

Old-Age and Survivors Insurance: Retirement Test Experience

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THE old-age and survivors insurance program combines three types of protection for workers and their families—retirement protection for those between the ages of 65 and 75, annuities for those aged 75 or over, and survivor insurance, payable on the death of an insured worker at any age. The retirement test (or work clause) is applicable when the beneficiary is under age 75, both for retirement benefits and for survivor benefits. The test is that provision of the Social Security Act under which old-age and survivors insurance benefits are withheld from an otherwise eligible beneficiary if he (or the individual upon whose earnings benefits are based) performs substantial work in covered employment. This article considers the actual operating experience under the retirement test and gives a brief outline of its history.

History

Under the original Social Security Act, monthly old-age benefits were not to be paid for any month in which the individual received covered wages from "regular employment." The latter term was never specifically defined in the law or in congressional reports or debates; nor was it defined by regulation because, before 1942—when monthly benefits were first scheduled to be payable—the 1939 amendments had introduced specific provisions as to the retirement test.

Under the 1939 act, a specific and objective test or definition of retirement was written into the statute. Earnings of \$14.99 a month or less were, in effect, treated as casual earnings that did not alter an individual's retirement status, while earnings of more than this amount meant that he was no longer retired. For administrative reasons, the test applied only to

earnings in covered employment and was on an "all-or-none" basis.

If earnings were even slightly more than \$14.99, the entire benefit for the month was lost. This loss occurred even though the benefit was greatly in excess of the amount by which earnings exceeded \$14.99 or, for that matter, even though it was more than the full amount earned.

In the 1950 amendments the amount of employee wages permitted under the retirement test was raised from \$14.99 to \$50.00 a month, in part to recognize the rise in wage levels and in part to permit benefit payment in more instances where part-time employment was present. As before, the test was on an all-or-none basis. For the self-employed, who had just been brought into coverage and for whom there is annual reporting of earnings, a "unit-reduction" procedure was adopted. Under this law, for an individual eligible for benefits for all months of a year (special consistent rules are applicable if the period of eligibility is less), benefits are not withheld if his covered self-employment income reported for the year is \$600 or less. If such income is more than \$600, however, 1 month's benefit is withheld for each \$50 (or remaining fraction thereof) of the amount above \$600.

The 1950 act provided that in no case can benefits be withheld for more months than the individual actually engages in covered self-employment by rendering substantial services.¹ In other words, if a large amount is earned, but the earnings are concen-

trated in only 1 month, then only 1 month's benefit is withheld. For persons having both wages and self-employment income, the retirement test is applied independently. For example, a person with self-employment income of \$600 and wages of exactly \$50 each month can nonetheless receive benefits for all 12 months of the year.

The 1950 act also provided that the retirement test is not applicable to persons aged 75 or over. In other words, such individuals can have any amount of covered self-employment income or wages and still receive full benefits every month. Assuming that relatively few persons will be in employment at such ages, it is estimated that this provision has relatively little effect on costs.

The 1951 amendments to the Railroad Retirement Act, in establishing a certain degree of coordination between the two systems, provided that, for purposes of the old-age and survivors insurance retirement test, railroad wages should be considered as covered earnings.

The 1952 amendments further increased the amount of covered earnings permitted under the retirement test, partly to reflect the rise in the earnings level since the outbreak of hostilities in Korea. The general basis is exactly the same as in the 1950 act. For wages, the maximum earnings permitted are \$75 a month. No benefits are withheld for the first \$900 of self-employment income; for each additional \$75 of earnings (or fraction thereof), 1 month's benefits are withheld.

The operation of the retirement test is based on the amount of wages for services rendered in a month and not, as for the reporting of wages for tax and wage-credit purposes, on the wages paid in the month (or quarter). Under present law, after \$3,600 in wages has been received from a particular employer in a given year, sub-

¹ According to the law, the Secretary of Health, Education, and Welfare "shall by regulations prescribe the methods and criteria for determining whether or not an individual has rendered substantial services." The report of the congressional committees who considered this legislation gave certain examples indicating the general nature of this concept.

