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Social Security and Older Workers

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SUMMARY

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Social Security and Older Workers

Social Security is a social insurance program that provides monthly cash benefits to retired or disabled workers and their eligible family members and eligible survivors of deceased workers. This report examines the impact of Social Security retirement and survivor policies on older workers' employment and retirement decisions.

Social Security can affect older workers' employment and retirement decisions in several ways. From the wealth aspect, Social Security provides resources that make retirement possible. Social Security benefits are generally available for retired workers and their family members at age 62 and most widow(er)s at age 60. From the benefit accrual aspect, working longer may mean paying more Social Security payroll taxes and having more earnings included in the benefit calculation. Additionally, delaying Social Security claiming may mean receiving benefits for a shorter time but with higher monthly benefits. The net effect of disincentives to work (e.g., more payroll taxes and shorter benefit receipt) and incentives to work (e.g., higher monthly benefits) could be positive or negative.

Social Security policies could explain some historical changes in the employment-population ratio (i.e., the percentage of the population that is employed) of older workers. For example, the employment-population ratio among individuals ages 60-70 declined from 40.8% in March 1968 to 29.6% in March 1994. Some studies have shown that this decline coincided with the expansion of Social Security coverage in the 1950s, the introduction of the Social Security early retirement option (in 1956 for women, 1961 for men), and Social Security benefit increases enacted in the late 1960s and early 1970s. After the mid-1990s, the declining trend in the employment-population ratio among individuals ages 60-70 reversed and increased to 42.8% in March 2023. A series of studies found that the policy changes in the Social Security 1983 amendments and later likely provided incentives to delay Social Security benefit claiming and continue to work at older ages, such as the increase in the full retirement age (FRA) from 65 to 67, the elimination of the retirement earnings test for those at FRA or older, and the increase in the delayed retirement credits for those who claim benefits after FRA.

Congress has shown interest in changing Social Security retirement and survivor policies to encourage older individuals to work longer and postpone claiming Social Security benefits. This can partially improve Social Security's financial outlook, because late benefit claimers may contribute more to the Social Security program by working longer and paying more Social Security payroll taxes. Supporters of those polices contend that the average life expectancy is increasing, health conditions of older workers are improving, and job characteristics are more suitable for older workers. Opponents often argue that low-wage workers or lower-educated workers may be adversely affected by those policies, such as a further increase in the retirement age. To address these concerns, policymakers and researchers have suggested some possible approaches that could accompany those policy changes and might offer certain income protections to vulnerable older adults.

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Introduction

Social Security—formally known as Old-Age, Survivors, and Disability Insurance—is a social insurance program that provides monthly cash benefits to retired or disabled workers, their eligible family members, and eligible survivors of deceased workers. This report addresses the role Social Security retirement and survivor policies have played in older workers' employment and retirement decisions.[1]

Social Security can affect older workers' employment and retirement decisions in several ways. From the wealth aspect, Social Security provides resources that make retirement possible. Retirement—exiting the labor force completely or partially—typically requires households to have sufficient financial resources to pay for consumption at older ages. Social Security benefits are generally available for retired workers and their family members at age 62 and most widow(er)s at age 60. In some cases, people may choose to claim Social Security benefits at a relatively early age. In May 2024, the program paid nearly $106 billion to almost 57 million retirement and survivor beneficiaries.[2]

From the aspect of benefit accrual, working longer may mean paying more Social Security payroll taxes and having more earnings included in the benefit calculation. Additionally, delaying Social Security claiming may mean receiving benefits for a shorter time but with higher monthly benefits. The net effect of disincentives to work (e.g., more payroll taxes and shorter benefit receipt) and incentives to work (e.g., higher monthly benefits) could be positive or negative.

Congress has shown interest in changing Social Security retirement and survivor policies to encourage older individuals to work longer and postpone claiming Social Security benefits.[3] Late benefit claimers may contribute more to the Social Security program by working longer and paying more Social Security payroll taxes. This can improve Social Security's financial outlook and achieve other policy goals.[4]

This report discusses the impact of Social Security retirement and survivor policies on older workers' decisions in the labor force. The study starts with an overview of the Social Security program, which is followed by the employment trends for older individuals. After that, the report examines the impacts of separate Social Security retirement and survivor policies on older workers' employment and retirement decisions and concludes with a discussion on policy issues.

Social Security Retirement and Survivor Benefits: An Overview

Social Security provides monthly cash benefits to retired workers and their family members, as well as to the family members of deceased workers.[5] In May 2024, about 53.0 million individuals

[1] This report does not discuss policies in Social Security Disability Insurance. For more information, see CRS In Focus IF10506, *Social Security Disability Insurance (SSDI)*. For a summary of other factors that may affect older workers' employment and retirement decisions, see **Appendix A**.

[2] See Social Security Administration (SSA), "Benefits Paid by Type of Beneficiary," https://www.ssa.gov/OACT/ProgData/icp.html.

[3] For example, see proposals listed in SSA, "Office of the Chief Actuary's Estimates of Individual Changes Modifying Social Security," Options in B and C, https://www.ssa.gov/OACT/solvency/provisions/index.html.

[4] See CRS In Focus IF10522, *Social Security's Funding Shortfall*.

[5] See CRS Report R42035, *Social Security Primer*.

age 62 and older received Social Security retirement benefits, including retired workers and eligible spouses, and about 3.5 million widow(er)s age 60 and older received survivor benefits.[6]

Retired-Worker Benefits

The eligibility ages required to collect Social Security retirement benefits are likely to affect the retirement decision of many older people. The Social Security *full retirement age* (FRA) is the age at which workers can first claim *full* (unreduced) Social Security retired-worker benefits. The FRA ranges between 65 and 67, depending on year of birth.[7] Workers can claim *reduced* retirement benefits as early as age 62 (i.e., the *earliest eligibility age*, or EEA).[8] A worker who delays claiming benefits until after attaining the FRA receives a *delayed retirement credit* (DRC) for each month a benefit is due but not paid up to the age of 70. For workers with an FRA of 67, claiming at age 62 results in a 30% permanent reduction to their full benefit amounts, while claiming at age 70 results in a 24% permanent increase in their full benefit amounts. In 2023, among nearly 3.2 million new retired-worker beneficiaries that year, about 55% were under the age of 66 (the FRA for those born in 1957), roughly 25% were at age 66, and about 21% were age 67 or older.[9]

Auxiliary Benefits

Social Security auxiliary benefits are paid to the spouse, former spouse, survivor, dependent child, or dependent parent of an insured worker and are equal to a specified percentage of the worker's basic monthly benefit amount subject to a maximum family benefit limit.[10] A qualifying spouse must be at least 62 years old or be of any age and have the worker's qualifying child in his or her care.[11] Spousal benefits are available to a divorced spouse beginning at the age of 62 if the marriage lasted at least 10 years before the divorce became final and the person claiming spousal benefits is currently unmarried. Surviving spouses (including divorced surviving spouses) may be eligible for aged widow(er) benefits beginning at the age of 60 (or age 50 if disabled). Survivor benefits are available to a divorced surviving spouse if the divorced surviving spouse has not remarried before the age of 60 (or before age 50 if disabled) or if the surviving divorced spouse has an entitled child in his or her care.

Both spousal and widow(er) benefits are reduced for each month they are claimed—by spouses and widow(er)s themselves—before the FRA by slightly different reduction factors than for retired workers, and neither type of benefit increases with DRCs after FRA, as does the worker's benefit. However, survivors can inherit DRCs from a deceased worker if the deceased worker claimed benefits after reaching his or her FRA.[12]

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[6] In May 2024, Social Security paid benefits to about 7.4 million disabled workers and disabled widow(er)s and about 2.5 million children. See SSA, "Benefits Paid by Type of Beneficiary."

[7] See CRS Report R44670, *The Social Security Retirement Age*.

[8] Eligible spouses can also claim reduced spousal benefits starting at age 62. Other dependents, such as widow(er)s, can claim benefits at earlier ages.

[9] SSA, *Annual Statistical Supplement, 2024*, Table 6.A4, https://www.ssa.gov/policy/docs/statcomps/supplement/2024/6a.html#table6.a4. Components may not sum to 100% due to rounding.

[10] For more information, see CRS Report R41479, *Social Security: Revisiting Benefits for Spouses and Survivors*.

[11] For purposes of spouse's benefits (i.e., wife's and husband's benefits), as well as mother's and father's benefits, a *qualifying child* is a child who is entitled to child's benefits on the insured worker's record and is either under the age of 16 or disabled.

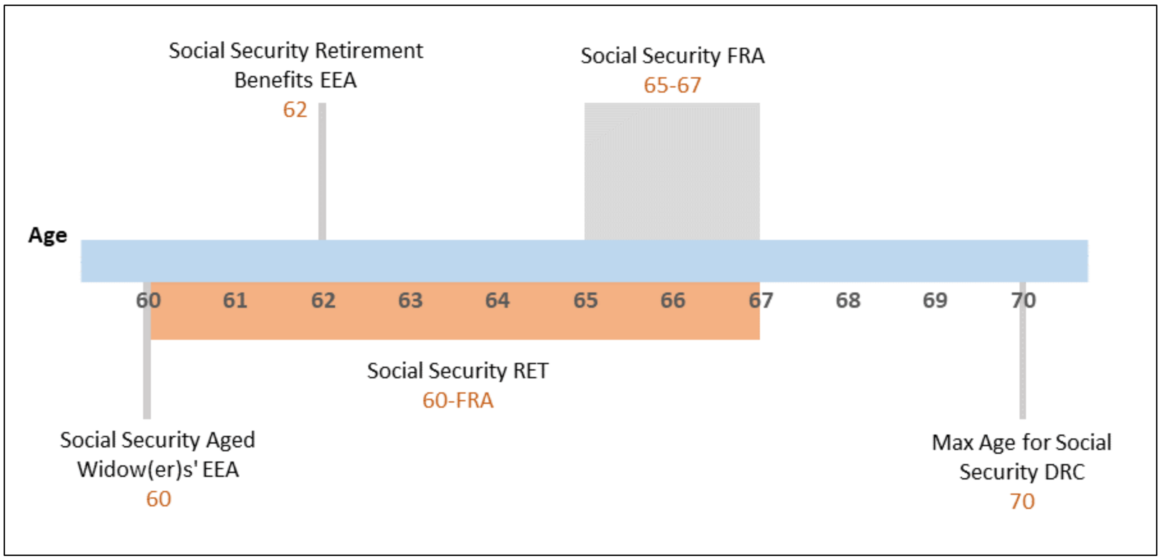
[12] The deceased worker's benefit claiming decision affects that of his or her surviving spouse: If that deceased worker (continued...)

Decision to Receive Social Security

Though the decision to start receiving Social Security benefits is often seen as being contemporaneous with retirement from paid employment, electing to receive benefits is not necessarily a predictor of retirement or leaving the workforce.[13] Older workers can work while receiving Social Security retirement benefits. However, if the beneficiary is between the age 62—or age 60 in case of a widow(er)—and FRA, his or her monthly benefits are generally withheld by the retirement earnings test (RET) if his or her earnings exceed certain annual thresholds.[14] The RET often deters certain older workers from claiming Social Security before their FRAs.[15]

Figure 1 displays the age requirements for Social Security retirement and survivor benefits.

Figure 1. Social Security Age-Related Policies Affecting Older Workers Between Ages 60 and 70



Source: CRS.

Notes: EEA = early eligibility age, RET = retirement earnings test, FRA = full retirement age, and DRC = delayed retirement credit.

started receiving benefits before reaching his or her FRA, survivors can receive no more than the deceased worker would have received, and survivors can also inherit DRCs if the deceased worker claimed benefits after reaching his or her FRA.

