

A third limitation on the analysis concerns changes in the behavior of beneficiaries. Because it is not known how individuals would respond if the earnings test were changed, the analysis of the characteristics of people who would be affected by modifying the test does not take account of any behavioral responses that might result. Two kinds of responses might be expected. First, some Social Security recipients might choose to change the amount they work if the exempt limit on earnings were raised. Some might work more because their effective tax rates were reduced, while others --with earnings above current limits--might work less because their Social Security payments increased. As a result, both payroll and income tax revenues could change. Second, some workers who now postpone applying for benefits because of high earnings might choose to apply earlier. This would cause an increase in benefits currently paid, but future payments would be lower than otherwise since some such workers would not receive delayed retirement credits. The effect of such responses would probably not be large, relative to the direct effects of changing the earnings test.

Because of the data limitations, the analysis is based on about 600,000 people aged 65 through 69 whose benefits were reduced or completely withheld in 1986--or who did not apply for benefits--as a result of the earnings test (see Table 1). It excludes, however, those people who appear to have retired during 1986.^{9/} (This exclusion was necessary because it is not possible to determine which recent retirees were affected by the earnings test; those who retire during a year are subject to a monthly earnings test in that year, and the CPS does not report monthly earnings data.) As a result, the analysis understates slightly the full impact of the earnings test on this age group.

This population group--people aged 65 through 69 eligible to receive Social Security payments, excluding recent retirees--is the basis for the analysis of characteristics of people affected by the earnings test and modifications to the test. This population is referred to as beneficiaries or insured people.

PEOPLE AFFECTED BY THE EARNINGS TEST IN 1986

Fewer than one in ten people aged 65 through 69 who are eligible for Social Security benefits is affected by the earnings test, and the characteristics of those affected are quite different from those of the average beneficiary.

As would be expected, beneficiaries with earnings above the exempt limit tend to have higher family incomes: while only about

9. The analysis excluded Social Security beneficiaries who reported that they worked during 1986 and that they were retired in March 1987. This approach can only roughly identify recent retirees subject to the monthly earnings test.

TABLE 1. REPORTED AND IMPUTED SOCIAL SECURITY ELIGIBILITY IN 1986
OF PEOPLE AGED 65-69 WITH EARNINGS ABOVE \$7,800

Population Subgroup	Number (In thousands)	Distribution of Affected People (In percent)
Annual earnings above \$7,800 and reporting Social Security benefits		
Men	215	36
Women	168	28
Men and Women	383	65
Annual earnings above \$7,800 and not reporting Social Security benefits		
Men	156	26
Women	55	9
Men and Women	211	35
Total		
Men	370	62
Women	223	38
Men and Women	594	100

SOURCE: Congressional Budget Office tabulations of data from the
March 1987 Current Population Survey.

NOTE: Details may not add to totals because of rounding.

one-eighth of all beneficiaries had family incomes in 1986 above \$42,000, more than 40 percent of those affected by the earnings test had incomes above that level (see Figure 1, and Table A-1 in Appendix A).^{10/} In contrast, nearly 40 percent of all beneficiaries had incomes below \$15,000, compared with only 5 percent of people with earnings above the exempt limit. Because beneficiaries had to have more than \$7,800 in income from earnings to be affected by the earnings test, those affected would almost certainly have higher total incomes than beneficiaries on average. Thus, virtually no affected people would have had extremely low incomes.

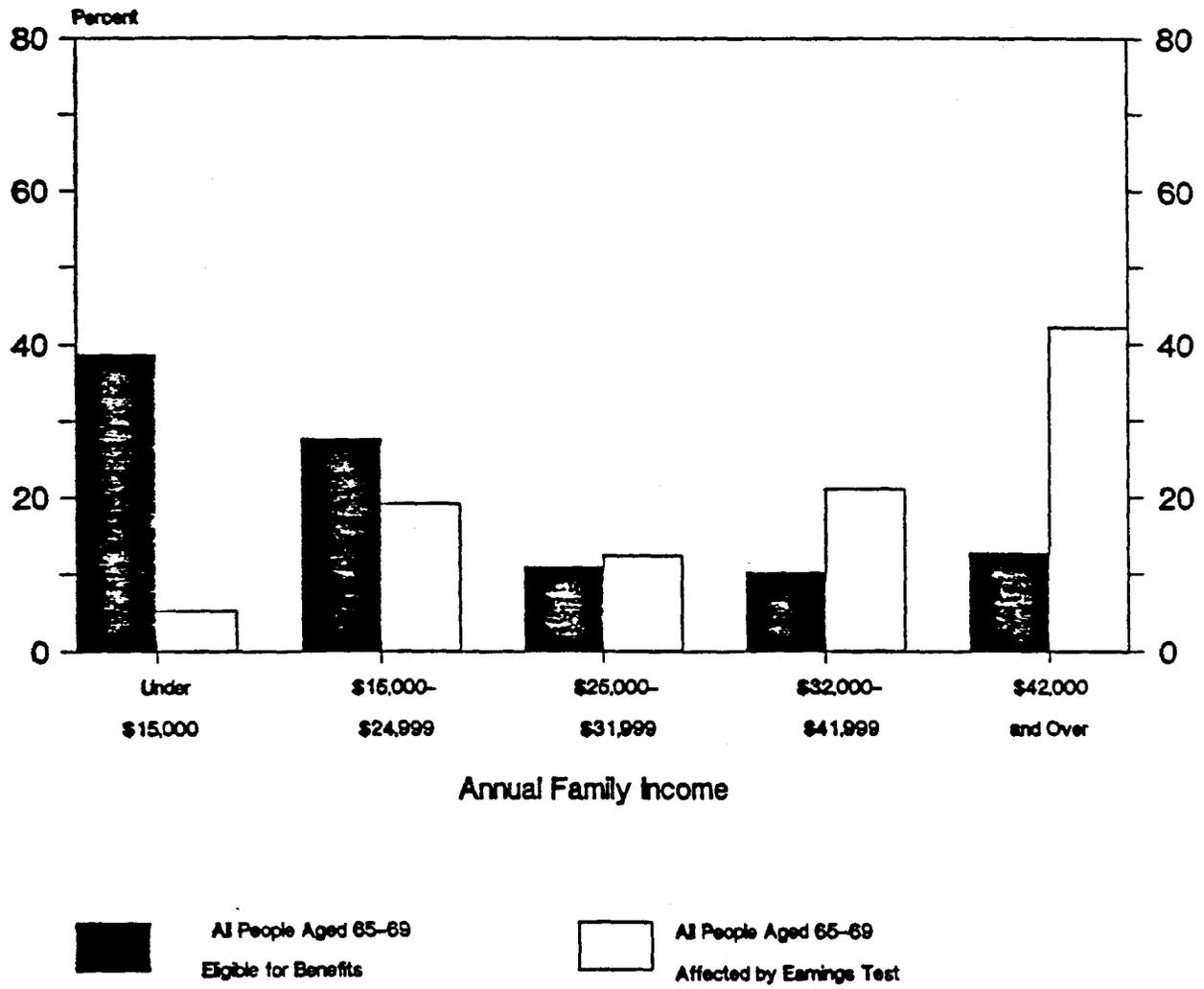
Because men are more likely both to work and to have higher earnings when they do work, they are significantly more likely to be affected by the earnings test than are women. In 1986, 11 percent of men eligible for Social Security had earnings above the exempt limit, compared with just 5 percent of women. Furthermore, among those affected by the earnings test, men tended to have higher incomes than women: more than half of affected men but just one-fourth of affected women had incomes above \$42,000.

Family income does not take into consideration the varying needs due to differences in family size, and using such a measure may therefore give an inaccurate assessment of the well-being of people affected by the earnings test. An income of \$20,000 might allow one person to live quite well, for instance, but would not go as far for a family of four. Poverty thresholds reflect the differential needs of families of various sizes, so measuring income relative to the appropriate poverty threshold may be a better indicator of well-being. Such a measure would indicate, for example, that a single person with an income of \$10,000 would be roughly as well off as a family of four with an income of \$20,000.^{11/}

There are separate poverty thresholds for elderly and nonelderly families with one or two members. In 1986, the poverty threshold for a single person age 65 or over was \$5,255, about 8 percent below the \$5,701 threshold for a single person under age 65. Similarly, a two-person family headed by a person aged 65 or over had a 1986 poverty threshold of \$6,630, compared with \$7,372 for a younger two-person family, a difference of roughly 10 percent. Because this analysis looks only at people aged 65 through 69, the

-
10. Appendix A provides detailed statistics on the characteristics of people aged 65 through 69 eligible for Social Security in 1986, those affected by the earnings test in 1986, and those who would not have been affected in 1986 had there been a higher or no earnings limit.
 11. For a more complete discussion of this approach to measuring well-being, see Congressional Budget Office, Trends in Family Income: 1970-1986 (February 1988), pp. 5 and 6.