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Table 1.—Average initial retirement ages¹ of old-age beneficiaries, by sex and marital status

Year of award	Average retirement age				
	Men				Women
	Total	Married		Non-married	
		Wife receiving benefits ²	Wife not receiving benefits ³		
1940....	68.2	69.9	67.1	68.6	67.6
1941....	69.2	70.8	67.1	69.8	68.3
1942....	69.0	70.6	67.6	69.7	68.2
1943....	69.2	70.8	67.7	69.9	68.1
1944....	69.5	71.0	67.9	70.2	68.2
1945....	69.5	70.9	68.1	70.2	68.6
1946....	69.6	71.0	68.2	70.2	68.7
1947....	69.2	70.7	68.0	69.9	68.6
1948....	68.7	70.5	67.8	69.6	68.5
1949....	68.5	70.3	67.6	69.2	68.3
1950....	68.7	70.6	67.7	69.2	68.0
1951....	69.3	71.4	67.9	69.9	68.3
1952....	68.6	(4)	(4)	(4)	68.2

¹ Age in year of award.

² Includes only cases where wife is aged 65 or over.

³ Includes a relatively small number of cases for 1950 and 1951 where wife is in receipt of benefits but is under age 65.

⁴ Not available.

sequent wages in that year are not counted for tax and wage-credit purposes, but such wages are considered in the retirement test.

Average Ages of Retired Workers

Table 1 shows the average initial retirement ages, as represented by age at time of award, for insured workers awarded old-age benefits during the period 1940-52. The retired men are considered in three categories—married men where the wife is aged 65 or over and in receipt of wife's benefits; married men where the wife is under age 65² or, in relatively few instances, is aged 65 or over and is not receiving benefits; and non-married men.

For men, the average age at award was about 69 in the two prewar years, 1940 and 1941. During World War II there was a slight rise to about age 69½ as employment opportunities, combined with patriotism, kept many older persons at work. After the war the average age at award for men decreased to about 68½. As a result of the liberalized conditions in the 1950 amendments, a large number of per-

² Includes a relatively small number in receipt of wife's benefits because they have in their care a child eligible for child's benefits.

sons well beyond age 65, who had already ceased working, became eligible for old-age benefits. The presence of this group was reflected to some extent in the 1950 awards and to a greater extent in the 1951 awards, for which the average age at award increased significantly. For the 1952 awards, however, the average age was again about 68½. For women, the same general trend prevailed, with a wartime peak of about age 68½ and a slight decline thereafter to the 1950-52 level of age 68¼.

The same general trend prevailed for each of the three categories of men during the period considered. The average age at award for men whose wife aged 65 or over was also immediately eligible for benefits was about 1½-2 years higher than the average for all men. This difference is to be expected, because of the normal differential between ages of husbands and wives; men just above age 65 have, in relatively few instances, wives aged 65 and over, and conversely, married men well beyond age 65 have greater likelihood of having a wife aged 65 and over. Accordingly, married men whose wives were not immediately eligible (or were not yet aged 65) have an average age at award about 1 year to 1½ years lower than that for all men combined. Finally, the average age at award for non-married men tended to be about 6 months to 1 year higher than that for all men.

Data on awards to women classified by marital status were first available for 1951. The average age at award for married women was 67.4; for non-married women, it was 68.7.

The preceding discussion has been based on the ages of the beneficiaries at time of award because, in general, the data are available only on this basis. A more significant analysis of average initial retirement ages would be based on age in the year of initial entitlement; two factors—the lag in filing a claim³ and the time necessary for administrative action in making the award—would thus be taken into

³ Before the 1946 amendments, benefits were not payable for any month prior to the month of filing. The 1946 legislation permitted retroactive payments for 3 months before the month of filing. The 1950 amendments extended this period to 6 months.

account. A truly valid determination of the average retirement age would be based on this average initial retirement age, adjusted upward to allow for continuance at work or return to work of individuals who had been awarded benefits.

Consider the case of A. He was born in June 1885, and filed claim in December 1950, 6 months after attaining age 65. As a result of the necessary administrative time for adjudicating the claim, the award was made in February 1951 but with benefits payable retroactively through the earliest possible month of eligibility (June 1950). A would appear in the 1951 awards as being age 66, since that is the age he attained in that year. Thus, in determining average age at time of award, A would not be distinguishable from a similar person, B, who had continued working for a year or so beyond age 65 and whose claim was filed and awarded before the end of 1951. On the basis of age at initial entitlement—or in other words, age at initial retirement—A's age would be given as 65 and B's as 66. If A later returned to work for 2 years, his true effective retirement age would be 67.