[13] Retirement is most often defined with reference to two characteristics: withdrawal from the paid labor force and receipt of income from Social Security, pensions, and/or other retirement savings vehicles. Some people might be considered to have retired based on one part of the definition but not the other. For example, individuals who have retired from careers in law enforcement or the military often continue to work for many years at other jobs while also receiving pensions from their prior employment. In such cases, having retired from a particular occupation does not necessarily mean that one has retired from the workforce.

[14] In 2024, a beneficiary who is below the FRA and will not attain FRA during the year is subject to a $1 reduction in benefits for every $2 of earnings above $22,320. A beneficiary who will attain FRA in 2024 is subject to a $1 reduction in benefits for every $3 of earnings above $59,520. At FRA, an affected beneficiary's monthly benefit is recomputed, and the dollar amount of the monthly benefit is increased based on the number of months subject to the RET.

[15] The RET also often prevents early retirees from working above the annual earnings thresholds. For more information, see CRS Report R41242, *Social Security Retirement Earnings Test: How Earnings Affect Benefits*.

Employment Among Workers Ages 60-70

This section presents the *employment-population ratio* (i.e., the percentage of the population that is employed) among workers ages 60-70 based on data from the U.S. Census Bureau in the Current Population Survey (CPS) Annual Social and Economic Supplement (ASEC), 1968-2023.[16] Age 60 is chosen to be the lower bound of the age range mainly because, under current law, Social Security retirement benefits are first available at age 62 and aged widow(er)'s benefits at age 60.[17] Research suggests that it was highly unlikely that modifications in Social Security retirement and survivor policies have impacted the changes in employment at ages 55-59.[18] The higher bound of the age range is set at 70 partly because less than 5% of the insured population started Social Security retirement benefits later than age 70 after 1985[19] and also because few Social Security provisions provide incentives to work beyond the age of 70 under current law.

The proportion of the population ages 60-70 who were employed in March of each year generally decreased from 1968 through the early 1990s, when the trend reversed, increasing until the early 2020s (except for decreases during and after economic recessions). The employment-population ratio among individuals ages 60-70 declined from 40.8% in March 1968 to 29.6% in March 1994 and then increased to 42.8% in March 2023 (see **Figure 2**). The employment-population ratios among men ages 60-70 were higher than for women in the same age group, while the gap between the employment-population ratios became smaller over time. In March 1968, almost 60% of men ages 60-70 were employed compared to 26% of women. In March 2023, about 48% of men ages 60-70 were employed compared to 38% of women (see **Figure 2**).

[16] The CPS is conducted among the civilian, noninstitutional population of the United States. It does not include residents of prisons, nursing homes, or military personnel living on base. CPS data collection began in the 1940s as a way to measure unemployment each month on the basis of a random sample of U.S. households. The ASEC, a supplement to the CPS, is designed to collect detailed information on income, poverty, and health insurance at the individual and household levels. Data from the supplement is largely collected in March of each year and asks respondents about their current outcomes (i.e., at or around the time the data are collected) and about outcomes for the preceding calendar year. Due to inconsistent race/ethnicity definitions in the ASEC throughout the period of analysis (1968-2023), data on employment by race/ethnicity are not provided in this report.

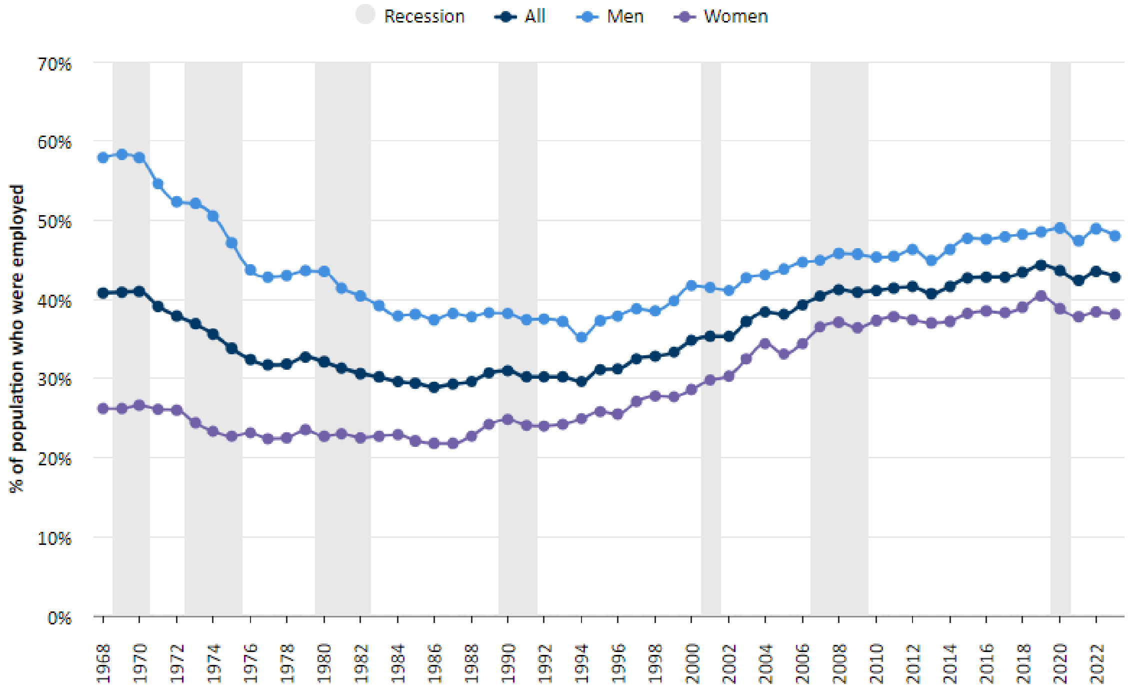
[17] See CRS In Focus IF12323, *The Social Security Retirement Age: An Overview*; and CRS Report RS22294, *Social Security Survivors Benefits*.

[18] Courtney Coile, "The Evolution of Retirement Incentives in the U.S.," in *Social Security Programs and Retirement Around the World: Reforms and Retirement Incentives*, ed. Axel Börsch-Supan and Courtney Coile (Chicago, IL: University of Chicago Press, 2021), pp. 435-459. However, the enactment of Social Security disability benefits and the increasing generosity of these benefits may be partially responsible for declines in employment-population ratios among workers ages 55-64 from the 1950s to the 1990s. This report does not address the impact of Social Security Disability Insurance on employment decisions. For more information, see CRS In Focus IF10506, *Social Security Disability Insurance (SSDI)*; and Dora L. Costa, *The Evolution of Retirement: An American Economic History, 1880-1990*, (Chicago and London: University of Chicago Press, 1998), p. 18.

[19] Steve Goss, *Social Security and Medicare: State of the Systems*, Conference of Consulting Actuaries Annual Meeting 2023, October 15, 2023, https://www.ssa.gov/OACT/presentations/scgoss_20231016.pdf.

Figure 2. Employment-Population Ratios Among Workers Ages 60-70, by Sex, 1968-2023

Figure Is Interactive in the HTML Version of This Report



Source: CRS analysis of the Current Population Survey Annual Social and Economic Supplements (ASEC), 1968-2023, and National Bureau of Economic Research (NBER), "US Business Cycle Expansions and Contractions," updated March 14, 2023, https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions.

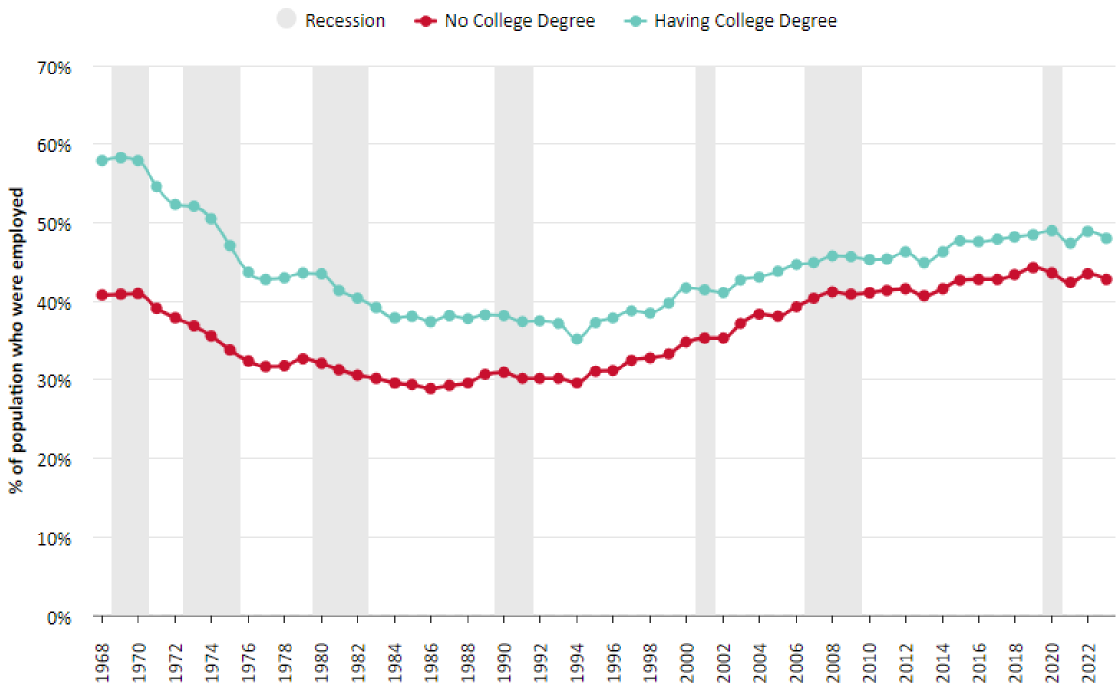
Notes: The employment status is for the week before the survey, which took place generally in March of each year.

Figure 3 displays the employment-population ratios for workers ages 60-70 by education attainment. The employment-population ratios among older individuals ages 60-70 with college degrees (including associate degrees from colleges) were higher than those without college degrees. The employment-population ratio among those with college degrees in March 2023 (49%) was below the rate in March 1968 (58%), while the employment-population ratio among those without college degrees was about the same in March 2023 (38%) and in March 1968 (39%).[20]

[20] The employment-population ratios among older individuals ages 60-70 with advanced degrees (including graduate degrees, professional degrees, and more than four years of college education) were much higher than those with less education. In March 1968, 69.5% of individuals ages 60-70 with advanced degrees were employed compared to 52.0% for those with college degrees, 46.9% with some college education, and 38.5% with high school diploma or less. In March 2023, 53.2% of individuals ages 60-70 with advanced degrees were employed compared to 47.3% for those with college degrees, 42.8% with some college education, and 36.3% with high school diploma or less. Statistics are based on CRS analysis of the ASEC, 1968-2023.

Figure 3. Employment-Population Ratios Among Workers Ages 60-70, by Education Attainment, 1968-2023

Figure Is Interactive in the HTML Version of This Report



Source: CRS analysis of the ASEC, 1968-2023, and NBER, "US Business Cycle Expansions and Contractions."

Notes: The employment status is for the week before the survey, which took place generally in March of each year.