FIGURE 1. DISTRIBUTION IN 1986 OF PEOPLE AGED 65-69 ELIGIBLE FOR SOCIAL SECURITY BENEFITS AND AFFECTED BY THE EARNINGS TEST, BY FAMILY INCOME



SOURCE: Congressional Budget Office tabulations of data from the March 1987 Current Population Survey.

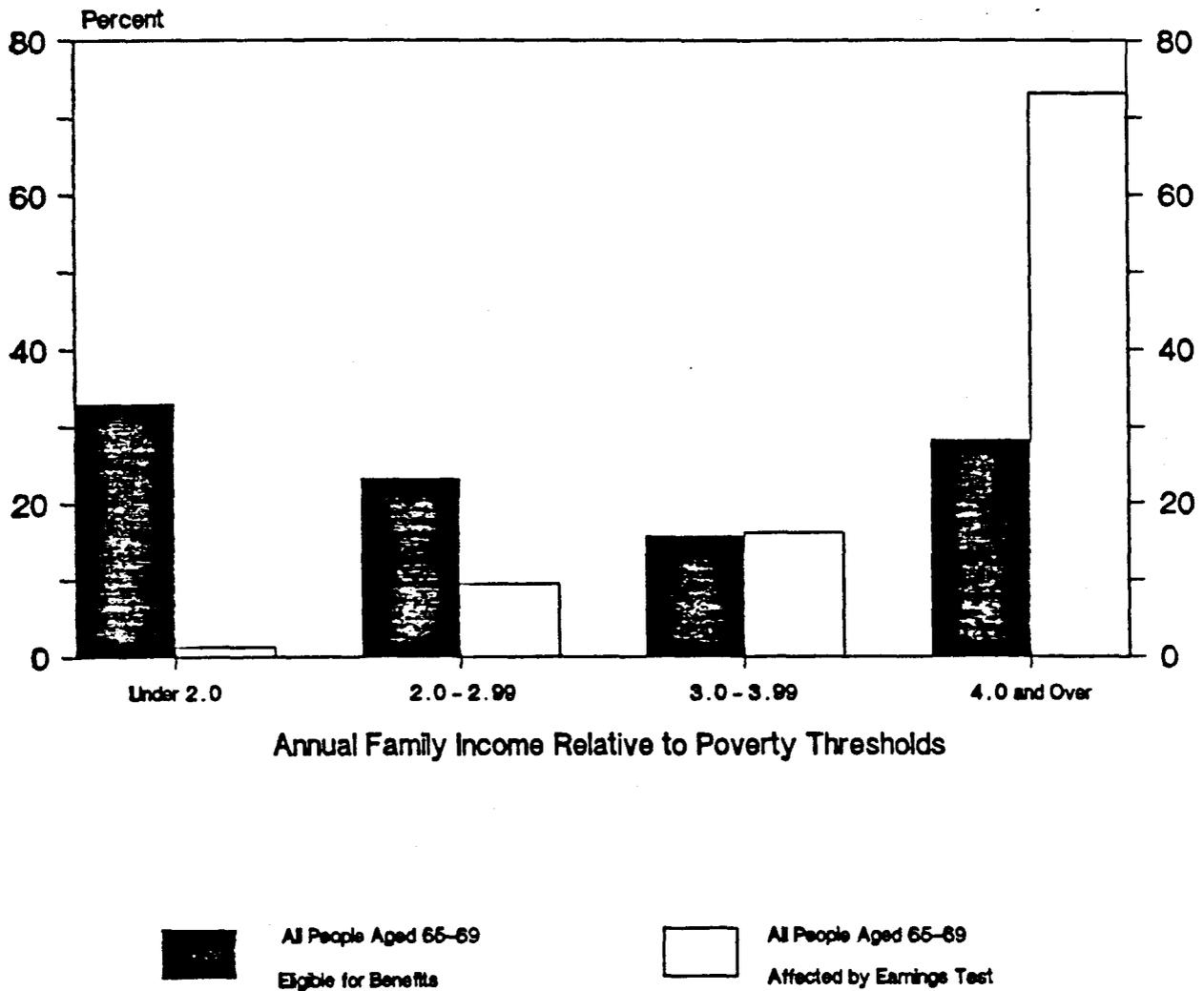
lower thresholds for the elderly are used. Poverty thresholds for families with three or more members are the same for both age groups.

Measuring income relative to poverty provides further evidence that the earnings test affects primarily those who are economically better off. In 1986, while beneficiaries with family incomes above four times the poverty threshold--that is, more than about \$21,000 for people living alone and about \$26,500 for couples--made up just over one-fourth of all beneficiaries, they constituted nearly three-fourths of those affected by the earnings test (see Figure 2, and Table A-2 in Appendix A). Conversely, those with incomes below twice the poverty threshold--that is, about \$10,500 for single people and about \$13,300 for couples--represented one-third of all beneficiaries but barely 1 percent of those with earnings above the exempt level. Again, men were better off than women: over 80 percent of affected men had family incomes more than four times the poverty threshold, compared with 60 percent of affected women.

The distribution among living arrangements of people affected by the earnings test in 1986 was generally similar to that of all beneficiaries, although this was less true for women (see Figure 3, and Table A-3 in Appendix A). Seven out of ten affected people were married, and 80 percent of those couples lived by themselves. Relative to their numbers, married women eligible for Social Security benefits were less likely to have earnings above the exempt limit than their never-married, divorced, or separated counterparts.

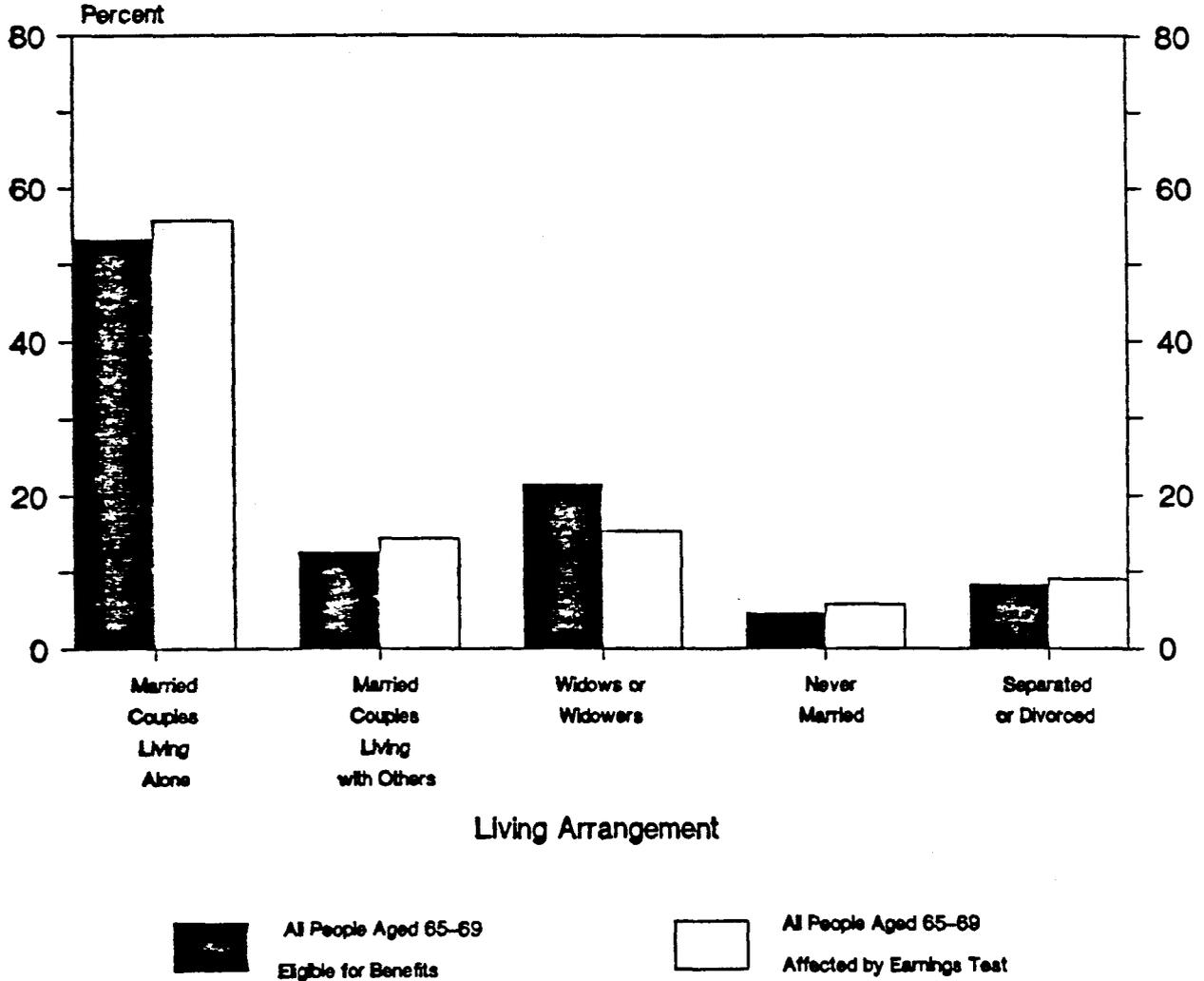
As Figure 4 shows, only 1 percent of people with family incomes below \$15,000 and 5 percent of those with family incomes between \$15,000 and \$25,000 had their benefits reduced because of earnings. Virtually no one affected by the earnings test had a family income below twice the poverty threshold (see Figure 5).

