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Social Security Retirement Earnings Test Overview

Background

Social Security is a work-related, federal insurance program that provides monthly cash benefits to workers and their eligible family members in the event of a worker’s retirement, disability, or death. Social Security retirement benefits received between age 62 and the full retirement age (FRA)—which falls between 65 and 67, depending on year of birth—are generally subject to an actuarial reduction for early retirement and may also be reduced by the Retirement Earnings Test (RET) if the beneficiary has earnings that exceed an annual threshold. (The RET does not apply to Social Security disability beneficiaries.)

The Social Security Administration’s Office of the Chief Actuary (OCACT) estimated that about 520,000 beneficiaries below FRA (or about 11% of all beneficiaries below FRA) would have had their benefits reduced or completely withheld due to the RET in 2019.

How Does the RET Work?

Under the RET, a beneficiary who is below FRA and will not attain FRA during the calendar year is subject to a \$1 reduction in benefits for every \$2 of earnings above an annual exempt amount (\$24,480 in 2026). During the calendar year in which a beneficiary attains FRA, he or she is subject to a \$1 reduction in benefits for every \$3 of earnings above a higher threshold (\$65,160 in 2026). Both thresholds are typically increased annually with growth in the national average wage.

If a beneficiary is affected by the RET, his or her monthly Social Security benefit may be temporarily reduced in part or in full, depending on the total applicable reduction.

The RET in Conjunction with Early Retirement Reduction

When a worker elects to claim Social Security benefits before FRA, his or her monthly benefits are subject to a permanent actuarial reduction. In the initial benefit computation, retirement benefits are reduced for early retirement by a fraction of the worker’s basic benefit for each month of entitlement before FRA. The RET is applied to monthly benefits only after they have been reduced by the early retirement actuarial adjustment. Both the permanent reduction for early retirement and the temporary RET reduction are applied to beneficiaries below FRA.

Restoration of RET-Withheld Benefits Upon Attaining FRA

At FRA, beneficiaries begin to recoup the benefits that were lost due to the RET. 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 when he or she attains FRA. (Monthly benefits

may also increase due to additional earnings.) This automatic benefit recomputation at FRA effectively adjusts (lessens) the actuarial reduction for early retirement.

Table 1 shows a hypothetical beneficiary who was affected by the RET. The beneficiary is assumed to have an FRA of 67 and claim benefits at age 64. His or her monthly benefit would be \$2,000 after applying the actuarial reduction for early retirement (a \$500 reduction per month). The person is assumed to work (earning about \$56,480 per year) while receiving Social Security benefits from ages 64 to 66, and his or her benefits would be withheld by the RET for eight months per year for three years (see table note d). When the beneficiary attains FRA, the benefit would be recomputed, and the beneficiary would receive \$2,333 per month (or \$333 more per month) for his or her remaining lifetime.

Table 1. Hypothetical Example of a Social Security Beneficiary Affected by the RET (FRA = 67)

Description	Benefits and Adjustments
Social Security monthly benefits before actuarial reduction for early retirement (for entitlement at FRA)	\$2,500
<i>Benefit reduction for early retirement</i>	
Percentage of actuarial reduction in initial benefits for entitlement at age 64 (5/9 of 1% per month for 36 months)	20% ^a
Monthly benefits after actuarial reduction for early retirement	\$2,000 ^b
<i>Temporary benefit reduction due to RET</i>	
RET charges per year (ages 64-66) ^b	\$16,000 ^c
Months per year for benefits withheld due to RET	8 months ^d
Total months in three years for RET charges	24 months
<i>Benefit recomputation at FRA</i>	
Percentage given back to beneficiary for those RET-impacted months (5/9 of 1% per month for 24 months)	13.33% ^e
The new effective actuarial reduction for early retirement	6.67% ^f
The new permanent monthly Social Security benefit	\$2,333 ^g

Source: CRS.

Notes: The annual adjustments for cost of living and RET exempt amounts, and the potential increase in monthly benefits due to additional earnings, are not shown.