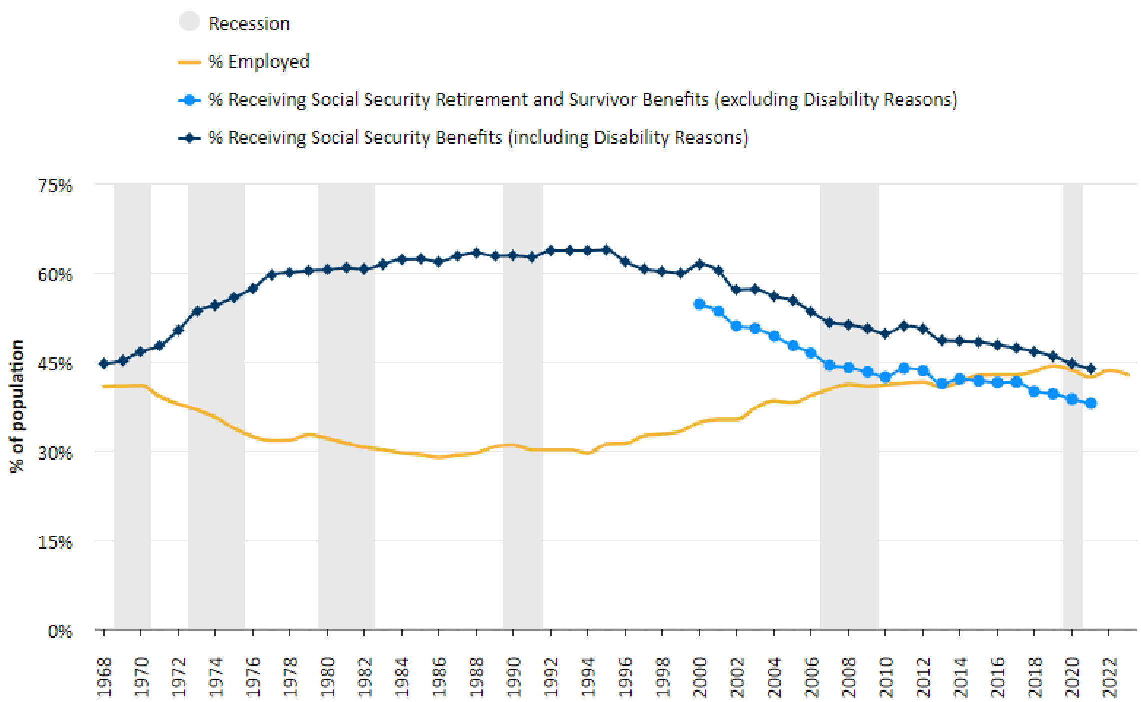
Older Workers' Employment and Social Security Benefit Receipt

The employment-population ratio of individuals ages 60-70 was generally inversely related to the percentage of individuals ages 60-70 who received Social Security benefits. In other words, the higher employment-population ratio of individuals ages 60-70 coincided with a smaller share of individuals ages 60-70 receiving Social Security benefits. **Figure 4** displays the employment-population ratio and Social Security benefit receipt among individuals ages 60-70 from 1968 to 2023. Between 1968 and 1993, the employment-population ratio of individuals ages 60-70 decreased from 40.8% to 30.2%, while the share that received Social Security benefits increased from 44.6% to 63.7%. From 1994 to 2022, the employment-population ratio increased from 29.6% to 43.5%, while the share that received Social Security benefits decreased from 63.7% to 44.8%.[21]

[21] Due to data limitations, receipt of Social Security benefits between 1968 to 1999 includes beneficiaries who qualified for retirement, survivor, or disability benefits. Social Security disability benefits automatically convert to retirement benefits at the FRA (i.e., age 65 for those born in 1937 or earlier).

Figure 4. Percent Receiving Social Security Benefits and Employment-Population Ratios Among Individuals Ages 60 to 70, 1968-2023

Figure Is Interactive in the HTML Version of This Report



Source: CRS analysis of data from the ASEC, 1968-2023, and NBER, "US Business Cycle Expansions and Contractions."

Notes: Social Security benefit receipt data in ASEC are for the year prior to the survey year. The reasons for receiving Social Security benefits are available in the 2001 ASEC and later.

Social Security Policies and Older Workers' Employment

Social Security policies may affect older individuals' employment and retirement decisions in many ways. Some policies provide a disincentive to work, while others may encourage older individuals to work longer. In some cases, one policy can provide different incentives to different workers. This section discusses how selected Social Security policies may affect the employment and retirement decisions of older individuals.

Disincentive to Work

This section discusses three Social Security policy changes: expanding Social Security coverage, reducing the EEA, and increasing initial benefits. Some studies have shown that the decline in the employment-population ratio of older workers from the 1940s to the 1980s coincided with the expansion of Social Security coverage in the 1950s, the introduction of the Social Security early retirement option (in 1956 for women, 1961 for men), and Social Security benefit increases enacted in the late 1960s and early 1970s.[22]

Social Security Coverage

The Social Security program was enacted in 1935, with monthly benefits first payable in 1940. The program remained small until 1950, when coverage was extended to an additional 10 million persons and eligibility conditions were liberalized.[23] The liberalization continued throughout the 1950s with the expansion of coverage to farmers, farm laborers, domestic workers, and the self-employed and disabled workers between ages 50 and 64.[24] In 1935, about 45% of the workforce was covered under Social Security, and the percentage was subsequently extended to 88% in 1968 and 92% in 1983.[25] Currently, Social Security covers about 94% of civilian workers, and this rate has remained relatively stable since 1986.[26]

Figure B-1 in **Appendix B** displays the percentage of workers who were covered under Social Security from 1935 to 2023 and related major legislation.

The Earliest Eligibility Age (EEA)

The FRA and the EEA were both 65 at the inception of Social Security in the 1930s. In 1956, the EEA was lowered from 65 to 62 for female workers, wives, widows, and female dependent parents, with benefit reductions for benefits claiming between the ages of 62 and 65.[27] This was to allow wives, who were traditionally younger than their husbands, to qualify for benefits at the same time as their husbands.[28] In 1961, the EEA was lowered from 65 to 62 for men, including

[22] For example, see Michael J. Boskin, *Social Security and Retirement Decisions*, NBER Working Paper no. 107, October 1975; Richard V. Burkhauser, "The Early Acceptance of Social Security: An Asset Maximization Approach," *Industrial and Labor Relations Review*, vol. 333, no. 4 (July 1980), pp. 484-92; Harold Wolozin, "Earlier Retirement and the Older Workers," *Journal of Economic Issues*, vol. 15, no. 2 (June 1981), pp. 477-487; James E. Duggan, "The Labor-Force Participation of Older Workers," *Industrial and Labor Relations Review*, vol. 37, no. 3 (April 1984), pp. 416-430; John C. Henretta and Hyunkee Lee, "Cohort Differences in Men's Late-Life Labor Force Participation," *Thousand Paks*, vol. 23, no. 2 (May 1996), p. 214; and Alexander Gelber, Adam Isen, and Jae Song, "The Role of Social Security Benefits in the Initial Increase of Older Women's Employment: Evidence from the Social Security Notch," in *Women Working Longer: Increased Employment at Older Ages*, ed. Claudia Goldin and Lawrence F. Katz (Chicago: University of Chicago Press, 2018), pp. 239-268.

[23] P.L. 81-734, the Social Security Act Amendments of 1950. The 10 million additional persons who became covered under Social Security included regularly employed farm and domestic workers; self-employed people other than doctors, lawyers, engineers, and certain other professional groups; certain federal employees not covered by government pension plans; and workers in Puerto Rico and the Virgin Islands. On a voluntary group basis, coverage was offered to employees of state and local governments not under public employee retirement systems and to employees of nonprofit organizations.

[24] See CRS Report RL30920, *Social Security: Major Decisions in the House and Senate Since 1935*.

[25] Larry DeWitt, "The Development of Social Security in America," *Social Security Bulletin*, vol. 70, no. 3 (2010).

[26] U.S. House of Representatives, Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means (Green Book), 1996, 1998, 2000, 2004, https://www.govinfo.gov/collection/green-book; SSA, *Fact Sheet on the Old-Age, Survivors, and Disability Insurance Program*, 2008-2023, https://www.ssa.gov/oact/FACTS/index.html.

[27] P.L. 84-880, Social Security Amendments of 1956. Benefits for female workers and wives were subject to reduction if claimed between the ages of 62 and 65. The reduction did not apply to benefits for widows and female dependent parents.

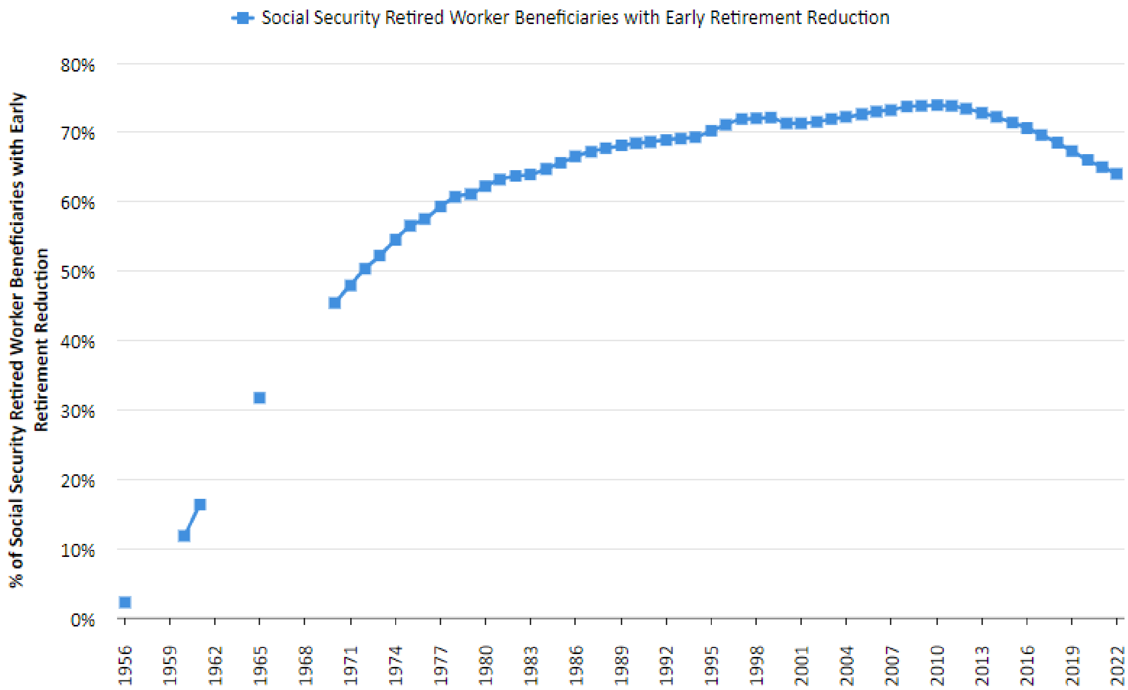
[28] For example, see Rep. Thomas A. Jenkins, "Social Security Amendments of 1955," House debate, *Congressional Record*, vol. 101, part 8 (July 18, 1955), p. 10778; Rep. Wilbur Mills, "Social Security Amendments of 1955," House debate, *Congressional Record*, vol. 101, part 8 (July 18, 1955), p. 10785.

male workers, husbands, widowers, and male dependent parents.[29] In subsequent years, further adjustments were made to the EEA for surviving spouses. In 1965 the EEA was lowered to age 60 for widows,[30] and in 1972 the EEA was lowered to age 60 for widowers.[31]

Over the history of Social Security, a relatively large proportion of Social Security beneficiaries claimed benefits before reaching FRA. In 1961, when the EEA became available to men and women, about 16.3% of Social Security beneficiaries were subject to the early retirement reduction (see **Figure 5**). By 1978, this percentage increased to 60.7% and then remained relatively high, peaking at 73.9% in 2010. After 2010, the percentage claiming Social Security benefits before FRA gradually decreased to 64% in 2022. This decline appears to coincide with the increase in the FRA and corresponding decrease in percentage of full monthly benefits payable to a worker who claims benefits at age 62 (discussed later in the section titled "Increases in the Full Retirement Age (FRA)").

Figure 5. Social Security Retired Worker Beneficiaries with Early Retirement Reduction, 1956-2022

Figure Is Interactive in the HTML Version of This Report



Source: SSA, *Annual Statistical Supplement 1990-2023*; Harold Wolozin, "Earlier Retirement and the Older Workers," *Journal of Economic Issues*, vol. 15, no. 2 (June 1981), pp. 477-487.