FIGURE 2. DISTRIBUTION IN 1986 OF PEOPLE AGED 65-69 ELIGIBLE FOR SOCIAL SECURITY BENEFITS AND AFFECTED BY THE EARNINGS TEST, BY FAMILY INCOME RELATIVE TO POVERTY THRESHOLDS



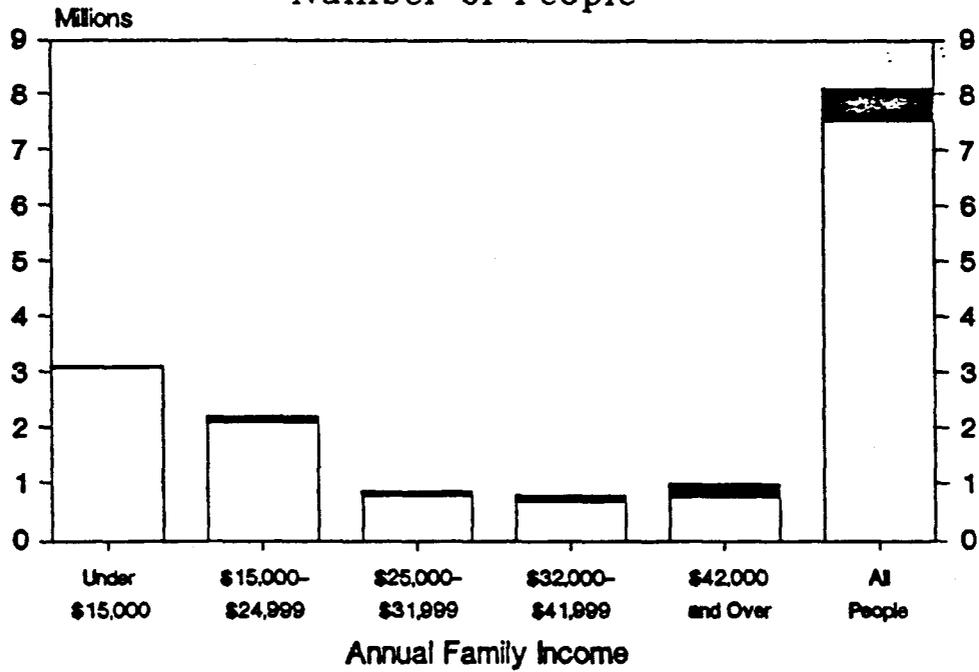
SOURCE: Congressional Budget Office tabulations of data from the March 1987 Current Population Survey.

FIGURE 3. DISTRIBUTION IN 1986 OF PEOPLE AGED 65-69 ELIGIBLE FOR SOCIAL SECURITY BENEFITS AND AFFECTED BY THE EARNINGS TEST, BY LIVING ARRANGEMENT

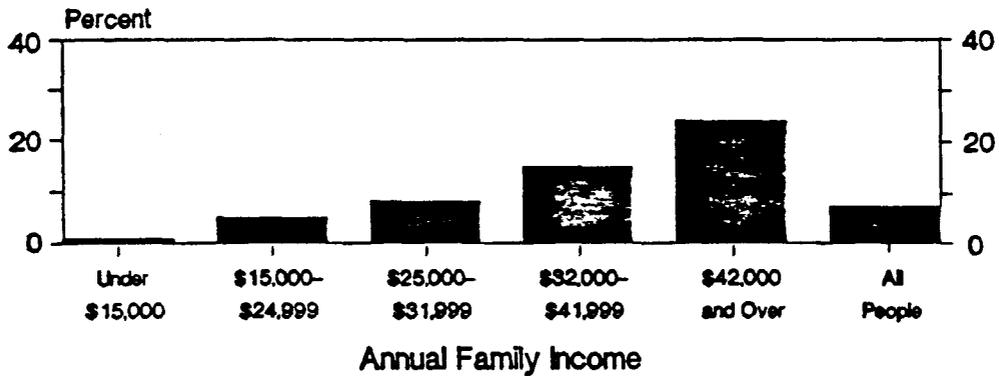


SOURCE: Congressional Budget Office tabulations of data from the March 1987 Current Population Survey.

FIGURE 4. DISTRIBUTION IN 1986 OF PEOPLE AGED 65-69 ELIGIBLE FOR SOCIAL SECURITY BENEFITS AND PEOPLE AFFECTED BY THE EARNINGS TEST, BY FAMILY INCOME
Number of People



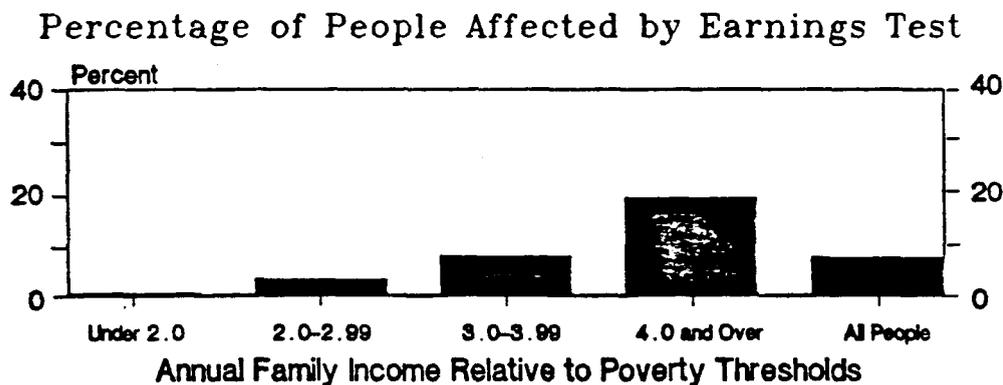
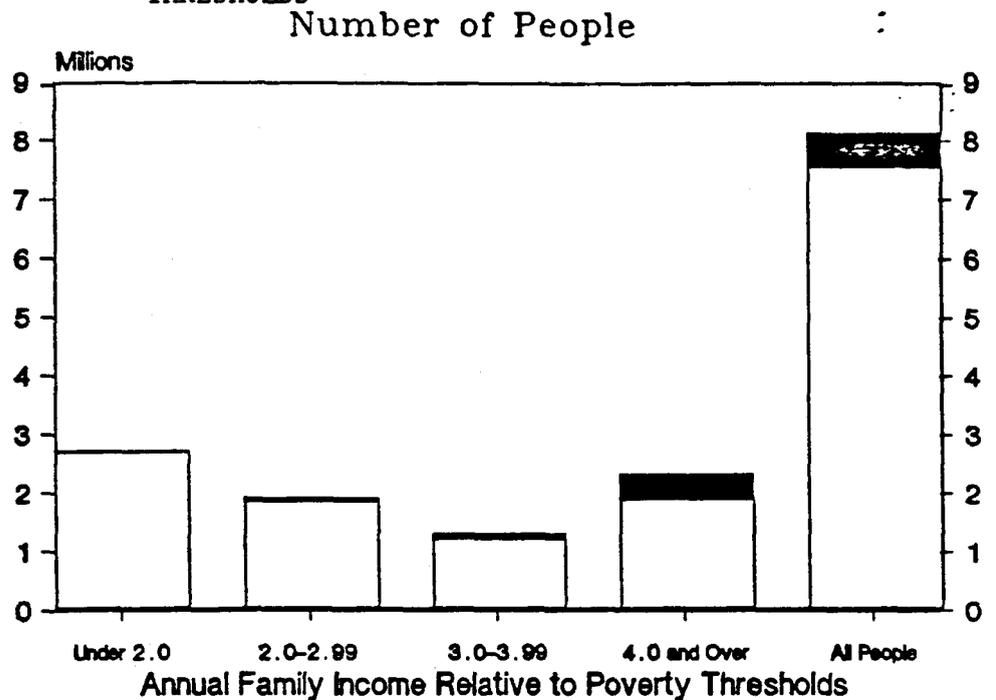
Percentage of People Affected by Earnings Test



All People Aged 65-69 Eligible for Benefits
 All People Aged 65-69 Affected by Earnings Test

SOURCE: Congressional Budget Office tabulations of data from the March 1987 Current Population Survey.

