

Retired-Worker Beneficiaries Affected by the Annual Earnings Test in 1971

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Every year some older persons entitled to retired-worker benefits lose some or all of their benefits because of the annual earnings test. This article discusses those affected in 1971—who they were, how much they earned, how much they lost in monthly cash benefits, and the effect of family status on benefit amounts. In that year, among those aged 62-71, relatively fewer women than men lost benefits as a result of earnings from work because relatively fewer women worked and those who did had lower earnings.

RETIRED WORKERS UNDER AGE 72 who are entitled to monthly cash benefits under the social security program are affected by the earnings test provision of the law if they have income from employment or self-employment in excess of specific monthly and yearly exempt amounts. The effect of the earnings limitation in 1971 is studied here. In that year no benefits were withheld if annual earnings were \$1,680 or less, \$1 in benefits was withheld for every \$2 in earnings from \$1,681 to \$2,880, and \$1 in benefits was withheld for each \$1 in earnings above \$2,880. Benefits were payable, however, for any month in which the entitled individual earned \$140 or less or did not render substantial services in self-employment.¹

The 1.5 million retired-worker beneficiaries aged 62-71 who were affected by the earnings test in 1971 lost \$2.2 billion in benefits. Men outnumbered women, but they also had higher earnings than women. For some individuals, earnings were not optimal in relation to their monthly

benefit amount. The data (except for table 2) have been derived on a 100-percent basis from the Social Security Administration's master beneficiary record that contains detailed benefit data for all beneficiaries.²

In assessing the effect of the earnings test, it should be remembered that the number of beneficiaries actually receiving benefit payments would undoubtedly be larger if it were not for the limitation on earnings. Persons not claiming their benefits for this reason should be counted among those affected by the test. Most persons aged 65 or older do file for benefits. Some of them, however, file solely to become eligible for hospital benefits under Medicare and have their cash benefits postponed since they want to continue in their employment. Among those aged 62-64 who have not applied for reduced benefits are undoubtedly some who do not do so because they realize that the earnings test means limited earnings or loss of some or all of their benefits. They therefore decide to wait at least until they can file for full benefits.

This article focuses on the data for retired-worker beneficiaries on the rolls who lost some or all of their benefits because of earnings in 1971. The entitled spouses and/or children of retired-worker beneficiaries are also subject to the earnings test if they work, but the available earnings-test data for 1971 is limited to earnings of the retired worker.

EFFECTS OF EARNINGS TEST ON BENEFITS

The withholding provisions underlying the earnings test limit the monetary gain that retired-

² For a discussion of the effects of the annual earnings test in 1963, see Kenneth G. Sander, "The Retirement Test: Its Effect on Older Workers' Earnings," *Social Security Bulletin*, June 1968. For a history of the earnings test provisions and a discussion of possible changes and their potential effects, see U.S. Congress, Committee on Ways and Means, *The Retirement Test Under Social Security*, House Document No. 91-40, January 9, 1969.

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¹ The 1972 amendments to the Social Security Act modified the provision that required withholding of \$1 in benefits for each \$1 in earnings beyond \$2,880. Beginning with 1973, for each \$2 in earnings above the exempt amount only \$1 of benefits was to be withheld regardless of total earnings. Legislation enacted in 1972 and 1973 provides for automatic increases in the exempt amount to reflect increases in general earnings levels. For 1975 the exempt amounts were raised to \$210 per month and \$2,520 per year.

worker beneficiaries can receive from work. In 1971, from the point at which the earnings exceeded \$2,880 to the point at which they were high enough to offset the payment of all benefits, each \$1 in earnings offset \$1 in benefits and, therefore, there was no net gain. From that point on, however, each \$1 of earnings was an addition to the individual's income, since there were no more benefits to offset (table 1). Excess earnings of the retired-worker beneficiary are charged against the total family benefit payable on his earnings record. Thus, if a retired worker has an entitled spouse and/or children, their benefits are withheld along with those of the worker until all of the excess earnings are taken into account. In the following example the effects of the 1971 earnings test are shown for a retired-worker beneficiary with total family benefits of \$3,000 and varying earned income.

1. For earnings up to \$2,880, with taxes on earnings disregarded, the individual would have been ahead financially by working, by a maximum of \$2,280.