Notes: The earliest eligibility age was lowered from 65 to 62 in 1956 for women and 1961 for men. Percentage not available for select years.

[29] P.L. 87-64, Social Security Amendments of 1961.

[30] P.L. 89-97, Social Security Amendments of 1965. The adjustment for early claiming was set at a constant rate of reduction, reaching a cumulative maximum reduction of 28.5% if widow(er)'s benefits are claimed at age 60.

[31] P.L. 92-603, Social Security Amendments of 1972.

Average Benefits for Retired Workers

The real (inflation-adjusted) value of the average Social Security benefit has also increased over time. In 1940, the average monthly benefit for men was about $473 (in 2022 dollars), and it grew to $2,020 in 2022.[32] When Social Security was first established, there was no provision in law to automatically adjust benefits to account for inflation. In the 1950 amendments, Congress first legislated an increase in benefits. After that, the benefit increased several times on an ad hoc basis until legislation in 1972 instituted an automatic annual cost-of-living adjustment beginning in 1975.[33] Because Social Security benefits are based on career-average earnings, which are indexed by wage growth, the rise in average monthly benefits in real 2022 dollars after the 1970s mostly reflects the growth in average wages (net of price growth) in the national economy.

Figure B-2 in **Appendix B** displays the average Social Security monthly benefit for retired male workers from 1940 to 2022 (in 2022 dollars) and related major legislation.

Incentive to Work

This section discusses four Social Security polices: FRA, RET, DRC, and computation years in the benefit formula. Among those policies, the increase in the FRA, the elimination of the RET for those at FRA or older, and the increase in the DRC for those who claim benefits after FRA were part of the Social Security Amendments of 1983.[34] Studies suggest that Social Security policy changes in the 1983 amendments and later provided substantial incentives to work at older ages.[35]

Some older studies, however, showed that the estimated effects of Social Security policy changes in the 1983 amendments on older workers' labor force participation appeared to be relatively modest.[36] The different data sources, empirical methods, and population segments used in these studies may explain the inconclusive findings. However, as shown in some recent analyses, the effect of Social Security policies on employment decisions is not negligible for many older workers.

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[32] SSA, *Annual Statistical Supplement, 2023*, Table 5.B8 and Table 5.C2. Benefits are adjusted by Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), available at U.S. Bureau of Labor Statistics (BLS).

[33] The Social Security cost-of-living adjustment (COLA) is based on growth in the CPI-W. For more information, see CRS Report 94-803, *Social Security: Cost-of-Living Adjustments*.

[34] See Diane E. Herz and Philip L. Rones, "Institutional Barriers to Employment of Older Workers," *Monthly Labor Review*, vol. 112, no. 4 (April 1989), pp. 14-19; Alan L. Gustman and Thomas L. Steinmeier, *Social Security Reform and Labor Supply*, NBER Working Paper no. 1212, October 1983.

[35] For example, see Alicia H. Munnell, *How to Think About Recent Trends in the Average Retirement Age?* Center for Retirement Research at Boston College, Number 22-11, July 2022; Wenliang Hou et al., "Why Are US Men Retiring Later?," *Journal of Pension Economics and Finance*, vol. 19, no. 3 (July 2020), pp. 442-457; Neha Bairoliya, "Pension Plan Heterogeneity and Retirement Behavior," *European Economic Review*, vol. 116 (2019), pp. 28-59; Courtney Coile and Jonathan Gruber, *Social Security and Retirement*, NBER Working Paper no. 7830, August 2000; and Jae G. Song and Joyce Manchester, "How Have People Responded to Changes in the Retirement Earnings Test in 2000," *Social Security Bulletin*, vol. 67, no. 1 (2007).

[36] For example, see Gary Burtless, "Social Security, Unanticipated Benefit Increases, and the Timing of Retirement," *Review of Economic Studies*, vol. 53, no. 5 (October 1986), pp. 781-805; Rachel Floersheim Boaz, "Social Security Rules and the Early Acceptance of Social Security Benefits," *Social Science Quarterly*, vol. 70, no. 1 (March 1989), pp. 72-87; Alan B. Krueger and Jörn-Steffen Pischke, "The Effect of Social Security on Labor Supply: A Cohort Analysis of the Notch Generation," *Journal of Labor Economics*, vol. 10, no. 4 (October 1992), pp. 412-437; Chulhee Lee, "The Rise of the Welfare State and Labor-Force Participation of Older Males: Evidence from the Pre-Social Security Era," *American Economic Review*, vol. 88, no. 2 (May 1998), pp. 222-226; Costa, *The Evolution of Retirement*, ch. 2; and Melissa Favreault et al., "Labor Force Participation of Older Workers: Prospective Changes and Potential Policy Responses," *National Tax Journal*, vol. 52, no. 3 (September 1999), pp. 483-503.

Increases in the Full Retirement Age (FRA)

The Social Security Amendments of 1983, among other changes, increased the FRA gradually from 65 to 67 for workers born from 1938 to 1960. For workers whose FRA is 67, claiming Social Security benefits at age 62 results in a benefit that is 70% of the full (unreduced) monthly benefit that would be paid when claiming at FRA. This is a decrease compared to 80% of the full benefit that was paid at the EEA when the FRA was 65 and 75% when the FRA was 66.[37]

Figure 6 shows the claiming age distribution among Social Security retired workers between 1985 and 2023. Before 2000, most retired workers claimed their retirement benefits at either age 62 (the EEA) or the FRA. In most years between 1985 and 1999, about three-quarters of retired-worker benefits were awarded to workers who claimed benefits at age 62 or the FRA, 20% were awarded to retired workers older than the EEA but younger than the FRA, and the remaining 5% were awarded to retired workers who claimed benefits after the FRA. However, the age distribution of Social Security benefit claims has shifted to later ages in the past two decades.

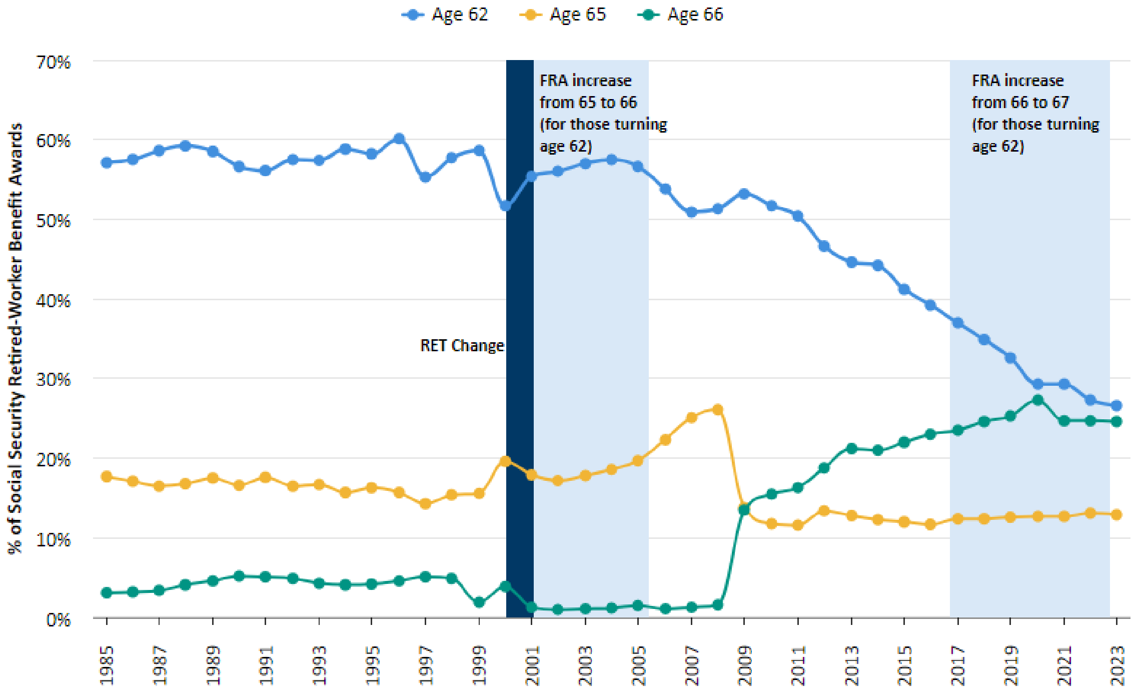
In 2000, for those reaching age 62, the FRA began to increase. Starting with retired workers born in 1938, the FRA increased from age 65 in two-month increments until it reached 66 for workers born between 1943 and 1954. And then, starting with retired workers born in 1955, the FRA further increased from age 66 in two-month increments until it reached 67 for workers born in 1960 or later. As a higher FRA results in a larger benefit reduction at age 62, the proportion of retired workers who claimed benefits at the FRA has increased and the proportion who claimed benefits at age 62 has declined since 2003.[38] When the FRA reached age 66 for those born in 1943, age 66 replaced age 65 as the second peak age at which retired workers claimed Social Security benefits. Since then, there has been a continuing decline in the proportion of retired workers who claim benefits at age 62 and an increase in the proportion of retired workers who claim benefits at the FRA.

[37] See CRS Report R47151, *Social Security: Adjustment Factors for Early or Delayed Benefit Claiming*.

[38] The trend was affected by the economic recession (2007-2009), when some people claimed Social Security benefits early in response to the high unemployment rate.

Figure 6. Social Security Retired-Worker Benefits, Claiming Age Distribution, 1985-2023

Figure Is Interactive in the HTML Version of This Report



Source: SSA, *Annual Statistical Supplement, 2000-2024*, Table 6.A4, and Table 6.B5.

Notes: FRA is the full retirement age. RET is for the retirement earnings test. The RET was repealed in 2000 for workers who have reached the FRA (P.L. 106-182). The proportion of retired workers who claimed Social Security benefits at age 66 includes those between ages 66 and 69 during 1985-1998.

Research has shown that changes in retirement age policies played an important role in the timing of retirement. One study showed that the average Social Security benefit claiming age for cohorts that were subject to the increasing FRAs was rising by about one month every year.[39] Another found that increasing the retirement age and the DRC (discussed later) could explain up to half of the increase in the labor force participation of men after the 1990s.[40]

Over the years, many proposals have been put forth to improve Social Security's financial outlook as well as achieve other policy goals. A common proposal is to increase the FRA, increase the EEA, or both.[41] However, further increasing the retirement age beyond age 67 may adversely affect Social Security benefits for some workers, particularly among low-wage workers or lower-educated workers who generally do not live as long as other retirees and typically depend more on Social Security.[42]

[39] Giovanni Mastrobuoni, "Labor Supply Effects of the Recent Social Security Benefit Cuts: Empirical Estimates Using Cohort Discontinuities," *Journal of Public Economics*, vol. 93, no. 11-12 (December 2009), pp. 1224-1233.

[40] David Blau and Ryan Goodstein, "Can Social Security Explain Trends in Labor Force Participation of Older Men in the United States?," *Journal of Human Resources*, vol. 45, no. 2 (Winter 2010), pp. 328-63.

[41] Some proposals to increase the FRA would also increase the maximum eligibility age for a DRC. For more information, see SSA, Office of the Chief Actuary, "Provisions Affecting Retirement Age," Option C1.4, https://www.ssa.gov/OACT/solvency/provisions/retireage.html.

[42] See CRS Report R44846, *The Growing Gap in Life Expectancy by Income: Recent Evidence and Implications for the Social Security Retirement Age*.