FIGURE 5. DISTRIBUTION IN 1986 OF PEOPLE AGED 65-69 ELIGIBLE FOR SOCIAL SECURITY BENEFITS AND PEOPLE AFFECTED BY THE EARNINGS TEST, BY FAMILY INCOME RELATIVE TO POVERTY THRESHOLDS



	All People Aged 65-69 Eligible for Benefits			All People Aged 65-69 Affected by Earnings Test
--	------------------------------------------------	--	--	----------------------------------------------------

SOURCE: Congressional Budget Office tabulations of data from the March 1987 Current Population Survey.

CHAPTER II
EFFECTS OF CHANGING THE EARNINGS LIMIT

Proposals currently before the Congress would increase the Social Security earnings limit or eliminate it entirely for beneficiaries aged 65 through 69. This analysis examines four possible changes:

- o Increase the earnings limit to \$10,000 in 1989, thereby raising it 16 percent from the estimated \$8,640 limit for 1989;
- o Double the earnings limit to \$17,280 in 1989;
- o Raise the 1989 earnings limit to \$25,000, that is, to three times the estimated limit under current law; and
- o Eliminate the earnings test for people between 65 and 69 years of age.

Each of the options that would increase the exempt earnings amount would resume the current law wage indexing of the threshold in 1990.

The characteristics of people who would be affected by these options were simulated using 1986 data on incomes from the March 1987 Current Population Survey. To make the 1986 limits comparable, the 1989 limits given above were deflated based on the past and projected growth in the average wage. The equivalent limits used with the 1986 data were \$9,000, \$15,600, \$22,560, and none, respectively.

WHICH GROUPS WOULD BE AFFECTED?

Raising the earnings limit would exempt some people who are now affected--those with earnings above the current limit but below the new limit--from benefit reductions because of the earnings test. The size of this group obviously depends on how much the earnings limit is raised: a small increase, such as in the first option, would exempt relatively few people, while eliminating the earnings test entirely would make everyone exempt. Available data on earnings identify people in this group, but the amounts by which their Social Security payments would rise cannot be determined without information on benefit levels.

Among those who would still be affected by the earnings test after the earnings limit was raised (but not eliminated), some beneficiaries would get higher payments while others would not. People with high earnings relative to their primary insurance amounts--that is, their unadjusted benefits--would be likely to have their benefits fully withheld under both the current and new earnings limits, and would thus gain nothing from an increase in the earnings limit. Others whose earnings are lower relative to their primary insurance amounts and whose benefits are now at least partly withheld could have less of their benefits withheld after the change and thus would gain.

Unfortunately, without information on primary insurance amounts, the analysis can identify only those people who would become exempt from benefit reductions as a result of a change in the earnings test. Among those beneficiaries still affected by the test, those who would gain cannot be distinguished from those who would not.^{1/} The remainder of the analysis therefore provides information only about those people who would no longer be affected if the earnings test were modified. If those people still affected by the earnings test could be included, the numerical results of the analysis would be different, but the qualitative results would be highly unlikely to change.

WHICH BENEFICIARIES WOULD BE MADE EXEMPT?

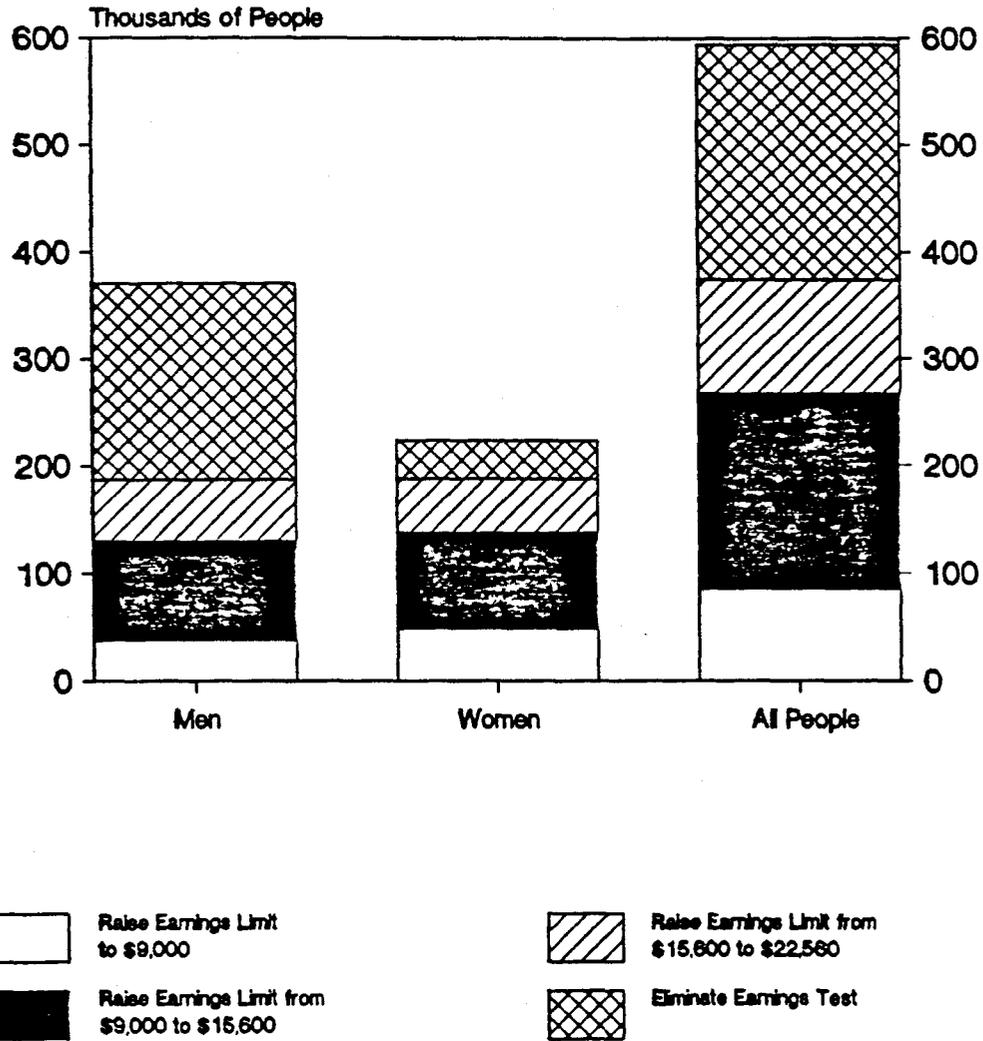
The analysis next focuses on the characteristics of people aged 65 through 69 who would no longer be affected by the earnings test if the exempt earnings limits were increased. Three terms are used to refer to different population groups. "Insured" people are those 65-to-69-year-olds who are eligible to receive Social Security, whether or not they actually get benefits. "Affected" people are those insured people whose benefits are partially or fully withheld because of the current earnings test; this group includes those who get no benefits and whose earnings are above the exempt limit. "Exempted" people are those affected by the current earnings test who would no longer be affected if the test were changed.

If the 1986 earnings limit had been raised from \$7,800 to \$9,000, 85,000 insured people aged 65 through 69--14 percent of those affected by the earnings test in 1986--would have become exempt from the earnings test and an indeterminate number of others would have received increased Social Security checks (see Figure 6, and Table A-4 in Appendix A). Doubling the limit to \$15,600 would have exempted more than three times as many people--nearly 270,000 or 45 percent of those affected by the earnings test. A still larger increase to \$22,560 would have reduced the number of people affected by the earnings test by almost two-thirds, or about 375,000. Of course, eliminating the earnings test would have exempted all 600,000 people whose benefits were reduced or fully withheld in 1986 because of excess earnings.

Small increases in the earnings limit would exempt a large fraction of affected beneficiaries in low-income families, but would leave most people with higher family incomes still affected by the earnings test (see Figure 7). About half of affected people in

-
1. Without information on individual Social Security benefit levels before the earnings test is applied, the analysis cannot determine either the amount by which individual Social Security payments would rise if earnings limits were increased or the earnings levels of individuals at which benefits would become fully withheld.