2. For earnings of \$2,881-5,280, the monetary advantage the retired-worker beneficiary could gain from employment would have remained at \$2,280 regardless of the amount earned, since each additional \$1 of earnings would have offset \$1 in benefits. In terms of actual income, he probably would have netted

far less than \$2,280 because of deductions for both income and social security taxes (Social security benefits are not subject to either tax.) Thus, the net income from gross earnings of \$5,280 would probably be less than the net income from gross earnings of \$2,880, since the tax-free benefits would be replaced dollar-for-dollar by taxable earnings and the taxes on earnings of \$5,280 would be considerably larger than the taxes on earnings of \$2,880. In addition, the worker probably would have incurred such work-related expenses as transportation, clothing, etc.

3. The retired-worker beneficiary would have been \$1 ahead for each \$1 earned beyond \$5,280, since all benefits would have been already offset. In order for his work to result in a net financial gain, however, he would have had to earn enough in excess of \$5,280 to compensate for all taxes and work-related expenses incurred.

Since no monetary advantage would be gained from earnings over \$2,880, unless they exceeded the point at which all of the benefits were offset, those with higher yearly benefit amounts would have to earn considerably more than those with lower yearly benefits to realize a financial advantage. Consequently, it would be to the advantage of many retired-worker beneficiaries to restrict their earnings to \$2,880 or less, unless the earnings were fairly large.

TABLE 1.—Examples of net receipts by retired-worker beneficiaries from benefits and earnings for specified annual benefit and earnings levels, 1971

Earnings in year	Amount of benefits		Amount received from—		Economic advantage of working (in dollars)
	Withheld	Payable	Earnings and benefits	Benefits	
Benefit amount (\$1,500 for year, \$125 monthly)					
\$1,680.....	0	\$1,500	\$3,180	\$1,500	\$1,680
2,281.....	\$300	1,200	3,481	1,500	1,981
2,881.....	600	900	3,781	1,500	2,281
3,481.....	1,200	300	3,781	1,500	2,281
4,081.....	1,500	0	4,081	1,500	2,581
4,681.....	1,500	0	4,681	1,500	3,181
5,281.....	1,500	0	5,281	1,500	3,781
5,881.....	1,500	0	5,881	1,500	4,381
6,481.....	1,500	0	6,481	1,500	4,981
7,081.....	1,500	0	7,081	1,500	5,581
Benefit amount (\$3,000 for year, \$250 monthly)					
\$1,680.....	0	\$3,000	\$4,680	\$3,000	\$1,680
2,281.....	\$300	2,700	4,981	3,000	1,981
2,881.....	600	2,400	5,281	3,000	2,281
3,481.....	1,200	1,800	5,281	3,000	2,281
4,081.....	1,800	1,200	5,281	3,000	2,281
4,681.....	2,400	600	5,281	3,000	2,281
5,281.....	3,000	0	5,281	3,000	2,281
5,881.....	3,000	0	5,881	3,000	2,881
6,481.....	3,000	0	6,481	3,000	3,481
7,081.....	3,000	0	7,081	3,000	4,081

AGE AND SEX

About 1.5 million retired-worker beneficiaries, roughly one-fifth of all retired workers aged 62-71, lost some or all of their 1971 benefits because they worked. About 70 percent of the group were men and 30 percent were women, compared with 58 percent and 42 percent, respectively, for the total retired-worker beneficiary population aged 62-71. Relatively fewer women lost benefits because relatively fewer women worked; moreover, relatively more of those who did work had earnings below the exempt amount. The smaller percentage of working women is in line with the generally lower labor-force participation rate of women—in 1971, 43 percent for all women and 9 percent for women aged 65 and over. The corresponding rates for men were 79 percent and 25 percent.³ The lower earnings level among women workers is corroborated by data from the Continuous Work History Sample of the Social Security Administration. Less than

³ Bureau of the Census, *Statistical Abstract of the United States: 1972* (93d edition), 1972, page 217.