Changes in the Retirement Earnings Test (RET)

Under current law, the monthly benefits of most Social Security beneficiaries who are below FRA—between 65 and 67, depending on year of birth—are reduced if they have earnings that exceed an annual threshold, known as the RET. In 2024, a beneficiary who is below FRA and will not attain FRA during the year is subject to a $1 reduction in benefits for every $2 of earnings above $22,320. A beneficiary who will attain FRA in 2024 is subject to a $1 reduction in benefits for every $3 of earnings above $59,520. The annual thresholds ($22,320 and $59,520 in 2024) are typically adjusted each year according to national average wage growth.

If a beneficiary was affected by the RET, when he or she attains FRA, his or her monthly benefit is recomputed and the dollar amount of the monthly benefit is increased. This RET feature, which allows beneficiaries to recoup benefits "lost" as a result of the RET, is not widely known or understood. This benefit recomputation at FRA lessens the actuarial reduction for early retirement before FRA that was applied in the initial benefit computation by taking into account months for which benefits were reduced in part or in full under the RET. SSA also automatically checks the person's record each year to determine if the additional earnings will increase his or her monthly benefit.[43]

The RET existed in the Social Security system since the program first began paying benefits. Over time, various aspects of the RET became subject to legislative attention, including age limits, earnings thresholds, and its all-or-nothing nature.[44] The most recent legislative change to the RET occurred in 2000, when Congress eliminated the RET for beneficiaries beginning with the month they attain FRA (P.L. 106-182). Numerous studies have found evidence that this provision encouraged more workers at and above the FRA to claim Social Security benefits at the FRA, as their benefits would not be reduced for earnings.[45] This, among other reasons, led to a larger proportion of retired workers claiming benefits at the FRA and a smaller proportion at age 62 in 2000 (see **Figure 6**).

The effect of the RET on the labor force participation rate and aggregate labor supply is important for policymakers. Some policymakers advocating for the repeal of the RET want to incentivize retirees to return to work or discourage older workers from exiting the paid labor force. Research has suggested mixed impacts of the RET on the labor supply decisions—whether to work and how many hours to work—of older workers. Some studies concluded that the RET has little meaningful impact on the labor supply decision for older men,[46] while others have suggested that

[43] SSA, Program Operations Manual System, "RS 00605.401 Recomputations and Recalculations," effective February 3, 2022, https://secure.ssa.gov/apps10/poms.nsf/links/0300605401. For example, earnings for 2023 would be included in a recomputation effective January 2024.

[44] See CRS Report R41242, *Social Security Retirement Earnings Test: How Earnings Affect Benefits*.

[45] Ibid.

[46] For example, see Alan Gustman and Thomas Steinmeier, "The 1983 Social Security Reforms and Labor Supply Adjustment of Older Individuals in the Long Run," *Journal of Labor Economics*, vol. 3, no. 2 (1985), pp. 237-253; Gary Burtless and Robert A. Moffitt, "The Joint Choice of Retirement Age and Postretirement Hours of Work," *Journal of Labor Economics*, vol. 3, no. 2 (1985), pp. 209-236; Cordelia Reimers and Marjorie Honig, "Responses to Social Security by Men and Women: Myopic and Far-Sighted Behavior," *Journal of Human Resources*, vol. 31, no. 2 (1996), pp. 359-382; Michael Leonesio, "The Effects of the Social Security Earnings Test on the Labor-Market Activity of Older Americans: A Review of Empirical Evidence," *Social Security Bulletin*, vol. 53, no. 5 (1990), pp. 2-21; Jonathan Gruber and Peter Orszag, "Does the Social Security Earnings Test Affect Labor Supply and Benefits Receipt?," *National Tax Journal*, vol. 56, no. 4 (2003), pp. 755-773; Jae G. Song, "Evaluating the Initial Impact of Eliminating the Retirement Earnings Test," *Social Security Bulletin*, vol. 65, no. 1 (2003/2004).

the RET has a large effect on overall labor supply[47] or certain groups of older workers.[48] Supporters of eliminating the RET usually argue that beneficiaries affected by the RET likely think that they face a major disincentive to work beyond the relatively low earnings thresholds.[49]

Opponents, however, usually argue that eliminating the RET may encourage persons below the FRA to claim benefits early—leaving them with a stream of lower benefits as they age—and consequently increase the future poverty rate among the oldest populations. Numerous studies have found evidence that the RET affects Social Security claiming decisions and suggest that a complete elimination of the RET would lead to a significant increase in early benefit claiming before the FRA.[50] If more people claim at age 62 because of the elimination of the RET, then more people would become subject to the permanent actuarial reduction in benefits for early claiming. Without the RET, this permanent reduction would no longer be lessened after the FRA unless there are additional years of earnings that would increase benefits, although the permanent percentage reduction for early claiming would still apply. This permanent benefit reduction, cemented further without a later RET readjustment, may be a cause for poverty concerns later in a beneficiary's life.[51]

Increases in the Delayed Retirement Credits (DRC)

The Social Security Amendments of 1972 (P.L. 92-603) provided a DRC for claiming after FRA that increased benefits by 1% per year that a worker did not claim benefits between FRA (then 65) and 72. The credit, which was effective after 1970, applied only to the worker's benefit; it did not apply to a widow(er)'s benefit payable on the worker's record. The Social Security Amendments of 1977 (P.L. 95-216) increased the credit to 3% per year and included the credit in the computation of a widow(er)'s benefit. The credit was further increased under the Social Security Amendments of 1983 (P.L. 98-21). The credit increased gradually based on the worker's year of birth until it reached 8% per year for workers born in 1943 or later (i.e., workers who turned age 62, the EEA, in 2005 or later). In addition, the maximum age for which the DRC applies was lowered from 72 to 70. The increase in the DRC was intended to ensure that workers

[47] For example, see Alexander Gelber et al., "The Employment Effects of the Social Security Earnings Test," NBER Working Paper no. 26696, January 2020; Alan L. Gustman and Thomas L. Steinmeier, "The Social Security Retirement Earnings Test, Retirement and Benefit Claiming," NBER Working Paper no. 10905, November 2004; Bairoliya, "Pension Plan Heterogeneity and Retirement Behavior;" Chen Tengjiao, Yajie Sheng, and Yu Xu, "The Anticipation Effect of the Earnings Test Reform on Younger Cohorts," *Public Finance Review*, vol. 48, no. 4 (2020), pp. 387-424; Steven Haider and David Loughran, "The Effect of the Social Security Earnings Test on Male Labor Supply: New Evidence from Survey and Administrative Data," *Journal of Human Resources*, vol. 43, no. 1 (2008), pp. 57-87.

[48] For example, see Alexander M. Gelber et al., "Using Non-Linear Budget Sets to Estimate Extensive Margin Responses: Method and Evidence from the Social Security Earnings Test," NBER Working Paper no. 23362, revised June 2018; Dale S. Bremmer and Randy Kesselring, "How Social Security's Earning Test, Age and Education Affect Female Labor Supply," *Atlantic Economic Journal*, vol. 46 (2018), pp. 357-377.

[49] Robert L. Clark and John B. Shoven, *Enhancing Work Incentives for Older Workers: Social Security and Medicare Proposals to Reduce Work Disincentives*, Brookings Institution, January 2019, https://www.brookings.edu/articles/enhancing-work-incentives-for-older-workers-social-security-and-medicare-proposals-to-reduce-work-disincentives/.

[50] For example, Gruber and Orszag, "Does the Social Security Earnings Test Affect Labor Supply and Benefits Receipt?;" Song and Manchester, "How Have People Responded to Changes in the Retirement Earnings Test in 2000?;" Patrick J. Purcell, "Employment at Older Ages and Social Security Benefit Claiming, 1980-2018," SSA, Research and Statistics Note, No. 2020-01, April 2020; Anya Olsen and Kathleen Romig, "Modeling Behavioral Responses to Eliminating the Retirement Earnings Test," *Social Security Bulletin*, vol. 73, no. 1 (2013).

[51] For example, see Michael A. Anzick and David A. Weaver, "The Impact of Repealing the Retirement Earnings Test on Rates of Poverty," *Social Security Bulletin*, vol. 63, no. 2 (2000); Theodore Figinski and David Neumark, "Does Eliminating the Earnings Test Increase the Incidence of Low Income Among Older Women?," *Research on Aging*, vol. 40, no. 1 (2016), pp. 27-53.

who claim benefits after FRA receive roughly the same total lifetime benefits as if they had claimed benefits earlier (based on average life expectancy).

Social Security claiming evidence shows that the increase in the DRC increased the benefits take-up after the FRA, thus shifting the claiming age distribution of Social Security benefits toward later ages. Comparing workers who were born in 1925 with those born in 1943 or later, the DRC increased from 3.5% per year to 8%. The proportion of retired workers who claimed benefits after attaining the FRA increased from about 4% in 2010 (when people born in 1943 attained age 67) to 22% in 2023.[52]

Research has suggested that it is not easy to estimate the effect of the DRC increase alone on workers' Social Security benefit claiming and employment decisions, because the increase of the DRC from 5.5% to 8% coincided with other Social Security policy changes (e.g., FRA and RET).[53] A study in 2021 estimated the effect of the increase of the DRC from 3% to 5.5% on individuals' claiming behavior (the time prior to the FRA and RET change). The authors found that the increase in the DRC led to a significant increase in delayed claiming of Social Security benefits.[54] Another study found that the DRC increase substantially induced increased labor supply for men ages 65-69.[55]

However, similar to the effect of raising FRA, the increase in lifetime Social Security benefits from delaying benefit claiming after FRA is not equally distributed across income levels. The 2021 study discussed earlier found that the effects of increasing the DRC were larger for those with higher lifetime incomes, because they would have a greater financial incentive to delay given their longer life expectancies and higher earnings. Another study found that late claimers in Social Security had higher lifetime earnings and lower mortality than those who claim at age 62, and the benefit increase from delayed claiming was larger for those with higher lifetime earnings and lower mortality than for the average beneficiary.[56]

The Number of Computation Years in the Benefit Formula[57]

The amount of Social Security monthly benefits payable to workers and their family members is based on workers' career-average earnings from jobs covered by the program. Under current law, a retired worker's career-average earnings are calculated using the highest 35 years of wage-indexed earnings.[58] The 35 years—specified in statute since 1976—are known as benefit computation years or, more plainly, as computation years.

The number of computation years is one factor that affects the Social Security monthly benefit amount. Retired workers with more than 35 years of covered earnings may have less incentive to

[52] SSA, *Annual Statistical Supplement, 2000-2024*, Table 6.A4, and Table 6.B5.

[53] CRS Report R47151, *Social Security: Adjustment Factors for Early or Delayed Benefit Claiming*.

[54] Mark Duggan et al., *The Effects of Changes in Social Security's Delayed Retirement Credit: Evidence from Administrative Data*, Stanford University Institute for Economic Policy Research, Working Paper no. 21-035, June 2021.

[55] Jonathan F. Pingle, *Social Security's Delayed Retirement Credit and the Labor Supply of Older Men*, Federal Reserve Board, Divisions of Research and Statistics and Monetary Affairs, Finance and Economics Discussion Series, August 2006.

[56] Irena Dushi, Leora Friedberg, and Anthony Webb, *Is the Adjustment of Social Security Benefits Actuarially Fair, and If So, for Whom?*, Michigan Retirement and Disability Research Center at University of Michigan, Working Paper no. 2021-421, September 2021.

[57] For more information, see CRS Report R47330, *Social Security: Potential Impacts of Changes in Computation Years*.

[58] See CRS Report R46658, *Social Security: Benefit Calculation*.

work for another year, because the additional earnings would not be included in the benefit calculation if they are lower than or equal to the highest 35 years of indexed earnings. Conversely, workers with less than 35 years of covered earnings may have more incentive to work, because additional earnings would be included in the benefit calculation (i.e., an additional year of earnings would replace a year of zero earnings in the calculation). This would likely provide an incentive to remain in the workforce.