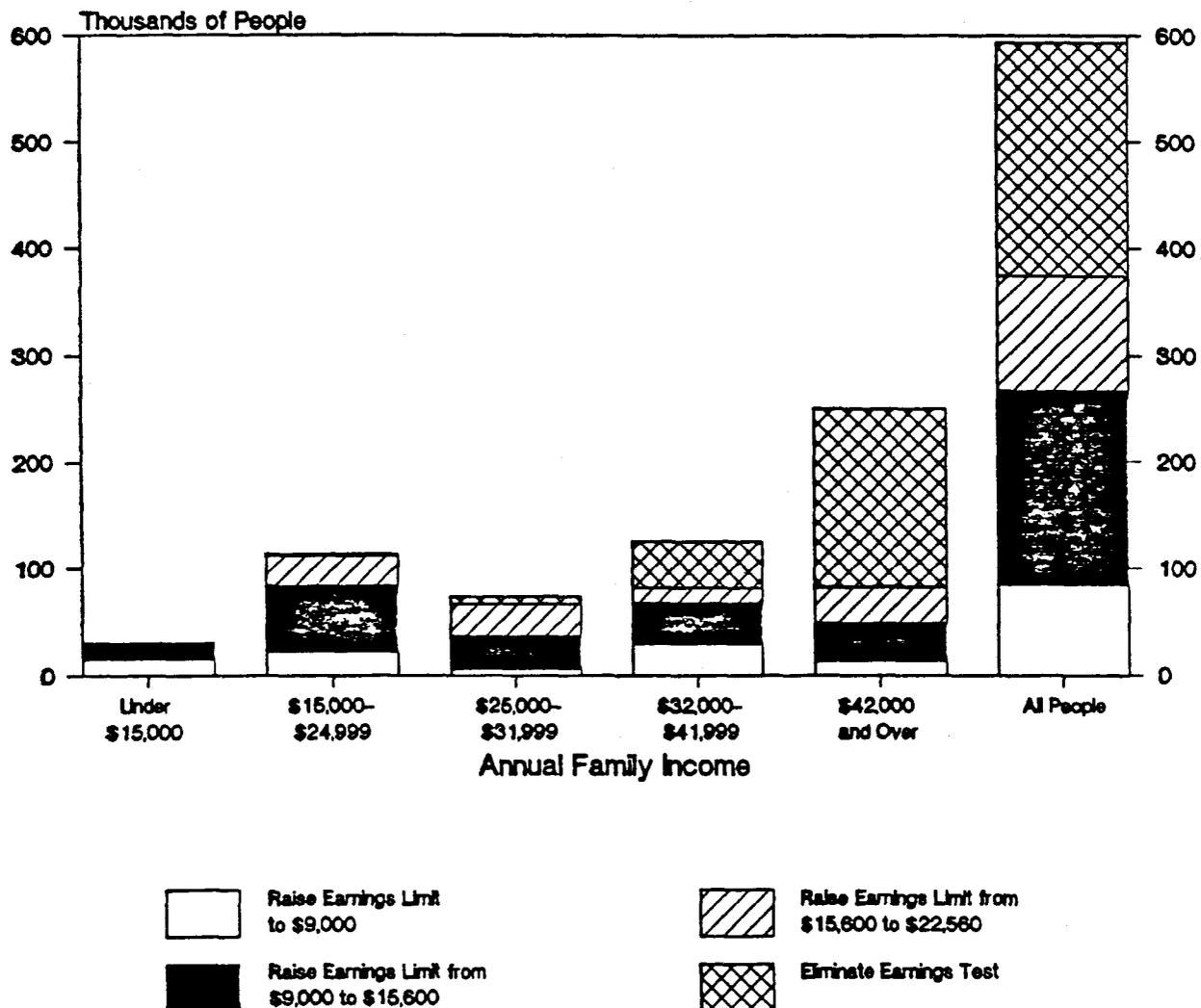
FIGURE 6. PEOPLE AGED 65-69 NO LONGER AFFECTED BY THE EARNINGS TEST IN 1986 AS A RESULT OF SELECTED CHANGES, BY SEX



SOURCE: Congressional Budget Office tabulations of data from the March 1987 Current Population Survey.

NOTE: The effects of changing the earnings test shown in the figure are cumulative. For example, the number of people made exempt by doubling the earnings limit equals the number exempted by raising the limit to \$9,000--the unshaded box--plus the incremental group exempted when the limit is further raised to \$15,600--the black box.

FIGURE 7. PEOPLE AGED 65-69 NO LONGER AFFECTED BY THE EARNINGS TEST IN 1986 AS A RESULT OF SELECTED CHANGES, BY FAMILY INCOME



SOURCE: Congressional Budget Office tabulations of data from the March 1987 Current Population Survey.

NOTE: The effects of changing the earnings test shown in the figure are cumulative. For example, the number of people made exempt by doubling the earnings limit equals the number exempted by raising the limit to \$9,000--the unshaded box--plus the incremental group exempted when the limit is further raised to \$15,600--the black box.

families with annual incomes below \$15,000 would not have been subject to benefit reductions if the earnings limit had been \$9,000 in 1986. In contrast, such a change would have exempted only about 5 percent of affected people with family incomes above \$42,000. Even if the earnings limit had been tripled, fully two-thirds of people with incomes in that top category would have been affected by the earnings test in 1986.

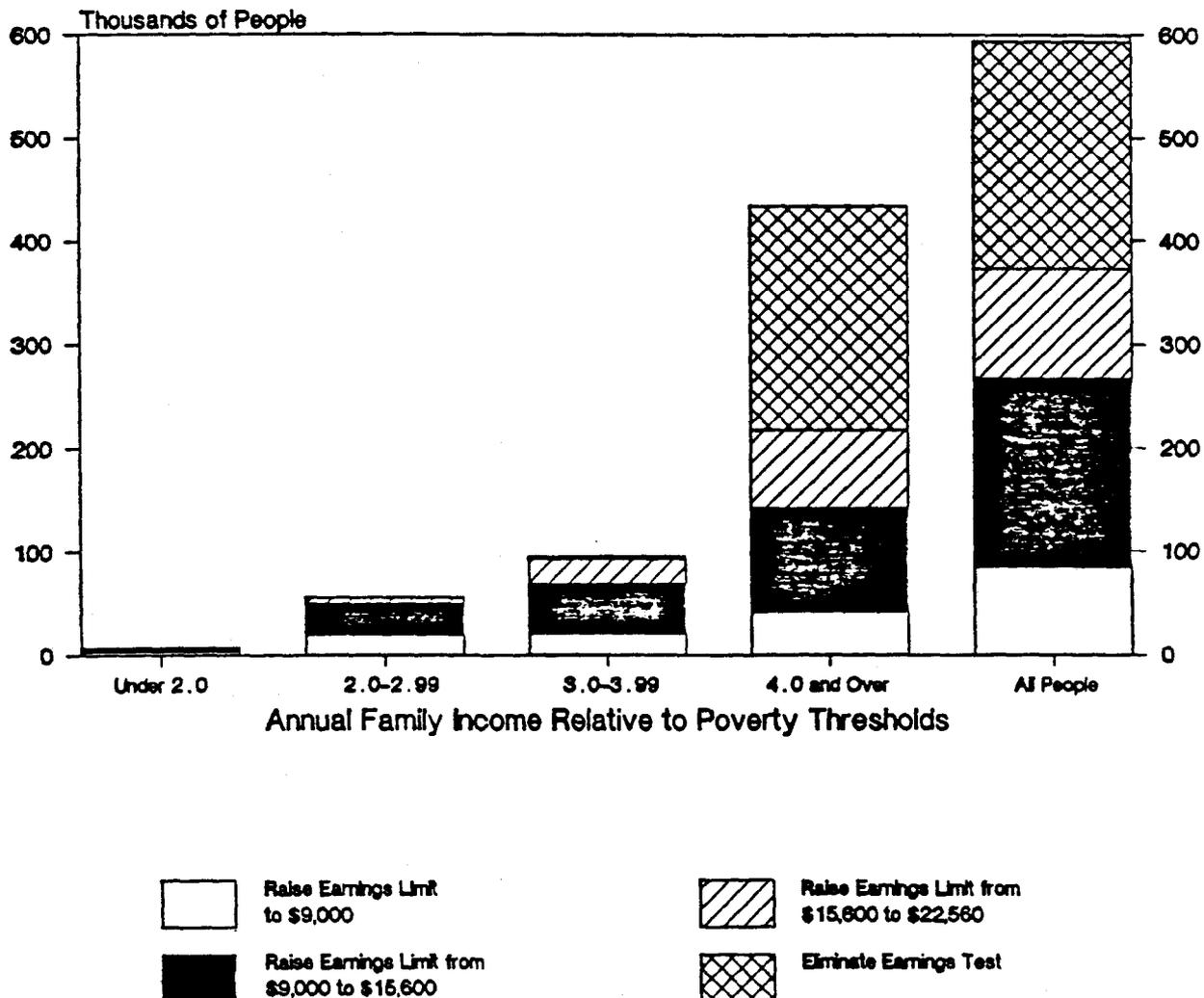
That smaller changes have significant effects on low-income beneficiaries is even more apparent when income is measured relative to poverty thresholds (see Figure 8). A doubling of the earnings limit in 1986 would have exempted virtually all people with family incomes below three times the poverty threshold, but left about two-thirds of those with incomes above four times the poverty threshold subject to benefit reductions. Furthermore, because widows and widowers and women who have never married tend to have lower incomes than people in other living arrangements, smaller changes in the earnings limit exempt relatively more widows and widowers and never-married women (see Figure 9).

