532	195	61	-140
Income				
Quintile 1	\$14,419	\$ 189	\$ 345	\$ 547
Quintile 2	16,871	552	743	1,276
Quintile 3	20,192	1,089	1,709	2,617
Quintile 4	37,002	1,039	1,815	3,345
Quintile 5	37,089	1,372	1,933	3,825
All	25,100	848	1,308	2,320

Source: Authors' calculations of weighted HRS data.

¹ Lowest labor supply response: 50% near the exempt amount, 20% between the exempt amount and the breakeven, -5% above the breakeven point.

Note: The Current Law adjustment removes the RET for individuals above the Normal Retirement Age.

Appendix Table A-3b
Dollar Change in Social Security Benefits, Earnings, and Income
After the RET Removal with the Medium Labor Supply Response (Scenario 2)¹
By Family AIME Quintile

Family AIME Quintile	Current Law Value	Simulation 1: 25% Above RET Take-Up	Simulation 2: 50% Above RET Take-Up	Simulation 3: 100% Above RET Take-Up
Social Security				
Quintile 1	\$3,147	\$ 88	\$ 286	\$ 505
Quintile 2	4,956	358	513	1,219
Quintile 3	5,107	651	1,337	2,380
Quintile 4	5,446	950	2,053	3,816
Quintile 5	6,112	1,219	2,053	4,393
All	4,952	653	1,247	2,460
Earnings				
Quintile 1	\$ 4,603	\$165	\$144	\$135
Quintile 2	6,980	360	378	292
Quintile 3	9,639	740	707	639
Quintile 4	19,029	324	160	44
Quintile 5	22,457	453	316	92
All	12,532	408	341	241
Income				
Quintile 1	\$14,419	\$ 253	\$ 429	\$ 640
Quintile 2	16,871	718	891	1,510
Quintile 3	20,192	1,391	2,044	3,020
Quintile 4	37,002	1,274	2,213	3,860
Quintile 5	37,089	1,672	2,369	4,485
All	25,100	1,061	1,588	2,701

Source: Authors' calculations of weighted HRS data.

¹ Medium labor supply response: 75% near the exempt amount, 30% between the exempt amount and the breakeven, -2% above the breakeven point.

Note: The Current Law adjustment removes the RET for individuals above the Normal Retirement Age.

Appendix Table A-3c
Dollar Change in Social Security Benefits, Earnings, and Income
After the RET Removal with the Highest Labor Supply Response (Scenario 3)¹
By Family AIME Quintile

Family AIME Quintile	Current Law Value	Simulation 1: 25% Above RET Take-Up	Simulation 2: 50% Above RET Take-Up	Simulation 3: 100% Above RET Take-Up
Social Security				
Quintile 1	\$3,147	\$ 88	\$ 286	\$ 505
Quintile 2	4,956	358	513	1,219
Quintile 3	5,107	651	1,337	2,380
Quintile 4	5,446	950	2,053	3,816
Quintile 5	6,112	1,219	2,053	4,393
All	4,952	653	1,247	2,460
Earnings				
Quintile 1	\$ 4,603	\$ 228	\$ 228	\$ 228
Quintile 2	6,980	525	525	525
Quintile 3	9,639	1,042	1,042	1,042
Quintile 4	19,029	559	559	559
Quintile 5	22,457	752	752	752
All	12,532	621	621	621
Income				
Quintile 1	\$14,419	\$ 316	\$ 514	\$ 733
Quintile 2	16,871	884	1,039	1,744
Quintile 3	20,192	1,694	2,380	3,422
Quintile 4	37,002	1,509	2,612	4,375
Quintile 5	37,089	1,972	2,805	5,145
All	25,100	1,274	1,869	3,082

Source: Authors' calculations of weighted HRS data.

¹ Highest labor supply response: 100% near the exempt amount, 40% between the exempt amount and the breakeven, 0% above the breakeven point.

Note: The Current Law adjustment removes the RET for individuals above the Normal Retirement Age.