Researchers have shown that increasing the number of computation years would likely encourage people to work longer,[59] improve individual equity (those who contribute more in payroll taxes would receive more in benefits),[60] and improve the funding of Social Security.[61] However, increasing the number of computation years would allow more years of lower earnings to be included in the benefit calculation, which would reduce the monthly benefit payable to most beneficiaries relative to current law. Research found that this benefit reduction would disproportionately impact individuals with low lifetime earnings[62] and women, who were more likely to take time out of the labor force for child or elder care and experience shorter careers.[63]

Mixed Effects

This section examines three Social Security policies—benefits for spouses and survivors, payroll taxes and the taxable maximum, and the Social Security Statement. As opposed to Social Security program rules discussed earlier (e.g., EEA, FRA, RET, and DRC), the Social Security policies discussed below likely impact different older workers in different ways. That is, a policy change may encourage some older workers to increase labor force participation while providing work disincentive to some others.

Auxiliary Benefits for Spouses and Widow(er)s[64]

Social Security auxiliary benefits are paid to the spouse, former spouse, survivor, child, or parent of a Social Security–covered worker and are equal to a specified percentage of the worker's basic monthly benefit amount (subject to a maximum family benefit amount). For example, the spouse of a retired worker may receive up to 50% of the retired worker's basic benefit, and the widow(er) of a retired worker may receive up to 100% of the retired worker's basic benefit.[65]

When auxiliary benefits were first established, most households consisted of a single earner—usually the husband—and a wife who cared for children and remained out of the paid workforce (i.e., someone who did not qualify for benefits based on her own past earnings). As a result, benefits for nonworking spouses were structured to be relatively generous. A woman who was

[59] Gopi Shah Goda, John B. Shoven, and Sita Nataraj Slavov, *Removing the Disincentives in Social Security for Long Careers*, NBER Working Paper no. 13110, May 2007.

[60] Melissa M. Favreault and C. Eugene Steuerle, *The Implications of Career Lengths for Social Security*, Center for Retirement Research at Boston College, February 2008, https://crr.bc.edu/wp-content/uploads/2008/02/wp_2008-5-508.pdf.

[61] See "B4.2" at https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run251.html. The estimates are based on the intermediate assumptions of the 2023 annual report of the Social Security Board of Trustees.

[62] Andrew G. Biggs, Mark Sarney, and Christopher R. Tamborini, *A Progressivity Index for Social Security*, SSA, Issue Paper no. 2009-01, January 2009.

[63] Mark Weisbrot, *Unequal Sacrifice: The Impact of Changes Proposed by the Advisory Council on Social Security*, Center for Economic and Policy Research, January 1997.

[64] For more information, see CRS Report R41479, *Social Security: Revisiting Benefits for Spouses and Survivors*.

[65] The basic Social Security benefit amount refers to the primary insurance amount. For more information, see CRS In Focus IF11747, *Social Security: Benefit Calculation Overview*.

never employed but is married to a man with high Social Security–covered wages may receive a Social Security spousal benefit that is higher than the retirement benefit received by a single woman, or a divorced woman who was married less than 10 years, who worked a full career in a low-wage job.

From the 1950s through the 1990s, women's labor force participation almost doubled, increasing from 34% to about 60%. Since then, the women's labor supply stayed relatively stable.[66] For this reason, many women now qualify for Social Security benefits based on their own work records.[67] Women are, however, more likely than men to take breaks in employment to care for family members, which can result in fewer years of contributions to Social Security and employer-sponsored pension plans.[68]

Beneficiaries who qualify for multiple benefits (i.e., dually entitled) do not receive both benefits in full. For example, for a beneficiary eligible for his or her own retired-worker benefits as well as spousal benefits, the spousal benefit is reduced by the amount of the retired-worker benefit. The beneficiary receives a reduced spousal benefit (if not reduced to zero) in addition to his or her retired-worker benefit. This effectively means the beneficiary receives the higher of the two benefit amounts.

Research has noted that the spousal benefit provision of Social Security may affect the labor supply incentives faced by married women.[69] Based on the dual entitlement rule, a woman whose spousal benefit will exceed her retired-worker benefit would nevertheless pay the Social Security payroll tax on her earnings while employed but receive no increase in benefits as a result of her payroll tax contribution. Married women may therefore be discouraged from working as a result of this feature of Social Security. Studies typically found that the Social Security spousal benefit provision provided a moderate (or moderately small) work disincentive for older married women, suggesting that married women who received Social Security spousal benefits based on their spouses' earnings records retired earlier than did otherwise similar married women.[70]

Men, however, may face stronger incentives to work because of the spousal benefit provision, because in families that expect to receive a spousal benefit, the return on the married men's payroll tax payments is substantially higher than it would be in the absence of spousal benefits. Furthermore, widows are eligible for survivor's benefits based on their spouse's earnings records. This provides an additional expected return to the married men's payroll tax payments given that the majority of women outlive their male spouses. Research has also found that the spousal benefit provision had a small positive impact on older married men's labor force participation.[71]

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[66] BLS, *Women in the Labor Force: A Databook,* April 2023, Table 2.

[67] Barbara A. Butrica and Karen E. Smith, "The Impact of Changes in Couples' Earnings on Married Women's Social Security Benefits," *Social Security Bulletin*, vol. 72, no. 1 (2012), pp. 1-9.

[68] BLS, *Women in the Labor Force*, Table 1, Table 5, and Table 7.

[69] Robert Myers, *Social Security,* 4th ed. (Philadelphia: Pension Research Council at the University of Pennsylvania, 1993), pp. 484-485.

[70] Hee-Seung Yang, "Social Security Dependent Benefits, Net Payroll Tax, and Married Women's Labor Supply," *Contemporary Economic Policy*, vol. 36, no. 2 (April 2018), pp. 381-393; Margherita Borella, Mariacristina De Nardi, and Fang Yang, *Are Marriage-Related Taxes and Social Security Benefits Holding Back Female Labor Supply?* NBER Working Paper no. 26097, November 2019; David M. Blau, "Social Security and the Labor Supply of Older Married Couples," *Labour Economics*, vol. 4, no. 4 (December 1997), pp. 373-418; Therese A. McCarty, "The Effect of Social Security on Married Women's Labor Force Participation," *National Tax Journal*, vol. 43, no. 1 (March 1990), pp. 95-110; Jessica P. Vistnes, "An Empirical Analysis of Married Women's Retirement Decisions," *National Tax Journal*, vol. 47, no. 1 (March 1994), pp. 135-155.

[71] Blau, "Social Security and the Labor Supply of Older Married Couples;" Borella, De Nardi, and Yang, *Are Marriage-Related Taxes and Social Security Benefits Holding Back Female Labor Supply?*

Payroll Taxes and Taxable Maximum[72]

Social Security payroll taxes are levied on covered earnings up to a maximum level set each year. Employers and employees each pay 6.2% of covered earnings up to an annual limit. Self-employed individuals pay 12.4% of net self-employment income up to an annual limit. The annual limit on taxable earnings is $168,600 in 2024. This annual limit is known as the contribution and benefit base and is commonly referred to as the taxable earnings base or the *taxable maximum*.[73]

Since 1982, the Social Security taxable earnings base has risen at the same rate as average wages in the economy. Because the annual limit is indexed to the average growth in wages, the share of the population below the cap has remained relatively stable at roughly 94%. However, due to increasing earnings inequality, the percentage of aggregate covered earnings that is taxable has decreased from 90% in 1982 to 81% in 2021.[74] As Social Security is facing a projected long-range funding shortfall,[75] policymakers have discussed proposals to increase the payroll tax rate, increase or eliminate the taxable maximum, or both.

Research shows that workers with earnings below or above the taxable maximum may respond differently to a payroll tax rate increase.[76] The estimate shows that workers with earnings below the taxable maximum would decrease their labor supply because of a reduction in their after-tax compensation, while workers with earnings above the taxable maximum would increase their labor supply, as their additional earnings are not subject to the payroll tax. The same study also shows that under an increase in the taxable maximum, workers with earnings between the old and new taxable maximums might decrease their labor supply due to a reduction in their after-tax compensation, and those with earnings above the new taxable maximum might increase their labor supply.[77]

Nevertheless, research has also suggested that it is generally challenging to estimate the impact of payroll tax rate or taxable earnings changes on workers' employment decisions.[78] This is partly because the share of the payroll tax burden on employees may be hard to estimate based on different behavioral responses from employees and employers. For example, in some cases, an increase in the payroll tax rate might result in lower profit for employers and lower after-tax wages for employees. However, employers might be able to pass more burden to employees by lowering wages if those employees do not (or rarely) adjust their labor supply in response to

[72] For more information, see CRS Report RL32896, *Social Security: Raising or Eliminating the Taxable Earnings Base*.

[73] The taxable maximum under Social Security is adjusted annually based on average wage growth if a Social Security COLA is payable.

[74] SSA, *Annual Statistical Supplement, 2023*, Table 4.B1.

[75] CRS In Focus IF10522, *Social Security's Funding Shortfall*.

[76] Dorian Carloni, *Revisiting the Extent to Which Payroll Taxes Are Passed Through to Employees*, Congressional Budget Office, Working Paper no. 2021-06, June 2021.

[77] Based on economic theories, taxes may affect labor supply through a substitution effect and an income effect. In the context of an increase in payroll taxes, the substitution effect measures the decrease in a worker's willingness to work following a reduction in the after-tax compensation of an additional hour of work. The income effect measures the increase in an employee's willingness to work following a reduction in after-tax income for a given amount of work. For workers with earnings below the taxable maximum, the substitution effect more than offsets their income effect. For workers with earnings above the taxable maximum, there is no substitution effect, so the income effect dominates.

[78] Dorian Carloni, *Revisiting the Extent to Which Payroll Taxes Are Passed Through to Employees*, Congressional Budget Office, Working Paper 2021-06, June 2021.

changes in their net wages.[79] Alternatively, employers could adjust to a payroll tax increase by paying more of their employees' compensation in untaxed fringe benefits. This would result in somewhat lower payroll tax revenues and scheduled benefits than in the absence of this behavioral response. Moreover, employers could increase prices of products because of the payroll tax increase, which could change the consumption patterns of employees, employers, and other consumers.[80]

Proposal to Eliminate Social Security Payroll Taxes for Some Older Workers

Most individuals who attain the FRA will already have 35 or more years of covered earnings. As a result, an additional year of work will not likely increase the Social Security benefit by a significant amount.[81] Researchers argue that, in this case, the payroll tax becomes almost a pure tax on earnings of older workers and reduces the labor supply of older workers.

One proposal is to eliminate the Social Security payroll taxes on employees (and employers) once an individual has achieved a certain age (e.g., FRA or age 67) and covered career length (e.g., 35-45 years). Supporters argue that this policy could increase the take-home pay for older workers and that employers would face a lower cost of hiring older workers. The proposal would likely reduce Social Security payroll tax revenue in the long run, while it might result in higher earnings and income tax revenues among affected older workers.

Opponents argue that Social Security is a group social insurance system designed to prevent economic insecurity resulting from loss of earnings from work. The payroll taxes are meant to support the program and not any individual's benefits. In addition, Social Security has social goals such as providing a greater degree of protection to workers with low earnings and with families. To promote such goals, participation must be spread among all covered workers to ensure that benefits can be adequately financed. Moreover, in many cases the additional earnings credited to beneficiaries cause their benefits to rise through recomputation. Lastly, if beneficiaries were exempt from paying the payroll tax, the cost of their labor would be less than for non-beneficiaries, because neither they nor their employers would pay the Social Security payroll tax. This could lead to discrimination in hiring practices.

The Social Security Statement[82]

The SSA is required by law to provide Social Security number (SSN) holders with annual statements that contain certain information from their Social Security records.[83] The annual statement is now referred to as the Social Security Statement or the *Statement*. The Statement is considered an important tool to communicate with the public and also a financial literacy vehicle to assist individuals and households with retirement planning.