Data based on year of entitlement are available for awards through 1951 but are not classified according to the individual's marital status. The average retirement ages determined on this basis are shown in table 2 and compared with the averages based on

Table 2.—Average initial retirement ages of old-age beneficiaries, by year of award and year of entitlement and by sex

Year	Average retirement age			
	Men		Women	
	Year of award ¹	Year of entitlement ²	Year of award ¹	Year of entitlement ²
1940....	68.2	68.2	67.6	67.6
1941....	69.2	69.2	68.3	68.2
1942....	69.0	69.1	68.2	68.2
1943....	69.2	69.2	68.1	68.1
1944....	69.5	69.4	68.2	68.2
1945....	69.5	69.4	68.5	68.5
1946....	69.6	69.0	68.7	68.7
1947....	69.2	68.9	68.6	68.4
1948....	68.7	68.7	68.5	68.3
1949....	68.5	68.5	68.0	68.1
1950....	68.7	68.1	68.0	68.1
1951....	69.3	68.0	68.3	67.2
1952....	68.6	-----	68.2	-----

¹ Average for awards of given year.

² Average for entitlements of given year, represented in all awards before 1952.

Table 3.—Percent of retired workers under old-age and survivors insurance who retired at age 65,¹ by year of entitlement² and by sex

Year of entitlement	Men	Women
1940	17.9	21.9
1941	23.7	30.2
1942	24.1	31.1
1943	22.2	30.3
1944	18.5	27.9
1945	17.0	25.4
1946	17.3	23.1
1947	25.4	27.6
1948	28.9	30.6
1949	30.4	32.3
1950	22.8	23.9
1951	41.9	51.5

¹ Individuals who retired in the calendar year in which they attained age 65.

² Includes only data for entitlements represented in awards before 1952.

year of award. Through 1949, the more significant figures based on year of entitlement differ little from those based on year of award and are, as would be anticipated, slightly lower. For 1950, however, the averages based on year of entitlement are significantly higher, and for 1951 they are lower, than those based on year of award. The reason is that, under the 1950 amendments, many relatively older persons became newly eligible in September 1950, but the awards were, in many instances, made in 1951. An analysis of these data suggests that the true experience for 1951, and for 1952 as well, will show somewhat lower average retirement ages than any of the previous years.

A further indication of the effect on the computed average initial retirement age of using age at entitlement instead of age in year of award is obtained when the 1951 data are considered in more detail. Of the 1951 awards to men, 47 percent were made to individuals entitled in 1950 or earlier.⁴ Accordingly, for this group the average initial retirement age based on age in year of award was overstated by 1 year so that the overstatement for all the 1951 awards combined was about 6 months. (Actually the average age at time of award was 69.26, while the average age at entitlement was 68.84.) A somewhat similar situation occurred with respect to women in the 1951 awards; the average age at time of award was 68.27, while the true average initial

retirement age—that is, the age at time of entitlement—was 67.81.

Table 3, which shows for each of the years 1940–51 the proportion of the retirements that occurred among persons who attained age 65 in that year, gives some indication of the number of retirements at or before age 65. For purposes of accurate analysis, these figures are determined on the basis of year of entitlement rather than year of award. As indicated previously, use of the latter basis would yield significantly lower proportions.

For men, about 23 percent of the awards in 1941–43 were to those aged 65. This proportion decreased during World War II to a low of 17 percent but since then has risen, reaching 30 percent in 1949. The drop in 1950 is the result of the 1950 amendments, under which a relatively large number of persons beyond age 65 who had already retired but were not “insured” became insured and filed for benefits. In 1951 there was a sharp rise to 42 percent, though this figure may be reduced somewhat when the data on 1951 entitlements in 1952 awards are available. Preliminary data indicate that the proportion will be somewhat lower for 1952 entitlements, though it will remain well above the 1948–49 level.

For women, the proportion of retirants at age 65 has been somewhat higher, being about 30 percent in

1941–43, decreasing to a low of 23 percent in 1946, and rising to 32 percent in 1949. In 1950 and later, the same general trends were shown for women as for men. The 1951 figure was in excess of 50 percent, although it is likely that it will be reduced when all the data are available. The 1952 proportion will probably be somewhat lower but still well above that of any of the earlier years.

Retirants' Return to Work

Many individuals awarded benefits subsequently return to covered employment, and their benefits are then suspended. Accordingly, the data in the preceding analysis on average retirement ages underestimate the true effective average retirement age.