TABLE 2—Workers with taxable earnings. Number and percentage distribution for all workers and for those aged 65 and over, by amount of earnings, 1971

Amount of earnings	Men		Women	
	Total	Aged 65 and over	Total	Aged 65 and over
Total number.....	57,200,000	2,440,000	35,700,000	1,280,000
Total percent.....	100	100	100	100
Less than \$1,800.....	20	45	38	58
1,800-2,999.....	8	11	13	12
3,000-4,199.....	7	7	13	7
4,200-5,399.....	7	6	12	5
5,400-6,599.....	8	6	9	5
6,600-7,799.....	8	4	6	4
7,800 or more.....	41	21	8	7

Source: Data from the Continuous Work History Sample for 1971. See the Technical Note for sampling variability calculations, p 31

\$1,800 in earnings were shown for about two-fifths of the women in covered employment in 1971, but only one-fifth of the men had earnings that low. Among workers aged 65 and over, 58 percent of the women but only 45 percent of the men had earnings below \$1,800 (table 2).

Among those aged 62-71, the proportion of persons aged 65-71 who were affected by the earnings test was somewhat higher than the proportion of persons aged 65-71 in the total retired-worker beneficiary population aged 62-71 (table 3). This higher proportion may reflect the large number of individuals mentioned earlier who came onto the social security rolls at age 65 to be eligible for Medicare, even though their earnings offset all benefits that would otherwise be payable to them. Employed persons aged 62-64 would have little incentive to file for benefits unless their earnings were low enough to permit pay-

TABLE 3—Number and percentage distribution of retired-worker beneficiaries on the rolls and of those affected by earnings test, by sex and age group, 1971

Sex and age	Retired-worker beneficiaries				Percent on rolls who are affected by earnings test
	On the rolls at end of year		Affected by earnings test		
	Number	Percentage distribution	Number	Percentage distribution	
Total	7,999,072	100 0	1,528,399	100 0	19 1
Men.....	4,622,723	57 8	1,067,949	69 9	23 1
Women.....	3,376,349	42 2	460,450	30 1	13 6
Men.....	4,622,723	100 0	1,067,949	100 0	23 1
62-64.....	659,903	14 3	109,238	10 2	16 6
65-71.....	3,962,820	85 7	958,711	89 2	24 2
Women.....	3,376,349	100 0	460,450	100 0	13 6
62-64.....	712,030	21 1	74,712	16 2	10 5
65-71.....	2,664,319	78 9	385,738	83 8	14 5

ment of some benefits or there were months in which they earned less than \$140 or did not render substantial services in self-employment.

Information about the amount of income from work in 1971 was available for most retired-worker beneficiaries either from their annual report of earnings or their earnings record. All retired workers who received some benefits in 1971 and who earned more than \$1,680 during the year were required to file an annual report of earnings indicating: (1) amount of earnings; (2) type of employment performed (wage and salary, self-employment, or a combination of the two); and (3) number of months in which they did not earn more than \$140 or render substantial services in self-employment.

For persons who were not required to file annual reports because their benefits for 1971 were completely offset, earnings information was obtained from reports by employers and the self-employed and entered in the individual's earnings record for about 90 percent of the cases. For the remainder, earnings information was not available either because the reporting by employers or the self-employed was too late to be included in the tabulations, the individuals worked in employment not covered by the social security program—those in the Federal civil service, for example—or because of errors in processing the data. Earnings information was not available for about 10 percent of the men and 8 percent of the women.

An analysis of earnings of retired-worker beneficiaries indicates that relatively more men (57 percent) than women (37 percent) had earnings of \$5,281 or more. On the other hand, relatively more women (40 percent) than men (24 percent) had earnings of \$1,681-4,080 (table 4). These differences in the earnings levels of working men and women beneficiaries reflect earnings differences between men and women in the general population. Among all workers with taxable earnings in 1971, 57 percent of the men but only 23 percent of the women had earnings of \$5,400 or more. For workers aged 65 or older, the corresponding proportions were 31 percent and 16 percent.

Relatively more men and women aged 65-71 had earnings in the higher ranges than men and women aged 62-64. Among those aged 65-71, for example, 60 percent of the men and 40 percent

TABLE 4—Number of retired-worker beneficiaries affected by earnings test in 1971, percentage distribution by amount of earnings, and average benefit amount withheld and before withholding, by sex, age, and primary insurance amount

