





CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

Robert D. Reischauer
Director

MEMORANDUM

May 23, 1989

TO: Sandy Wise

FROM: Ralph Smith 
Bob Williams 

SUBJECT: **The Incomes of Workers Affected by the Earnings Test
Compared with the Incomes of Other Elderly Groups**

The table attached to this memorandum uses data from the most recent Current Population Survey to compare the 1987 incomes of workers ages 65 to 69 who are affected by the Social Security earnings test with those of other elderly groups. The results for workers ages 65-69 are similar to those reported for 1986 in "The Social Security Earnings Test and Options for Change," a Congressional Budget Office staff working paper prepared for your Subcommittee in September 1988. Our findings are also subject to the same limitations detailed in that paper. As you requested, the current analysis goes beyond the earlier one by comparing the incomes of workers ages 65 to 69 with the incomes of people age 70 or older.

This memorandum does not address other issues relevant to the debate over proposals to relax or eliminate the Social Security earnings test. For example, we do not address issues concerning the marginal tax rate on earnings faced by some elderly people as a result of the earnings test, the effects of the test on the supply of labor, the administrative complexity of the test, or the budgetary effects of the proposals.

Methods, Data, and Limitations of the Analysis

This analysis is based on data from the March 1988 Current Population Survey (CPS), which contains information about the incomes received during calendar year 1987 for a nationally representative sample of the noninstitutionalized population.^{1/}

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1. The focus of this analysis is people, rather than family units. These findings, therefore, differ from those reported in Committee on Ways and Means, The Economic Status of the Elderly, WMCP: 101-7, 100:1 (May 23, 1989), prepared by the Congressional Budget Office at the request of the Subcommittee on Social Security. In that Committee Print, the units examined were the elderly who lived alone or only with their spouses. (Married couples were included if either spouse was at least age 65.) For this memorandum, all people age 65 or over, not living in institutions such as nursing homes, were included.

For this analysis, we disaggregated the elderly population by age, marital status, and, for the age 65-69 group, by their own earnings. (Earnings included wages, salaries, and self-employment income.) In 1987, the earnings limit for Social Security recipients ages 65-69 subject to the annual earnings test was \$8,160. We used this amount to categorize the workers in this age group.

Our measure of economic well-being is the total cash income of a person's family in 1987 expressed as a percentage of the poverty threshold applicable for that family. Poverty thresholds are designed to reflect the differential needs of families of various sizes, so expressing income relative to the appropriate poverty threshold may be a better measure of well-being than income alone. For example, for an elderly person living alone, family income was divided by \$5,447; for an elderly couple with no other family members living in the same household, the couple's income was divided by \$6,872; and for a three-person family, income was divided by \$9,056. (The corresponding poverty thresholds in 1989 are estimated to be about \$5,900, \$7,500, and \$9,900, respectively.)

Because of time and data limitations, the only variables used to depict whether individuals might have had their Social Security benefits reduced by the earnings test were their age and their annual earnings. We did not exclude the elderly who recently retired and therefore would have been subject to a monthly earnings test or those who were otherwise not eligible for Social Security benefits. Likewise, we did not estimate the amount by which their Social Security benefits were reduced or the extent to which the benefits of workers' dependents were affected. Another limitation of this analysis is that we did not take into account any behavioral responses that might have resulted from the operation of the earnings test.

Findings

Table 1 summarizes our results. The first column shows that 12.2 percent of the 28.5 million elderly were poor in 1987 -- that is, were in families in which the total cash income was less than the applicable poverty threshold, making the ratio less than 1.0. At the other extreme, almost 25 percent of all elderly were in families with incomes at least four times their poverty threshold (over \$21,788 for an elderly individual and \$27,488 for an elderly couple living alone in 1987).

The next four columns focus on the 9.8 million people ages 65 through 69. Three-quarters of this group (7.3 million people) did not work during 1987, and another 15 percent had earnings below \$8,160; just 11 percent had earnings high enough to be subject to the earnings test. Whether or not they were earners, the 65-69 age group was better off than the entire elderly population. Furthermore, within the group, those with earnings--and especially those with earnings over \$8,160--were the best off. For example, while 11 percent of people ages 65-69 with no earnings were poor in 1987, only 5 percent of those with earnings less than \$8,160, and virtually no one with earnings above the exempt amount, were in poverty.