Table 4 shows, as a percent of all old-age beneficiaries, those who have filed a claim but whose benefits are suspended because of covered employment. The figures for those with suspended benefits are affected not only by changes in employment conditions but also by changes in administrative procedures and policies. Thus, during some periods, eligible individuals were encouraged to file even though still at work in order to “freeze” their benefit rights, since subsequent employment, if at a lower wage rate, might decrease the benefit eventually available. Under the provisions of present law, this incentive no longer exists to such an ex-

Table 4.—Old-age beneficiaries¹ with benefits in current-payment status and in suspension because of employment, and fully insured individuals aged 65 and over

End of year	Fully insured individuals aged 65 and over ² (in thousands)	Old-age beneficiaries with—			
		Benefits in current-payment status		Benefits suspended because of employment	
		Number (in thousands)	Percent of fully insured	Number (in thousands)	Percent of all ³ old-age beneficiaries
1940	548	112	20.4	15	11.8
1941	680	200	29.4	30	13.0
1942	831	280	31.3	52	12.0
1943	1,016	306	30.1	72	19.0
1944	1,244	378	30.4	80	17.5
1945	1,469	518	35.3	91	17.6
1946	1,637	702	42.9	118	14.4
1947	1,813	875	48.3	156	15.1
1948	1,990	1,048	52.7	182	14.8
1949	2,164	1,286	59.4	194	13.1
1950	3,025	1,771	58.5	176	9.0
1951	3,439	2,278	66.3	227	9.1
1952	4,075	2,644	64.9	230	8.0

¹ Fully insured individuals aged 65 and over who have filed a claim and been awarded benefits.

² Number fully insured on Jan. 1 of following year.

³ Excludes relatively small number (about 10,000

in 1952) with benefits suspended for reasons other than employment (payee not determined, etc.).

⁴ Estimated.

⁴ Only $\frac{1}{4}$ of 1 percent were entitled earlier than 1950.

tent because the benefit is computed both as of the time the beneficiary files claim and as of his attainment of age 65 (or if not then fully insured, at the first subsequent date when fully insured).

In the first few years of operation, benefits suspended because of employment represented about 12 percent of the total. They represented almost 20 percent during World War II; the proportion subsequently decreased and during the last 3 years has been approximately 9 percent of the total.

Currently the average age at time of initial entitlement is estimated to be about 68. What would be the effect and significance of the fact that about 9 percent of the benefits are suspended because of employment? For a stationary life-table population for a group aged 68 and over, if 91 percent were receiving benefits, the result is the same as though only all those aged 69 and over were receiving benefits. In other words, it may be said that if 9 percent of the claimants have returned to work, and if the average age at time of entitlement is 68, then the true effective retirement age is roughly 69.

Eligibles Remaining at Work

Still another way of considering the effect of the retirement test is to study the proportion of workers fully insured and aged 65 or over who remain in covered employment and thus do not draw benefits. The same result can be achieved by considering the complementary figure—those with benefits in current-payment status as a proportion of all those aged 65 or over and fully insured.⁵

As indicated in table 4, at the end of 1940 only 20 percent of those eligible were actually drawing benefits. This proportion rose to about 30 percent at the end of 1941 and remained at this level during the war years. Thereafter, it rose steadily and was nearly 60 percent in 1949 and 1950, with a further rise to about 65 percent in 1951 and 1952. The increase in

⁵ The relatively few individuals who, though not disqualified by reason of the retirement test, are not drawing benefits through failure to file claim can be ignored for purposes of this analysis.

Table 5.—Old-age beneficiaries¹ in current-payment status as percent of fully insured individuals, by age group and sex

End of year	Age of men				Age of women			
	Total	65-69	70-74	75 and over	Total	65-69	70-74	75 and over
1940.....	20	22	15	19	26	26	20	50
1941.....	28	29	25	36	38	37	33	67
1942.....	30	28	30	45	41	40	36	75
1943.....	29	24	32	47	40	36	45	67
1944.....	29	22	35	49	40	33	48	60
1945.....	34	25	42	52	42	32	54	64
1946.....	42	31	53	60	46	34	61	68
1947.....	45	34	59	67	51	38	66	70
1948.....	52	37	63	73	55	41	67	82
1949.....	59	44	69	81	61	46	72	91
1950.....	59	43	69	(?)	57	44	70	(?)
1951.....	65	49	74	(?)	71	61	83	(?)

¹ Fully insured individuals aged 65 and over who have filed a claim and been awarded benefits.

² Beginning September 1950, all insured individuals aged 75 and over may receive benefits on filing claim, regardless of the retirement test.

the two most recent years was largely due to the effect of the 1950 amendments, which liberalized the retirement-test provisions and tended to mature the system more rapidly by granting fully insured status to many individuals who had previously retired but were not fully insured under the earlier provisions because they had not had sufficient employment.