Sex, age, and primary insurance amount	Retired-worker beneficiaries affected		Percentage distribution, by amount of earnings						Average benefit amount—		Ratio of benefits withheld to amount before withholding
	Number	Percent of total	Total	Earnings unknown	\$1,661-2,880	\$2,881-4,080	\$4,081-5,280	\$5,281 or more	Withheld	Before withholding	
<i>Men</i>											
Total.....	1,067,949	100 0	100 0	9 7	14 9	8 7	9 7	57 0	\$1,545	\$2,150	0 719
Under \$100 00.....	26,080	2 4	100 0	32 4	22 9	11 4	7 6	25 7	541	791	.684
100 00-209 90.....	295,759	27 7	100 0	16 7	28 1	15 7	15 6	23 9	984	1,616	.609
210 00 or more.....	746,110	69 9	100 0	6 2	9 4	6 8	7 4	71 2	1,809	2,409	.751
Aged 62-64, total.....	109,238	100 0	100 0	7 1	32 6	17 1	10 3	32 9	862	1,644	.524
Under \$100 00.....	3,897	3 6	100 0	14 3	56 1	14 7	5 2	9 7	340	705	.482
100 00-209 90.....	49,885	45 7	100 0	8 9	44 4	22 6	10 9	13 2	643	1,387	.470
210 00 or more.....	55,456	50 7	100 0	4 9	20 2	12 3	10 2	52 4	1,096	1,960	.559
Aged 65-71, total.....	958,711	100 0	100 0	10 1	12 9	7 7	9 6	59 7	1,623	2,207	.735
Under \$100 00.....	22,183	2 3	100 0	35 6	17 0	10 8	8 1	28 5	577	806	.716
100 00-209 90.....	245,874	25 6	100 0	18 3	24 8	14 3	16 5	26 1	1,086	1,666	.652
210 00 or more.....	690,654	72 1	100 0	6 3	8 5	5 3	7 2	72 7	1,860	2,445	.761
<i>Women</i>											
Total.....	460,450	100 0	100 0	8 0	25 3	14 5	15 0	37 2	1,148	1,683	.682
Under \$100 00.....	23,330	5 1	100 0	24 0	44 5	11 3	5 6	14 6	452	801	.564
100 00-209 90.....	241,280	52 4	100 0	9 4	37 3	21 6	19 1	12 6	833	1,416	.588
210 00 or more.....	195,840	42 5	100 0	4 4	8 2	6 2	11 1	70 1	1,619	2,116	.766
Age 62-64, total.....	74,712	100 0	100 0	6 1	46 8	17 1	7 0	23 0	594	1,203	.494
Under \$100 00.....	7,709	10 3	100 0	10 0	70 3	10 7	2 7	6 3	268	665	.403
100 00-209 90.....	46,756	62 6	100 0	5 4	57 4	22 2	7 6	7 4	485	1,117	.434
210 00 or more.....	20,247	27 1	100 0	6 0	13 3	7 8	7 7	65 2	989	1,609	.602
Aged 65-71, total.....	385,738	100 0	100 0	8 4	21 1	14 0	16 6	39 9	1,255	1,776	.707
Under \$100 00.....	15,621	4 1	100 0	30 9	31 8	11 6	7 0	18 7	543	868	.626
100 00-209 90.....	194,524	50 4	100 0	10 3	32 5	21 4	21 9	13 9	916	1,488	.616
210 00 or more.....	175,593	45 5	100 0	4 3	7 6	6 0	11 6	70 7	1,694	2,175	.779

of the women had earnings exceeding \$5,280, compared with 33 percent of the men and 23 percent of the women aged 62-64. These differences could be expected since many persons aged 62-64 with fairly high earnings would not have filed for benefits.

In all, retired-worker beneficiaries affected by the earnings test lost \$2.2 billion in social security benefits—about 71 percent of the \$3.1 billion that would have been payable to them and their entitled dependents if there had been no deductions due to earnings. Men lost \$1.65 billion (72 percent of their benefits) and women lost \$0.5 billion (68 percent). For both men and women the proportion of benefits withheld was substantially higher for those aged 65-71 than for those aged 62-64. Among men, the proportion of benefits withheld was about 74 percent for those aged 65-71 but only 52 percent for those aged 62-64. Among women, the corresponding proportions were 71 percent and 49 percent. These differences may reflect in part the higher earnings of workers aged 65-71.