Examining the distribution across recipient groups of those who would be made exempt by each of the four options both supplements and reinforces this picture. Smaller increases in the earnings limit would have relatively greater effects on people with low family incomes than would larger increases, but none of the changes examined would have much impact on low-income beneficiaries in general (see Figure 10, and Table A-5 in Appendix A). For example, nearly 20 percent of those who would have been exempt if the 1986 earnings limit had been \$9,000 had incomes below \$15,000, even though just 5 percent of all affected beneficiaries had incomes at that level. The data also imply, however, that even under the smallest increase in the earnings limit, only a small fraction of those made exempt would have low incomes: less than half would be in families with incomes below \$25,000. A similar pattern appears when income is measured relative to the poverty thresholds (see Figure 11, and Table A-6 in Appendix A).

Raising the earnings limit to \$9,000 in 1986 would have meant that a disproportionate share of the exempted population would have been widows or widowers, or people who had never married (see Figure 12, and Table A-7 in Appendix A). To a large extent, this reflects the relative distribution of earnings among people with different living arrangements. For example, while they constituted 22 percent of insured people and 15 percent of affected people in 1986, widows and widowers would have made up 27 percent of those exempted by changing to a \$9,000 limit. In contrast, higher or no earnings limits would have meant that larger shares of those exempted would have been married couples.

An examination of men and women separately across living arrangements and income levels reinforces the preceding observations. Appendix B provides information about the distributions--by all

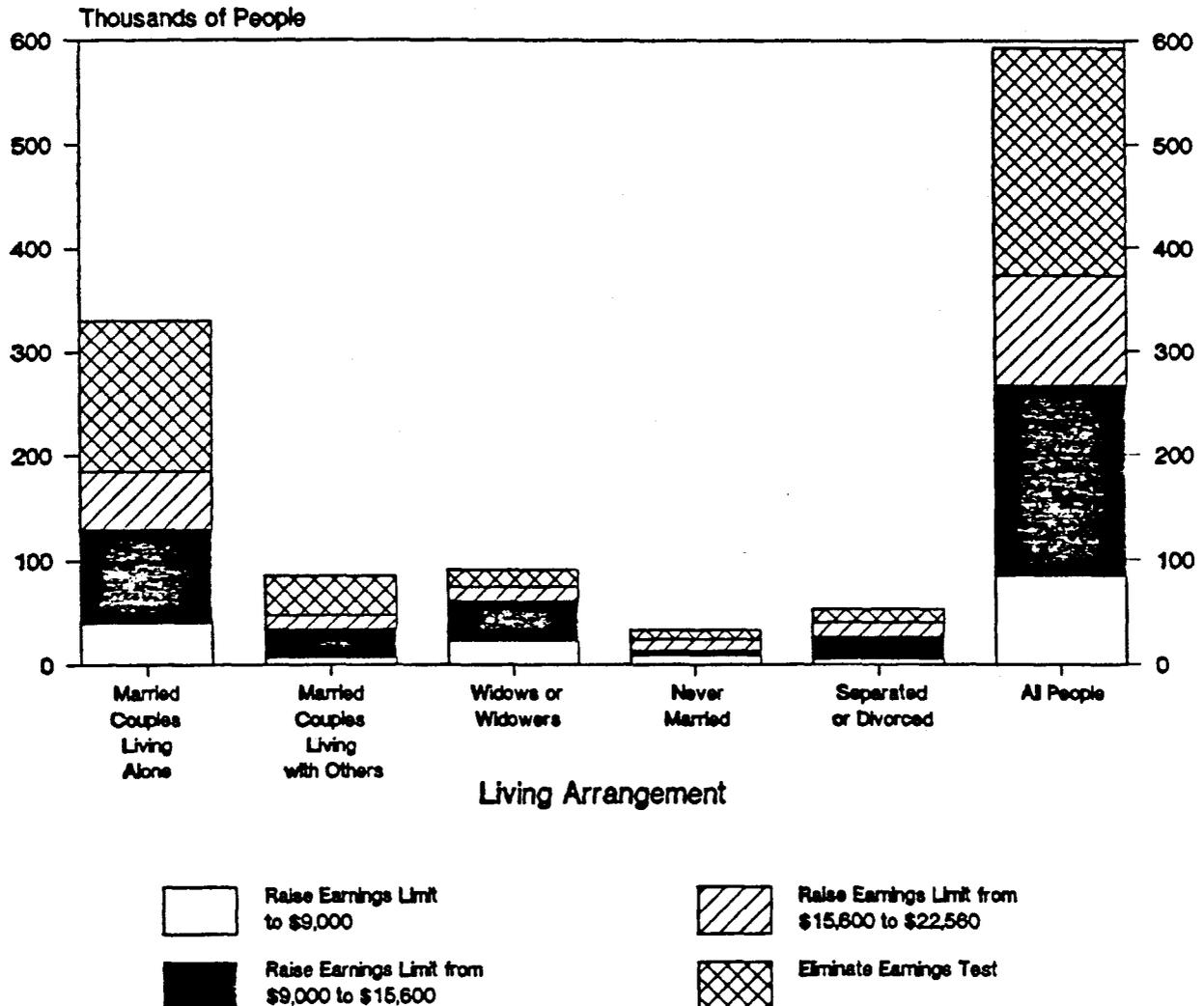
FIGURE 8. PEOPLE AGED 65-69 NO LONGER AFFECTED BY THE EARNINGS TEST IN 1986 AS A RESULT OF SELECTED CHANGES, BY FAMILY INCOME RELATIVE TO POVERTY THRESHOLDS



SOURCE: Congressional Budget Office tabulations of data from the March 1987 Current Population Survey.

NOTE: The effects of changing the earnings test shown in the figure are cumulative. For example, the number of people made exempt by doubling the earnings limit equals the number exempted by raising the limit to \$9,000--the unshaded box--plus the incremental group exempted when the limit is further raised to \$15,600--the black box.