The proportion of those eligible who are actually drawing benefits varies considerably by age and sex (table 5). The proportion is naturally lower for those aged 65-69 because of their greater employment opportunities than for those aged 70-74.⁶ Beyond age 75, the retirement test currently does not apply so that, if all eligibles filed claims, the proportion would be 100 percent, regardless of employment. Similarly, the proportions tend to be somewhat higher for women than for men because of differences in employment opportunities and because many of the women are widows or wives who have been out of the labor market for a number of years before attaining age 65.

Over the years, the proportions drawing benefits for each age-sex group have risen in the same manner

⁶ In 1940 the reverse was true. Those then working beyond age 70 must have been in steady employment in 1939-40 in order to be insured, since employment after age 65 was not covered in 1937-38. Accordingly, a high proportion of this group continued in employment at the end of 1940. On the other hand, most of those aged 65-69 needed only 1½ years of covered employment in the 4 years 1937-40 and accordingly could have retired well before the end of 1940.

as has the proportion for all persons combined. For any particular group this is the result, at least in part, of the increasing proportion who retired from covered employment some years before they reached age 65 but had obtained sufficient wage credits to be fully and permanently insured. For the entire group there is still another factor—the changing (and maturing) age distribution. If, for each age-sex group, the proportion retired had remained constant over the years at, say, the 1951 figures, and these figures were applied to the distribution as it was at the end of 1940, the resulting aggregate proportion drawing benefits would have been 59.7 percent. The actual 1951 proportion of 66.3 percent thus represents a relative increase of 11 percent—the result solely of the older age distribution.

In the future it is likely that the proportion of those eligible who will actually be receiving benefits will rise from the current level of about 65 percent. Five years from now, it is estimated that it will reach about 70-80 percent.⁷ In the long-range future, the proportion will rise even higher as the system matures, for the same general reasons that it has risen in the past. For one thing, many fully insured individuals reaching age 65 will have been out of the labor market for some time and accordingly will immediately begin drawing benefits. Such individuals reaching age 65 currently are gen-

⁷ Thirteenth Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund (S. Doc. No. 48, 83d Cong., 1st sess.), table 8.

erally not insured. Specifically, this is the case for a large proportion of women who may have employment in their youth but subsequently withdraw completely from the labor market to take up household duties. Still another important factor is the gradual aging of the beneficiary population so that a greater proportion are in the age group 70 and over, where the proportion actually receiving benefits is higher than for those aged 65-69. Accordingly, the ultimate proportion drawing benefits of those eligible may well be between 80 percent and 85 percent.

Cost Aspects

As indicated by table 4, at the end of 1952 there were 4.08 million individuals aged 65 or over eligible for old-age benefits, but only 2.64 million with benefits in current-payment status. Accordingly, 1.44 million persons were still at work in covered employment and, but for the retirement test, would have been drawing benefits. To put it another way, if all persons in

covered employment retired at age 65, there would be an additional 1.44 million individuals receiving old-age benefits. These individuals have about 400,000 dependents (principally wives aged 65 and over) who would also receive benefits currently if the retirement test were eliminated. In addition, if there were no such provision affecting survivor beneficiaries, a further and substantial number of persons would be currently receiving benefits—primarily young widowed mothers who are employed. (Under present law their children nonetheless receive monthly benefit payments.)

If all insured individuals retired at age 65 and if younger survivor beneficiaries did not engage in covered employment (or if there were no retirement test), the total number of beneficiaries currently on the roll would increase by more than 2 million and the total annual benefit disbursements by \$1.4-1.5 billion. This increase represents a relative rise in current cost of almost 50 percent; in relation to taxable payroll the in-

crease is somewhat more than 1 percent of such payroll.

General Conclusions

The average retirement age of insured workers (adjusted for post-retirement returns to employment and for payment of benefits before the date of award) is currently about 69 for men and somewhat over 68 for women. Before 1951 these averages were about 1 year higher. There is clear evidence that individuals generally neither are forced to nor desire to retire at age 65 but rather continue, to a considerable extent, in employment beyond age 65. This is a desirable situation from a gerontological viewpoint as well as from the national economic standpoint of achieving and maintaining the highest possible level of production.

Further, it is evident that if the average retirement age decreases toward the minimum of 65, or if there were no retirement test, materially increased old-age and survivor insurance benefit costs would be involved.