EARNINGS AND PRIMARY INSURANCE AMOUNT

The primary insurance amount (PIA) is related to average monthly earnings on which a person's social security taxes are paid. It serves as the basis for computing all social security cash benefit amounts. The full PIA is payable to a retired worker who becomes entitled to benefits at age 65. If the worker becomes entitled before age 65, the PIA is actuarially reduced. Since the PIA in a limited way reflects a person's average monthly earnings before entitlement to benefits, one might expect that those with high PIA's would be in a better position than those with low PIA's to have high earnings if they engage in work activities after entitlement to benefits. As table 4 data indicate, a substantially higher proportion of retired workers with PIA's of \$210 or more had earnings exceeding \$5,280 than those with lower PIA's, irrespective of age and sex. Interestingly, although the proportion of women with high earnings was generally much lower than the proportion of men with high

earnings, the earnings patterns of men and women were virtually identical at the highest PIA level.

BENEFICIARY FAMILY STATUS AND MONTHLY BENEFIT AMOUNT

About 80 percent of the retired-worker beneficiaries who were affected by the earnings test in 1971 are classified as "worker-only" beneficiary families (table 5). Family classifications of the beneficiary data are based on the aggregation of persons entitled to benefits on the worker's earnings record. The term "worker-only" family therefore means that no spouses and/or children are entitled to benefits on the worker's earnings record. It does not necessarily mean that the worker is not married. The worker actually may be married to another beneficiary who is entitled to benefits on his or her own earnings record, or to a person who does not meet the requirements for entitlement—a woman too young, for example, to become entitled to wife's benefits.

About 4 percent of the retired-worker beneficiaries affected by the earnings test in 1971 had dependent children entitled to benefits on their wage records. The percentage of beneficiary families with dependent children was somewhat higher among those beneficiaries aged 62-64 than

among those aged 65-71. Relatively more of the older group than of the younger had spouses entitled to benefits. Because women retired-worker beneficiaries comprised less than 1 percent of the "worker and spouse" and "worker, spouse, and children" beneficiary families, data for such families that include dependents are not shown separately by sex of the retired-worker beneficiary. Comparisons are made only between families with dependents and those with a man as the only beneficiary.

In general, beneficiary families with dependents lost a lower proportion of their benefits than the men in the worker-only families (table 6). A partial explanation is the fact that the former tend to receive larger monthly amounts, because the family benefit includes amounts to which dependents are entitled.⁴ It would therefore take fewer benefit months to offset amounts to be withheld due to earnings and benefits would be payable for more months during the year.

⁴ Family benefits are subject to a maximum amount that is related to the worker's PIA. If the family benefit amount exceeds this maximum, the benefits to the dependents are reduced. The earnings test is applied against the amount the family actually receives. Thus, if a family receives the maximum, it will apply against that amount not against the amount the dependents would have received before reduction for the family maximum.

TABLE 5—Number and percentage distribution of retired-worker beneficiaries affected by the earnings test in 1971, amount of benefits withheld and before withholding, by age group, sex, type of employment, and by type of beneficiary family