The remainder of the table shows that family incomes of older cohorts tend to be lower than those of younger ones and that they are highest among married couples and lowest among unmarried women. For example, the poverty rate rises from 9.0 percent of the population ages 65-69 to 19.2 percent of the population age 85 and over. Likewise, the percentage with incomes at least four times the poverty threshold is lowest for the oldest group -- 15.8 percent -- compared with 29.8 percent for those ages 65 to 69. At each age, married couples have much higher incomes than single women. Moreover, in the upper age groups, single women account for a much larger share of the population -- 1.4 million single women age 85 or older compared with 530,000 married people living with their spouses and about 370,000 single men that old. Consequently, the low incomes of unmarried elderly women contribute to the substantial poverty of the oldest group.

TABLE 1. DISTRIBUTION IN 1987 OF PEOPLE AGES 65 AND OVER, BY MARITAL STATUS, FAMILY INCOME RELATIVE TO POVERTY THRESHOLD, AND EARNINGS (In percent)

Family Income Relative to Poverty Threshold	Total, Ages 65 and Over	Ages 65 through 69			Ages 70-74	Ages 75-79	Ages 80-84	Ages 85 and Over	
		Total	No Earnings	Earnings Up to \$8,160					Earnings Over \$8,160
All Elderly People									
Under 1.0	12.2	9.0	11.0	5.2	0.1	10.8	14.5	16.9	19.2
1.0-1.99	28.4	23.0	25.8	23.7	3.1	27.1	32.9	33.7	37.3
2.0-2.99	21.2	21.5	22.1	26.7	10.3	22.8	20.9	19.6	17.0
3.0-3.99	13.8	16.7	16.6	16.2	18.6	14.2	11.3	10.3	10.8
4.0 and Over	24.5	29.8	24.4	28.2	67.9	25.2	20.5	19.4	15.8
All	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number in Group (in thousands)	28,527	9,805	7,284	1,429	1,091	7,667	5,540	3,219	2,296
Elderly People Living With Their Spouses									
Under 1.0	5.9	4.7	5.8	2.7	0.1	5.2	7.2	11.0	8.8
1.0-1.99	23.0	18.7	21.7	17.3	2.8	22.1	28.9	30.7	38.2
2.0-2.99	23.8	22.0	23.3	25.8	9.4	25.1	25.1	24.6	27.1
3.0-3.99	16.8	19.2	19.8	17.8	17.0	17.8	13.3	11.0	9.3
4.0 and Over	30.5	35.4	29.4	36.3	70.7	29.8	25.6	22.8	16.6
All	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number in Group (in thousands)	15,573	6,634	4,883	949	802	4,543	2,724	1,143	530
Other Elderly Women									
Under 1.0	21.0	19.5	23.3	10.7	0.0	20.1	21.6	21.6	23.3
1.0-1.99	35.6	32.5	34.8	35.9	5.4	36.0	37.3	36.6	35.9
2.0-2.99	17.5	19.7	18.7	28.6	13.8	18.5	16.3	17.5	14.1
3.0-3.99	10.1	12.1	10.4	13.2	25.9	8.8	9.7	9.1	11.1
4.0 and Over	15.8	16.1	12.7	11.6	54.9	16.6	15.1	15.2	15.7
All	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number in Group (in thousands)	10,008	2,308	1,779	336	193	2,403	2,237	1,664	1,396

(continued)

TABLE 1. (Continued)

Family Income Relative to Poverty Threshold	Total, Ages 65 and Over	Ages 65 through 69				Ages 70-74	Ages 75-79	Ages 80-84	Ages 85 and Over
		Total	No Earnings	Earnings Up to \$8,160	Earnings Over \$8,160				
Other Elderly Men									
Under 1.0	16.1	13.9	17.2	8.8	0.0	14.7	21.1	14.6	18.2
1.0-1.99	32.2	30.0	32.7	37.4	0.9	28.7	35.1	30.6	41.5
2.0-2.99	19.6	22.3	22.8	27.9	10.6	22.6	18.8	14.6	13.9
3.0-3.99	10.2	10.4	8.7	12.9	17.5	9.6	8.1	13.0	11.6
4.0 and Over	21.9	23.5	18.6	13.0	71.0	24.5	16.9	27.2	14.9
All	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number in Group (in thousands)	2,946	863	623	144	96	722	579	412	371

SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey.

NOTES: Details may not add to totals because of rounding. In this table, the ages 65-69 group includes some people who were not subject to the annual earnings test because they retired during the year.