Under current law, the Statement must be available to SSN holders who are age 25 or older and have wages or net earnings from self-employment. Among other information, the Statement must contain the wages and self-employment income reported to the SSN holders' records, estimates of the payroll tax contributions they and their employers have paid, and estimates of the potential benefits they and their family members may qualify for based on those earnings.

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[79] The payroll tax burden is often believed to fall on workers, as the employer's share of payroll taxes is passed on to employees in the form of lower wages. See CRS Report R47062, *Payroll Taxes: An Overview of Taxes Imposed and Past Payroll Tax Relief*.

[80] In SSA's estimates on changing payroll taxes and/or taxable maximum, they usually assume that employers and employees would redistribute total employee compensation among taxes, wages, and other compensation. See SSA, "Provisions Affecting Payroll Taxes," https://www.ssa.gov/OACT/solvency/provisions/payrolltax.html.

[81] See Gayle L. Reznik et al., *Social Security and Marginal Returns to Work Near Retirement*, SSA, Office of Retirement and Disability Policy, Issue Paper No. 2009-02, April 2009.

[82] See CRS Report R47183, *The Social Security Statement*.

[83] Section 1143 of the Social Security Act (Social Security Account Statements); 42 U.S.C. §1320b–13.

Researchers find mixed impacts of the Statement on workers' labor supply decisions. Some studies suggest that receipt of the Statement encourages older individuals to work more.[84] Other researchers find that some workers reduce hours worked after receiving the Statement.[85] The study found that knowledge of Social Security before receipt of the Statement might play a role: Workers whose prior Social Security expectations understated their benefit levels projected in the Statements decreased hours worked, while workers who had little knowledge of their benefits or overstated them increased hours worked. Additionally, the authors found that receipt of a second Statement induced workers approaching retirement who reduced their hours worked over time to increase hours worked or to slow their reductions in labor supply, implying that some workers might misinterpret the information they received from the initial Statement. In another study, the author examined how the reintroduction of the Statement in 2014[86] affected individuals' labor supply decisions and found diverse effects across the working population. The estimates showed that, after receipt of the Statement, people who were not working in 2013 and 2014 were substantially more likely to work, and people younger than age 50 tended to work more hours, while those working more than 40 hours per week decreased their labor supply.[87]

A new version of the Statement and accompanying fact sheets became available in the fall of 2021.[88] Its impact on individuals' knowledge of Social Security and their employment and retirement decisions are yet to be analyzed. SSA has expressed its intention to gather feedback from the public and related parties about the impacts of the new Statement design.[89]

Table 1 summarizes the Social Security policies and some major changes or proposals discussed in this section, including their likely impacts on older workers' employment and Social Security benefit claiming decisions and related CRS products.

Table 1. Summary of Social Security Polices and Changes Discussed in this Report

Social Security Policies	Major Impact on Older Workers	Related CRS Products
Disincentive to Work		
Expanding Social Security coverage	Increased benefit receipt and reduced labor force participation	CRS In Focus IF11824, *Social Security: Who Is Covered Under the Program?*
Reducing EEA from 65 to 62/60	Increased the proportion in early benefit claiming	CRS Report R44670, *The Social Security Retirement Age*

[84] Jeffrey B. Liebman and Erzo F. P. Luttmer, "Would People Behave Differently If They Better Understood Social Security? Evidence from a Field Experiment," *American Economic Journal: Economic Policy*, vol. 7, no. 1 (2015), pp. 275-299; Barbara A. Smith, "Can Informational Interventions Be Effective Policy Tools? An Initial Assessment of the Social Security Statement," *Social Security Bulletin*, vol. 80, no. 4 (November 2020), https://www.ssa.gov/policy/docs/ssb/v80n4/v80n4p1.html.

[85] Philip Armour and Michael F. Lovenheim, *The Effect of Social Security Information on the Labor Supply and Savings of Older Americans*, Michigan Retirement Research Center, Working Paper 2017-361, September 2016.

[86] SSA began automatic mailing of the Statement to specific age groups in FY1995 and all workers age 25 or older in FY2000. Due to budget constraints, SSA suspended the automatic mailing of Statements in March 2011. In 2014, SSA began mailing paper Statements automatically to individuals ages 25, 30, 35, 40, 45, 50, 55, and 60 or older who did not have online accounts ("my Social Security Accounts") to access their Statements.

[87] Philip Armour, *The Reintroduction of the Social Security Statement and Its Effect on Social Security Expectations, Retirement Savings, and Labor Supply Across the Age Distribution*, Michigan Retirement Research Center, Working Paper 2017-373, September 2017.

[88] SSA, "Social Security Announces Redesigned Statement—Now Available with a 'my Social Security Account,'" press release, October 4, 2021, https://www.ssa.gov/news/press/releases/2021/#10-2021-1.

[89] SSA, *Annual Performance Report*, Fiscal Years 2021-2023, April 2022, p. 24.

Social Security Policies	Major Impact on Older Workers	Related CRS Products
Increases in initial benefits	Increased benefit receipt and reduced labor force participation	CRS Report R46658, *Social Security: Benefit Calculation*
Incentive to Work		
Increasing FRA from 65 to 67	Increased the average benefit claiming age and labor force participation; likely adversely affected Social Security benefits for low-wage or lower-educated workers	CRS Report R44670, *The Social Security Retirement Age*
Eliminated RET for those at or above FRA	Mixed impacts on labor supply decisions; increased early claiming; likely caused poverty concerns in later lives	CRS Report R41242, *Social Security Retirement Earnings Test: How Earnings Affect Benefits*
Increases in DRC	Increased the proportion claiming benefits after FRA; increased benefit from delayed claiming tended to be larger for those with higher lifetime earnings and lower mortality	CRS Report R47151, *Social Security: Adjustment Factors for Early or Delayed Benefit Claiming*
Increases in the number of computation years in the benefit formula	Likely encourage individuals to work longer; potential benefit reduction would disproportionately impact individuals with low lifetime earnings or shorter careers	CRS Report R47330, *Social Security: Potential Impacts of Changes in Computation Years*
Mixed Effects		
Establishment of auxiliary benefits for spouses and widow(er)s	Positive impact on married men's labor force participation; moderate work disincentive for older married women	CRS Report R41479, *Social Security: Revisiting Benefits for Spouses and Survivors*
Increases in payroll taxes and taxable maximum	Workers with earnings below or above the taxable maximum might respond differently	CRS Report RL32896, *Social Security: Raising or Eliminating the Taxable Earnings Base*
Providing the Social Security Statement	Mixed impacts on labor supply decisions and Social Security benefit claiming	CRS Report R47183, *The Social Security Statement*

Source: CRS.

Notes: EEA = earliest eligibility age; FRA = full retirement age; DRC = delayed retirement credit; RET = retirement earnings test.

Conclusion

Many researchers have found that certain Social Security policies affected the labor supply decisions of many older workers. For example, studies have shown that the expansion of the Social Security program during the 1950s through the 1970s coincided with the decline in the employment-population ratio among older Americans, and the policy changes in the Social Security 1983 amendments and later (e.g., the increase in the FRA, the elimination of the RET for those at FRA or older, and the increase in the DRC for those who claim benefits after FRA) likely provided incentives to work at older ages.

The effects of those changes in the Social Security program in the 1983 amendments and later are almost completely realized now.[90] The increase in the FRA from 65 to 67 was gradually phased in. Those born in 1960 (with an FRA of 67) turned 62 in 2022; thus, future cohorts will see no further increase in the FRA under current law. No further adjustments have been made to the RET after 2000. Finally, the DRC was increased to 8% per year for workers born in 1943 or later (i.e., workers who became eligible for retirement benefits or turned age 62 in 2005 or later). Because future cohorts will not experience additional changes in incentives under current law, those drivers in delayed retirement are unlikely to have further substantial impact on older workers' employment.

Congress has shown interest in changing Social Security retirement and survivor policies to provide older workers with more incentive to work. Supporters of those polices contend that the average life expectancy is increasing, health conditions of older workers are improving, and job characteristics are more suitable for older workers. Opponents often argue that low-wage workers or lower-educated workers may be adversely affected by those policies, such as a further increase in the retirement age.[91]

To address these concerns, policymakers and researchers have suggested some possible approaches that could accompany a policy change such as raising the retirement age and offer certain income protections to vulnerable older adults. Some of those approaches would make changes to the Social Security retirement program (e.g., creating special benefit rules based on years of work and average lifetime earnings, or based on physically demanding jobs), and some would modify other programs that provide income support to workers or older adults (e.g., changing the Supplemental Security Income, Social Security Disability Insurance, or Unemployment Insurance programs).[92]

[90] Munnell, *How to Think about Recent Trends in the Average Retirement Age?*

[91] See CRS Report R44846, *The Growing Gap in Life Expectancy by Income: Recent Evidence and Implications for the Social Security Retirement Age*.

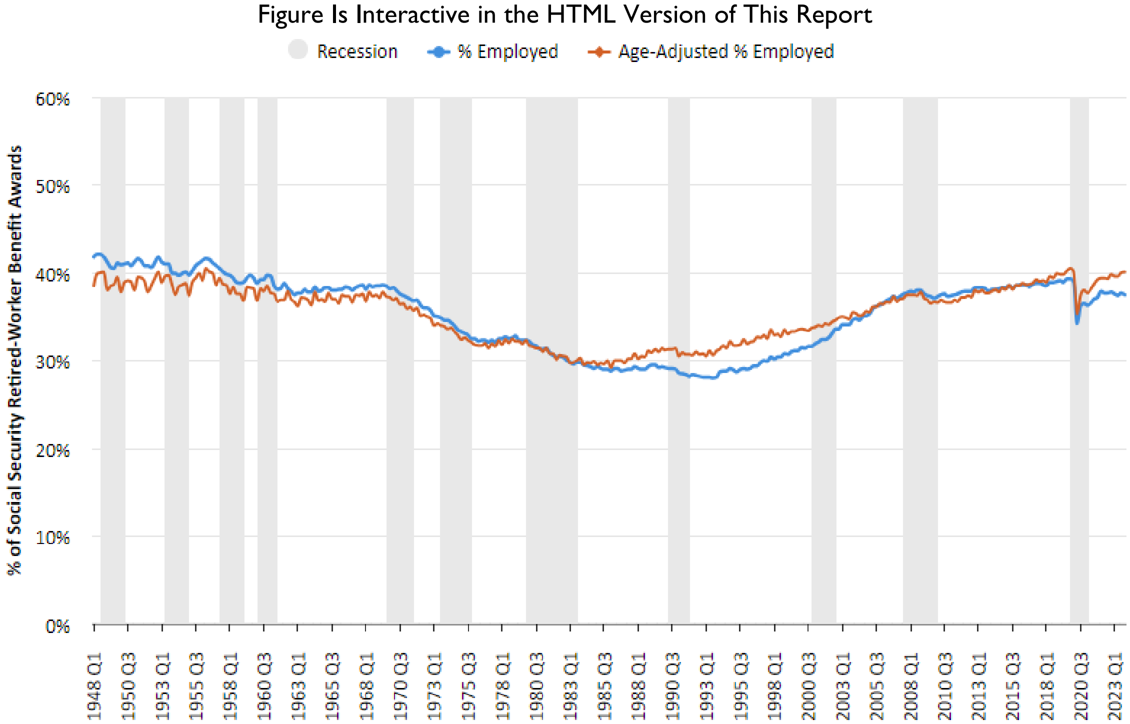
[92] For more information, see CRS Report R44670, *The Social Security Retirement Age*, and U.S. Government Accountability Office, *Social Security Reform: Raising the Retirement Ages Would Have Implications for Older Workers and SSA Disability Rolls*, November 2010.