Sex, type of employment, and type of beneficiary family	Retired-worker beneficiaries affected						Amount of benefits (in thousands)					
	Total		Aged 62-64		Aged 65-71		Total		Aged 62-64		Aged 65-71	
	Number	Percentage distribution	Number	Percentage distribution	Number	Percentage distribution	Withheld	Before withholding	Withheld	Before withholding	Withheld	Before withholding
Total.....	1,528,399	100 0	183,950	12 0	1,344,449	88 0	\$2,178,837	\$3,070,339	\$138,505	\$269,518	\$2,040,332	\$2,800,820
Men.....	1,067,949	69 9	109,238	7 1	958,711	62 8	1,650,272	2,295,576	94,158	179,621	1,556,114	2,115,954
Women.....	460,450	30 1	74,712	4 9	385,738	25 2	528,565	774,763	44,347	89,897	484,218	684,866
Men.....	1,067,949	100 0	109,238	100 0	958,711	100 0	1,650,272	2,295,576	94,158	179,621	1,556,114	2,115,954
Wage and salary.....	558,405	52 3	75,192	68 8	483,213	50 4	670,368	1,145,597	58,783	123,252	611,585	1,022,345
Self-employed.....	72,251	6 8	13,816	12 6	58,435	6 1	73,504	159,411	8,859	21,178	64,645	138,232
Wage and salary and self-employed.....	21,988	2 0	4,438	4 1	17,550	1 8	21,816	46,489	3,036	6,831	18,780	39,658
Type unknown.....	415,305	38 9	15,792	14 5	399,513	41 7	884,585	944,079	23,480	28,300	861,105	915,719
Women.....	460,450	100 0	74,712	100 0	385,738	100 0	528,565	774,763	44,347	89,897	484,218	684,866
Wage and salary.....	316,313	68 7	66,527	89 0	249,786	64 8	287,133	806,270	38,419	80,721	248,713	425,549
Self-employed.....	11,091	2 4	2,355	3 2	8,736	2 3	8,666	18,108	1,064	2,567	7,602	15,541
Wage and salary and self-employed.....	3,655	8	770	1 0	2,885	7	3,256	6,198	465	924	2,791	5,274
Type unknown.....	129,391	28 1	5,060	6 8	124,331	32 2	229,510	244,187	4,399	5,685	225,111	238,502
All beneficiary families.....	1,528,399	100 0	183,950	100 0	1,344,449	100 0	2,178,837	3,070,339	138,505	269,518	2,040,332	2,880,820
Worker only.....	1,223,330	80 0	146,782	79 8	1,076,548	80 1	1,603,620	2,183,389	93,326	188,268	1,510,293	1,995,121
Men.....	766,636	50 0	73,451	39 9	693,185	51 6	1,079,777	1,417,066	50,125	100,763	1,029,652	1,316,303
Women.....	456,694	30 0	73,331	39 9	383,363	28 5	523,843	766,323	43,201	87,505	480,641	678,818
Worker and spouse.....	240,793	15 8	22,590	12 3	218,203	16 2	469,269	702,804	30,429	48,096	438,804	654,708
Worker and children.....	27,725	1 8	5,995	3 2	21,730	1 6	40,912	71,235	5,530	12,386	35,383	58,848
Worker, spouse, and children.....	36,551	2 4	8,583	4 7	27,968	2 1	65,037	112,912	9,221	20,769	55,817	92,143

TABLE 6—Number of retired-worker beneficiaries affected by earnings test in 1971, percentage distribution by amount of earnings, and average benefit amount withheld and before withholding, by type of beneficiary family and monthly benefit amount