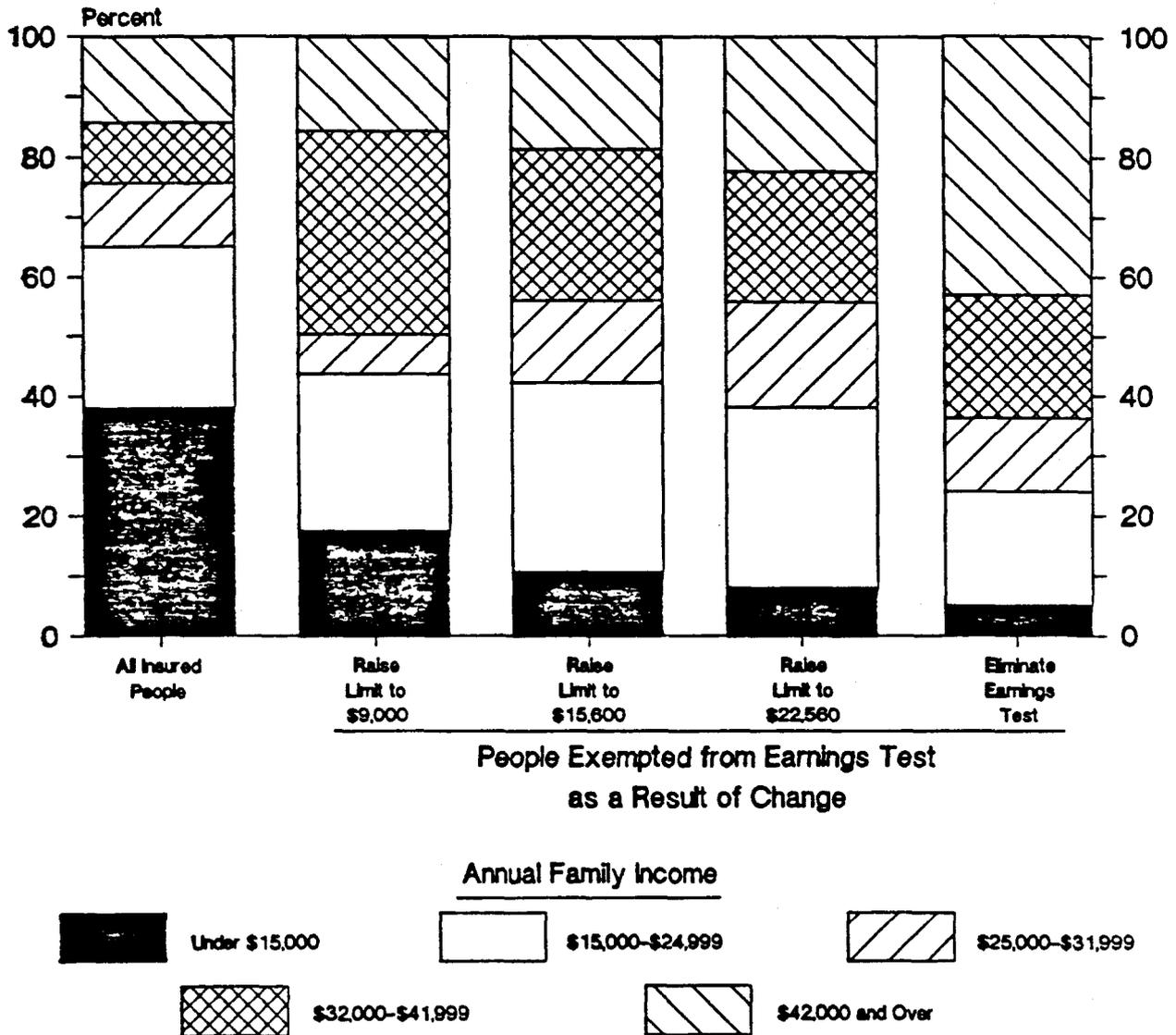
FIGURE 9. PEOPLE AGED 65-69 NO LONGER AFFECTED BY THE EARNINGS TEST IN 1986 AS A RESULT OF SELECTED CHANGES, BY LIVING ARRANGEMENT



SOURCE: Congressional Budget Office tabulations of data from the March 1987 Current Population Survey.

NOTE: The effects of changing the earnings test shown in the figure are cumulative. For example, the number of people made exempt by doubling the earnings limit equals the number exempted by raising the limit to \$9,000--the unshaded box--plus the incremental group exempted when the limit is further raised to \$15,600--the black box.

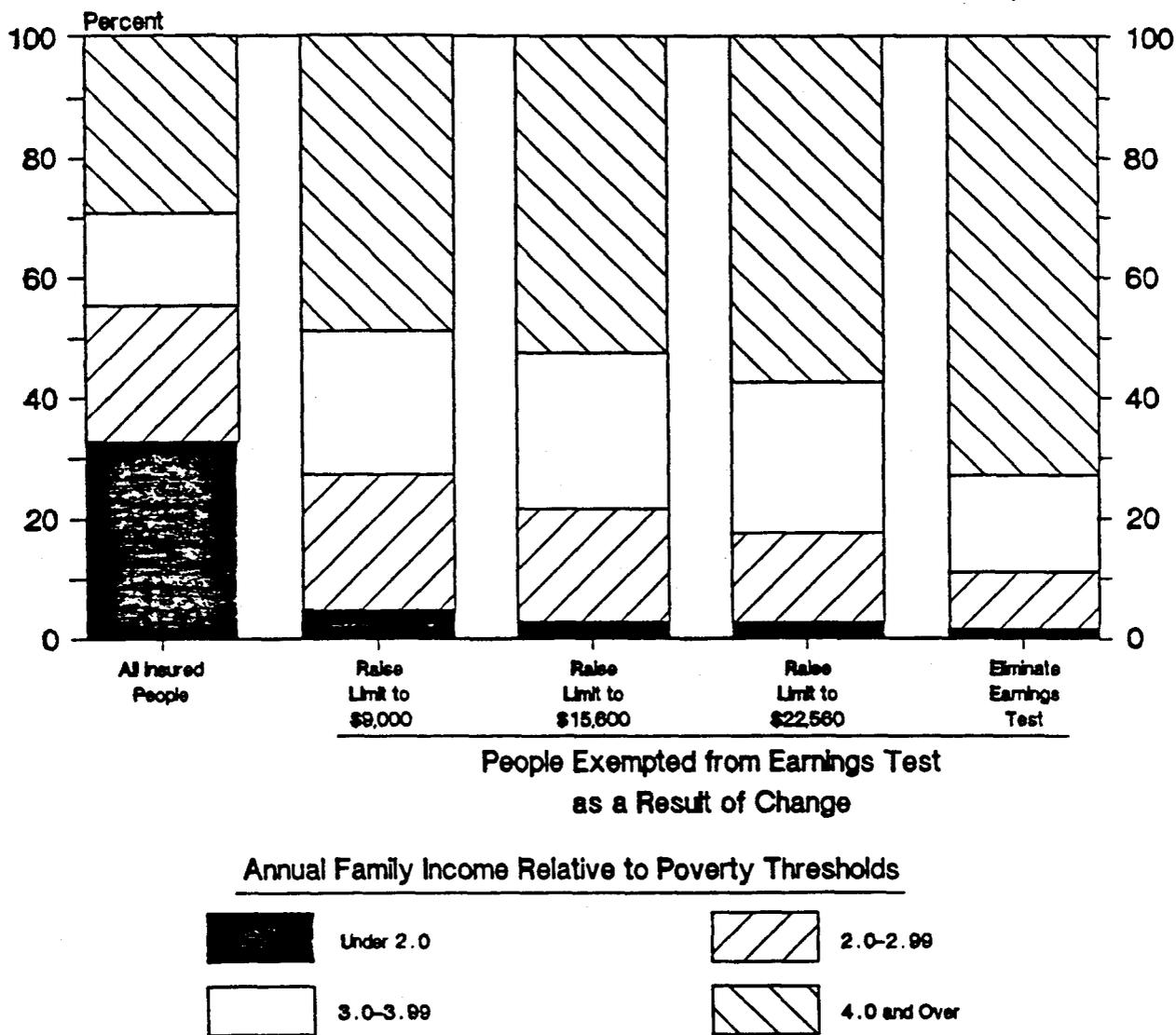
FIGURE 10. DISTRIBUTION IN 1986 OF PEOPLE AGED 65-69 NO LONGER AFFECTED BY THE EARNINGS TEST AS A RESULT OF SELECTED CHANGES, BY FAMILY INCOME



SOURCE: Congressional Budget Office tabulations of data from the March 1987 Current Population Survey.

NOTE: The distribution of people no longer affected if the earnings test was eliminated is the same as the distribution of all people affected by the earnings test.