- a. This amount is calculated as $5/9\% \times 36 = 20\%$.
- b. This is calculated as $\$2,500 \times (1-20\%) = \$2,000$.
- c. In 2026, for a Social Security beneficiary below FRA throughout the year, earnings of \$56,480 would result in a RET charge of $(\$56,480 - \$24,480) \div 2 = \$16,000$.
- d. The entire monthly benefit of \$2,000 from Jan to Aug would be withheld due to the RET charge ($\$2,000 \times 8 = \$16,000$).
- e. This amount is calculated as $5/9\% \times 24 = 13.33\%$.
- f. This amount is calculated as $20\% - 13.33\% = 6.67\%$.
- g. This is calculated as $\$2,500 \times (1-6.67\%) = \$2,333$. Benefit amounts are rounded down to the next lowest dollar.

The RET and Life Expectancy

Typically, the RET reduction before FRA would be recouped gradually through a higher Social Security annual benefit over a certain number of years after FRA. The RET is actuarially fair (on average) in its readjustment of benefits at FRA. That is, over the course of the *average* person's lifespan, after reaching FRA the beneficiary can expect to receive all benefits withheld due to the RET.

Beneficiaries, however, may have a life expectancy that differs from the average. Workers with shorter-than-average lifespans may feel that the recovery of benefits initially reduced under the RET is incomplete (e.g., certain lower-income workers and minorities with shorter life expectancies). Conversely, for those who live longer than average, the recomputation may result in higher lifetime benefits that more than offset the initial benefit reductions under the RET.

Selected Impacts of Eliminating the RET for All Beneficiaries

On Labor Supply Decisions

In 2000, P.L. 106-182, the most recent legislative RET change, eliminated the RET for beneficiaries beginning with the month they attain FRA. Research based on the change in 2000 suggests that the elimination of the RET for all beneficiaries (including those below FRA) may affect workers' labor supply decisions in several ways:

- Early retirees who were working and having earnings below the RET annual thresholds may choose to work more hours.
- Early retirees whose Social Security benefits were partially withheld by the RET would see an increase in their Social Security monthly benefits. Their behavioral change is ambiguous depending on the value each beneficiary places on either (1) increasing his or her work with the increased Social Security benefits or (2) decreasing his or her work (e.g., enjoying more leisure) due to the increased benefits.
- Early retirees whose Social Security benefits were fully withheld by the RET (resulting in no monthly benefit payment) may reduce work hours due to substantially

increased income from receiving Social Security benefits that were previously withheld in their entirety.

- A small group of early retirees who were not working may choose to go back to work.

Because of these mixed effects, research has not drawn a clear conclusion on the overall impact of eliminating the RET for all beneficiaries on aggregate labor supply.

On Social Security Claiming Behavior and Poverty

Because the RET applies to persons who are younger than FRA, studies suggest that it may discourage persons below the FRA from claiming benefits early. Some workers perceive the RET as a "tax" on benefits received before FRA, even though the recomputation of benefits at FRA allows the worker to recoup benefits withheld under the RET. 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 significant early benefit claiming before FRA.

Another consideration for policymakers is the effect of the RET repeal on poverty rates. 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 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.

On Social Security Program Solvency

Elimination of the RET for those below their FRAs would have an unclear effect on Social Security revenue from payroll taxes and would have two opposing impacts on the financial outlook for the Social Security program:

1. An immediate increase in program costs would occur as a result of two populations receiving increased benefits: (1) those who had benefits withheld due to the RET would now receive no reduction and, therefore, their benefits would increase, and (2) some of those who were previously not receiving benefits and were planning to start entitlement later could elect to receive benefits sooner than they otherwise would under current law.
2. A decrease in program costs would stem primarily from the increased incidence of beneficiaries becoming subject to the actuarial reduction in benefits for early retirement.

OACT estimates that the permanent reduction in monthly benefit levels would, on average, more than offset the value of additional benefit payments from earlier claiming over the long run, resulting in some net savings to the program (1% decrease in the program's long-term funding shortfall based on the 2025 trustees report).

Additional Information

CRS Report R41242, *Social Security Retirement Earnings Test: How Earnings Affect Benefits*.

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