Appendix A. Employment Trends for Older Workers and Possible Explanations

The employment-population ratio among older individuals declined from the late 1940s through the early 1990s, when the trend reversed, generally increasing until the early 2020s (except for decreases during and after economic recessions). The employment-population ratio among individuals ages 55 and older declined from 41.8% in the first quarter of 1948 to 28.0% in the third quarter of 1993 and then increased to 37.5% in the fourth quarter of 2023 (see **Figure A-1**).[93] The employment-population ratio among older individuals has continued its upward trend in recent years despite the fact that large numbers of baby boomers (i.e., those born 1946-1964) are gradually leaving the labor force. This composition effect is reflected in the age-adjusted employment-population ratio—the share of the population that would have been employed if the age distribution of the population were held at 2008 levels (the year those born in 1946 turned age 62, the EEA under Social Security).[94]

Figure A-1. Quarterly Employment-Population Ratio Among Individuals Aged 55 and Older, 1948-2023

Figure Is Interactive in the HTML Version of This Report



Source: BLS, "Employment-Population Ratio—55 yrs. and over," and NBER, "US Business Cycle Expansions and Contractions."

[93] The year 1948 is the earliest year in which the employment data for individuals ages 55 and older are available from BLS.

[94] The age-adjusted employment-population ratio is computed by applying a standardized age distribution of the population (e.g., the age distribution of 2008) to age-specific employment-population ratios. This eliminates differences in observed employment-population ratios that result from age differences in population composition.

Notes: The data is based on the civilian, noninstitutional population of the United States. It does not include residents of prisons or nursing homes or military personnel living on base. The age adjustment is based on the population distribution in 2008.

Research has suggested that a variety of different factors may explain the declining trend in employment among older workers from 1948 to the early 1990s, such as:

- the expansion in Social Security;
- the growth in private defined benefit pensions and increased household assets;
- sectorial shifts in the economy (e.g., from agriculture to manufacturing and reduced opportunities for part-time work and nonfarm self-employment); and
- technological changes in machinery.[95]

Some other factors may contribute to the increase in older workers' employment-population ratio after the early 1990s, such as:

- changes in Social Security policies (e.g., the increase in FRA from 65 to 67, the increase in the DRC for those who claim benefits between the FRA and age 70, and the elimination of the RET for those at FRA or older);
- the change in the pension landscape from one comprised primarily of defined benefit plans to one comprised primarily of defined contribution plans;[96]
- the increase in highest education attainment, the improved health and longevity, and the decline in private health insurance for retirees; and
- the growth in joint decisionmaking among married couples and changes in job characteristics.[97]

[95] For a summary of factors, see Costa, *The Evolution of Retirement*, ch. 2.

[96] See CRS In Focus IF12007, *A Visual Depiction of the Shift from Defined Benefit (DB) to Defined Contribution (DC) Pension Plans in the Private Sector*.

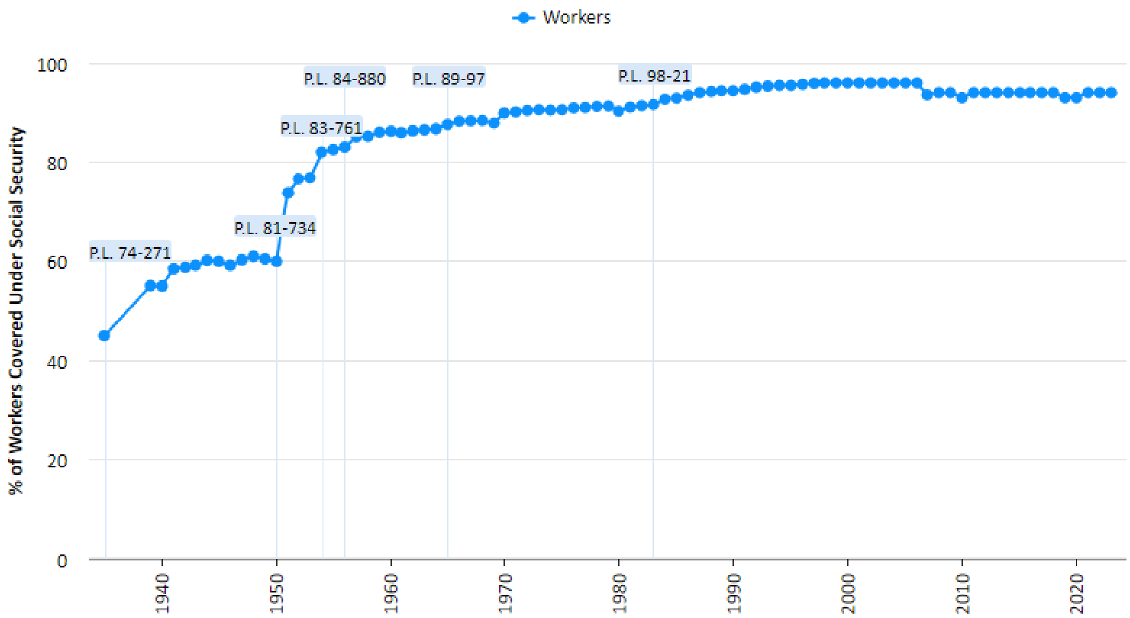
[97] For a summary of factors, see Munnell, *How to Think About Recent Trends in the Average Retirement Age?*; Hou et al., "Why Are US Men Retiring Later?;" Bairoliya, "Pension Plan Heterogeneity and Retirement Behavior."

Appendix B. Social Security Coverage, Average Benefits, and Selected Legislation

Figure B-1 displays the percentage of workers who were covered under Social Security (i.e., earnings up to a limit subject to payroll taxes) and related major legislation.

Figure B-1. Social Security Coverage and Selected Legislation, 1935-2023

Figure Is Interactive in HTML Version of This Report



Source: CRS complied data from the following sources: Larry DeWitt, "The Development of Social Security in America," *Social Security Bulletin*, vol. 70, no. 3 (2010); U.S. House of Representatives, Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means (Green Book), 1994-20161996, 1998, 2000, 2004, https://www.govinfo.gov/collection/green-book; SSA, *Fact Sheet on the Old-Age, Survivors, and Disability Insurance Program*, 2008-2023.

Notes: A brief summary of selected legislation is listed below. For more information, see CRS Report RL30920, Social Security: Major Decisions in the House and Senate Since 1935, and SSA, *Annual Statistical Supplement 2023*, Table 2.A1.

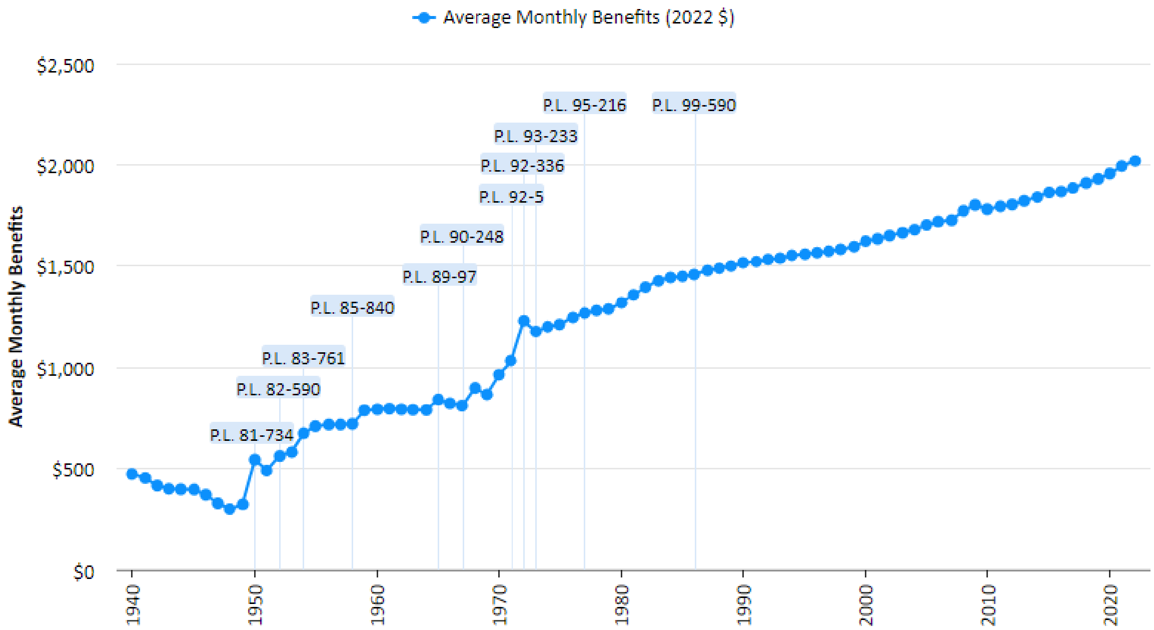
- 1935 (P.L. 74-271): The old-age benefits program was established, covering nearly all workers in commerce and industry.
- 1950 (P.L. 81-734): The program was broadened to cover roughly 10 million additional persons, including regularly employed farm and domestic workers; self-employed people other than doctors, lawyers, engineers, and certain other professional groups; certain federal employees not covered by government pension plans; and workers in Puerto Rico and the U.S. Virgin Islands.
- 1954 (P.L. 83-761): The legislation extended mandatory coverage to, among others, some self-employed farmers, engineers, architects, accountants, and funeral directors, all federal employees not covered by government pension plans, and farm and domestic service workers not covered by the 1950 amendments. It also extended voluntary coverage to ministers and certain state and local government employees already covered by staff retirement systems.
- 1956 (P.L. 84-880): The legislation extended coverage to members of the U.S. Armed Forces, lawyers, dentists, veterinarians, optometrists, and all other self-employed professionals except doctors.
- 1965 (P.L. 89-97): The legislation extended compulsory self-employment coverage to doctors.

- 1983 (P.L. 98-21): The legislation extended coverage to new federal employees and all nonprofit organization employees.

Figure B-2 displays the average Social Security monthly benefit for retired male workers from 1940 to 2022 (in 2022 dollars) and related major legislation.

Figure B-2. Social Security Average Monthly Benefits for Retired Male Workers, 1940-2022

Figure Is Interactive in the HTML Version of This Report



Source: SSA, *Annual Statistical Supplement, 2023*, Table 5.B8 and Table 5.C2.

Notes: Benefits are adjusted by Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), available at BLS. A brief summary of selected legislation is listed below. For more information, see CRS Report RL30920, Social Security: Major Decisions in the House and Senate Since 1935.

- 1950 (P.L. 81-734): Congress raised benefits by about 77%.
- 1952 (P.L. 82-590): The amendments increased benefits for both present and future beneficiaries (by an average of 12.5% for those on the rolls).
- 1954 (P.L. 83-761): Benefits for recipients were raised by roughly 15%, and a revised benefit formula was provided for future retirees that increased benefits by roughly 27%.
- 1958 (P.L. 85-840): The amendments raised recipients' benefits by an average of 7%.
- 1965 (P.L. 89-97): The amendments provided a 7% across-the-board increase in benefits.
- 1967 (P.L. 90-248): The amendments provided a 13% across-the-board increase in benefits.
- 1971 (P.L. 92-5): The amendments provided a 10% across-the-board increase in benefits, retroactive to January 1, 1971.
- 1972 (P.L. 92-336): The amendments provided a 20% increase in Social Security benefits and provided for future automatic increases in Social Security benefits when the CPI rose by 3% or more.
- 1973 (P.L. 93-233): The amendments increased benefits by 7% in March 1974 and by another 4% in June 1974. In addition, the automatic COLA mechanism was revised.
- 1977 (P.L. 95-216): The amendments corrected a basic flaw in the benefit computation formula.
- 1986 (P.L. 99-590): The amendments permanently eliminated the 3% threshold necessary to provide a COLA in that year.

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