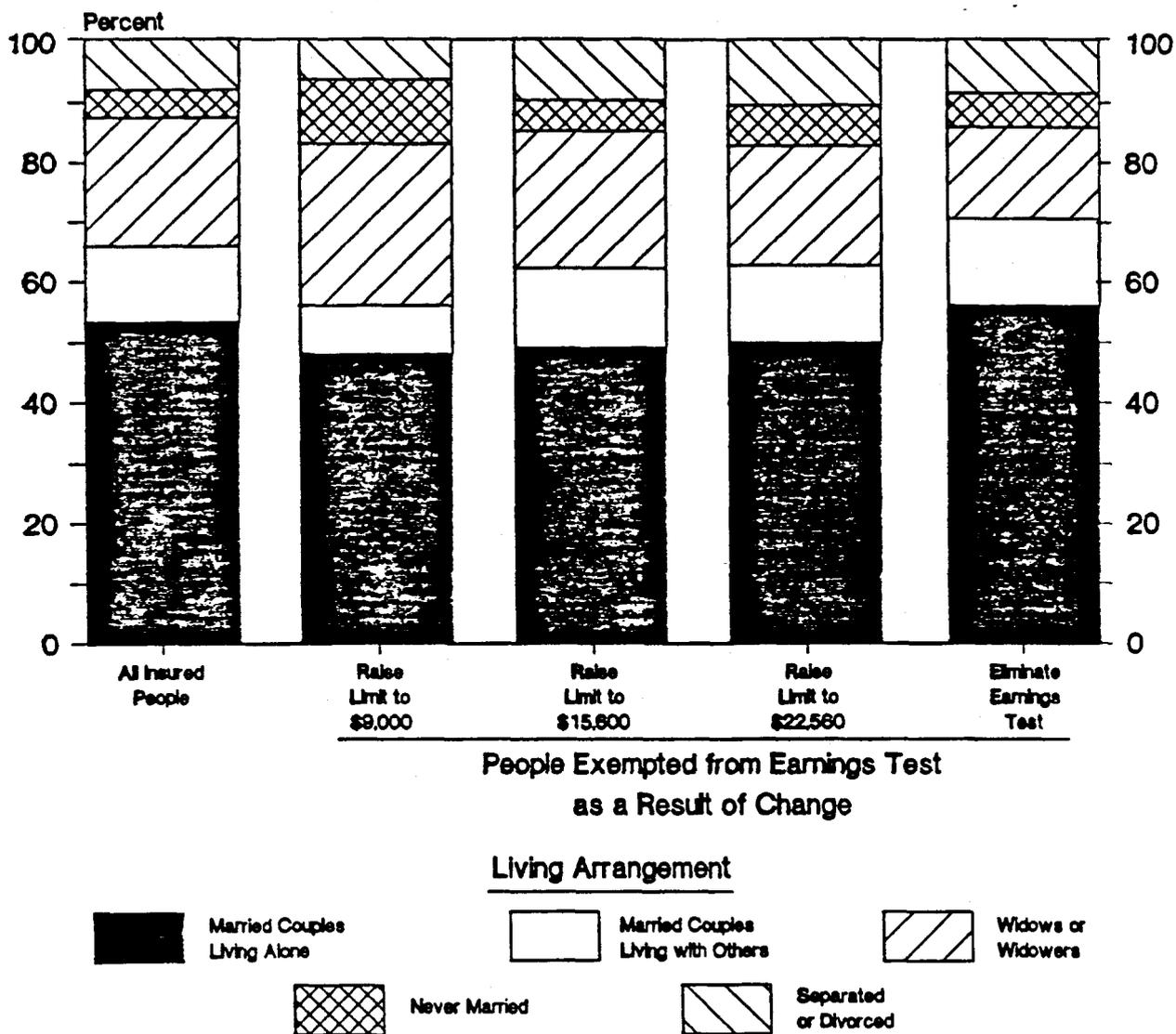
FIGURE 11. DISTRIBUTION IN 1986 OF PEOPLE AGED 65-69 NO LONGER AFFECTED BY THE EARNINGS TEST AS A RESULT OF SELECTED CHANGES, BY FAMILY INCOME RELATIVE TO POVERTY THRESHOLDS



SOURCE: Congressional Budget Office tabulations of data from the March 1987 Current Population Survey.

NOTE: The distribution of people no longer affected if the earnings test was eliminated is the same as the distribution of all people affected by the earnings test.

FIGURE 12. DISTRIBUTION IN 1986 OF PEOPLE AGED 65-69 NO LONGER AFFECTED BY THE EARNINGS TEST AS A RESULT OF SELECTED CHANGES, BY LIVING ARRANGEMENT



SOURCE: Congressional Budget Office tabulations of data from the March 1987 Current Population Survey.

NOTE: The distribution of people no longer affected if the earnings test was eliminated is the same as the distribution of all people affected by the earnings test.

combinations of sex, family income relative to poverty thresholds, and living arrangement--of the entire eligible population aged 65 through 69, as well as the groups who would have been exempt from the earnings test in 1986 under each of the options for change. Relative to all insured people (see Table B-1), those who would be made exempt by any of the four changes are less likely to have incomes below twice the poverty threshold and more likely to have incomes above four times the poverty threshold, regardless of living arrangement.

At the same time, the smaller of the four changes would focus gains--in terms of the number of people exempted--on women, widows, and those with low incomes. Again, this finding results primarily from the distribution of earnings among groups: women, widows, and people in low-income families are more likely to have low earnings. For example, about 11 percent of people exempted by the smallest change--from \$7,800 to \$9,000--in the earnings limit in 1986 would have been widows with family incomes below three times the poverty threshold, even though they made up just 3.5 percent of the affected group. Conversely, about 17 percent of people exempted by the smallest change would have been married couples living alone with incomes above four times the poverty threshold, a group that made up roughly 34 percent of all affected people in the 65-69 age group.

These findings can only describe people who would no longer have any benefit reductions because of the earnings test. The amounts by which individual benefits would rise cannot be established. Moreover, it is clear that significant gains would also accrue to people whose benefits would still be partially reduced. Finally, this part of the analysis omits any behavioral responses of people who might choose to work more or to begin receiving benefits earlier if the earnings test limit were raised.

EFFECTS ON FEDERAL OUTLAYS

Each of the options for relaxing or eliminating the earnings test would result in higher Social Security expenditures over the projection period. Unlike the analysis provided elsewhere in this paper, these estimates incorporate certain behavioral responses to changes in the earnings test. The response most important for the budget estimates provided here is the effect these changes may have on applications for cash benefits by those who currently delay applying for benefits because of the earnings test.

Table 2 displays the effects on federal outlays of the four options discussed in this paper for altering or eliminating the earnings test for those aged 65 through 69. Raising the earnings limit to \$10,000 in 1989 would increase outlays by about \$1.3 billion during the 1989-1993 period, while doubling it--to \$17,280 in 1989--would cost more than \$8 billion over the same five-year period, about six times as much. If the 1989 earnings limit were raised to \$25,000, outlays would increase by about \$11 billion for

TABLE 2. EFFECTS ON OUTLAYS OF OPTIONS FOR CHANGING THE SOCIAL SECURITY EARNINGS TEST, 1989-1993 (By fiscal year, in billions of dollars)

Option	1989	1990	1991	1992	1993	Total, 1989-1993
Raise 1989 earnings limit to \$10,000 for people aged 65 through 69	0.2	0.3	0.3	0.3	0.3	1.3
Double 1989 earnings limit to \$17,280 for people aged 65 through 69	1.2	1.7	1.7	1.7	1.8	8.2
Increase 1989 earnings limit to \$25,000 for people aged 65 through 69	1.7	2.4	2.3	2.3	2.3	11.0
Eliminate earnings test for people aged 65 through 69	3.7	5.1	5.0	5.0	5.1	23.9

SOURCE: Congressional Budget Office estimates.

NOTE: Estimates assume implementation of each option on January 1, 1989, and incorporate the effects of additional applications for Social Security benefits.

Details may not add to totals because of rounding.

the 1989-1993 period. Eliminating the earnings test entirely would be by far the most expensive option, costing nearly \$24 billion between 1989 and 1993.

Information from the Social Security Administration's (SSA) Office of the Actuary indicates that between 600,000 and 700,000 retired workers aged 65 through 69 have filed for benefits and have some or all of their benefits withheld under the earnings test. In addition, the SSA estimates that 120,000 workers in this age range who have earnings in excess of the exempt amount have not filed for benefits for which they would be eligible if there were no earnings test. The elimination of the earnings test is assumed to induce 90 percent of these workers to file applications for cash benefits. In addition to the retired worker beneficiaries, the SSA estimates that about 150,000 to 200,000 survivors, spouses, and children would receive extra benefits. In total, 900,000 to 1,000,000 persons would be expected to receive additional benefits under a proposal to eliminate the earnings test for the 65-69 age group.

Estimates of outlays resulting from the increases in the exempt amounts are derived from the outlay estimates for the elimination of the test and from the expected changes in who would receive benefits described above. Analysis by the SSA's Office of the Actuary indicates that a tripling of the exempt earnings level would cost slightly less than one-half as much as eliminating the earnings test, while doubling the threshold would generate about one-third of the costs.

Many proponents of relaxing or eliminating the earnings test view these proposals as a mechanism that would encourage the elderly to work more. While the potential effects of the proposed changes could theoretically cause the work of older beneficiaries to increase, decrease, or remain about the same, changes in the labor supply would have a negligible effect on federal outlays, but could raise federal income and payroll tax revenues slightly. For example, the SSA's estimates for eliminating the earnings test assume that new revenues would offset 10 percent to 15 percent of the additional outlays. While most of the increased revenue would come from the income taxes paid on the additional benefit payments, a portion would be the higher payroll and income taxes resulting from increased work by beneficiaries. Under estimating practices used by the Congressional Budget Office, however, the budgetary effects of legislative proposals rely on a baseline macroeconomic forecast, which incorporates projections of aggregate wages and employment. Because this baseline forecast does not allow for employment changes resulting from legislative options, no revenue effects are estimated for the proposed changes in the earnings test.