Type of beneficiary family and monthly benefit amount	Retired-worker beneficiaries affected		Percentage distribution, by amount of earnings						Average benefit amount—		Ratio of benefits withheld to amount before withholding
	Number	Percent of total	Total	Earnings unknown	\$1,681-2,880	\$2,881-4,080	\$4,081-5,280	\$5,281 or more	Withheld	Before withholding	
Worker only, men.....	766,636	100 0	100 0	9 0	13 9	8 6	10 3	58 2	\$1,409	\$1,848	0 762
Under \$100 00.....	23,870	3 1	100 0	30 0	26 2	12 4	8 0	23 4	502	732	686
100 00-149 90.....	72,816	9 5	100 0	22 0	34 9	16 8	11 3	15 0	675	1,139	593
150 00-199 90.....	139,186	18 2	100 0	13 3	24 2	15 4	18 5	28 6	1,009	1,556	648
200 00-249 90.....	261,419	34 1	100 0	7 2	12 7	8 0	12 4	59 7	1,426	1,931	738
250 00 or more.....	269,345	35 1	100 0	3 0	3 1	3 0	3 9	87 0	1,877	2,210	849
Worker only, women.....	456,694	100 0	100 0	8 0	25 2	14 5	15 1	37 2	1,147	1,678	684
Under \$100 00.....	24,743	5 4	100 0	18 6	52 0	12 6	4 9	11 9	385	733	525
100 00-149 90.....	86,064	18 8	100 0	11 2	55 4	19 8	7 5	6 1	513	1,147	447
150 00-199 90.....	138,167	30 3	100 0	9 0	27 3	23 5	24 4	15 5	974	1,553	627
200 00-249 90.....	127,239	27 9	100 0	5 2	11 1	8 6	18 1	57 0	1,444	1,926	750
250 00 or more.....	80,481	17 6	100 0	3 7	3 6	3 3	5 3	84 1	1,867	2,359	800
Worker and spouse.....	240,793	100 0	100 0	10 9	16 7	8 2	7 7	56 5	1,949	2,919	668
Under \$150 00.....	5,342	2 2	100 0	26 6	30 7	8 1	13 7	20 9	633	1,100	575
150 00-199 90.....	11,711	4 9	100 0	19 3	40 6	15 9	10 3	13 9	766	1,635	485
200 00-249 90.....	23,419	9 7	100 0	16 2	33 8	15 0	12 0	23 0	1,064	2,100	507
250 00-299 90.....	39,228	16 3	100 0	12 3	23 2	10 8	10 2	43 5	1,527	2,578	592
300 00-349 90.....	48,562	20 2	100 0	11 0	20 6	8 8	8 8	50 8	1,754	2,930	599
350 00 or more.....	112,531	46 7	100 0	7 6	6 1	4 6	5 2	76 5	2,550	3,423	745
Worker and children.....	27,725	100 0	100 0	12 9	21 4	12 2	10 3	43 1	1,476	2,569	575
Under \$150 00.....	1,341	4 8	100 0	23 1	38 9	15 9	5 6	16 5	538	1,061	507
150 00-199 90.....	2,328	8 4	100 0	17 9	42 0	20 2	9 3	10 6	672	1,627	440
200 00-249 90.....	3,224	11 6	100 0	15 3	36 4	20 3	12 6	15 4	908	1,973	460
250 00-299 90.....	4,156	15 0	100 0	13 8	28 0	16 8	14 3	27 1	1,205	2,382	506
300 00-349 90.....	5,369	19 4	100 0	11 6	20 3	11 4	12 9	43 8	1,506	2,750	548
350 00 or more.....	11,307	40 8	100 0	10 5	8 9	6 6	7 7	66 3	2,000	3,116	642
Worker, spouse, and children.....	36,551	100 0	100 0	16 4	19 3	12 6	10 2	41 5	1,778	3,089	576
Under \$150 00.....	1,627	4 5	100 0	27 8	32 3	17 1	7 8	15 0	580	1,078	538
150 00-199 90.....	2,932	8 0	100 0	23 5	34 8	19 7	10 8	11 2	762	1,534	497
200 00-249 90.....	3,691	10 1	100 0	19 9	29 7	22 3	13 0	15 1	964	1,950	492
250 00-299 90.....	3,123	8 6	100 0	19 7	24 1	19 9	15 7	20 6	1,221	2,393	510
300 00-349 90.....	3,417	9 3	100 0	17 4	22 1	15 5	15 8	29 2	1,465	2,843	515
350 00 or more.....	21,761	59 5	100 0	13 3	13 3	8 2	8 2	56 9	2,274	3,779	602

Among beneficiary families affected by the earnings test, more than three-fourths of those with dependents but only 35 percent of the male worker-only families received monthly benefits of \$250 or more. Families with dependents therefore tended to have more benefits against which earnings could be offset and thus possibly could retain some benefits, though the same amount of earnings offset all the benefits payable to "worker-only" families. Lower earnings among beneficiary families with dependents also help to account for proportionately smaller losses of benefits. The data indicate that among beneficiary families with the highest monthly benefit amounts, the proportion of retired-worker beneficiaries earning \$5,281 or more was somewhat lower among families with children than among male "worker-only" families.

It does not always prove financially advantageous to work since earnings beyond \$2,880 do not contribute to the net income of the beneficiary family unless earnings exceed the point at which

all benefits are offset. A worker entitled to benefits for all months of 1971 at the monthly rate of \$250 would not, for example, gain anything from earnings from \$2,881 to \$5,280. He would have to earn much more than \$5,280 to benefit financially from earnings beyond \$2,880. Yet the data indicate that many beneficiary families with a monthly benefit amount of \$250 or more earned \$2,881-5,280. The proportion of beneficiary families with earnings in this range was particularly high for retired-worker beneficiary families with dependent children—about 31 percent of the "worker and children" families with monthly benefits of \$250-299 and about 14 percent of those with monthly benefits of \$350. Among "worker, spouse, and children" families, the corresponding proportions were 36 percent and 16 percent. On the other hand, less than 10 percent of "worker-only" families with monthly benefits of \$250 or more had earnings within this range. As pointed out earlier, families with higher monthly benefits would have had to earn

TABLE 7.—Number of retired-worker beneficiaries affected by earnings test in 1971, percentage distribution by amount of earnings, and average benefit amount withheld and before withholding, by type of employment and sex

Type of employment and sex	Number	Percentage distribution, by amount of earnings						Average benefit amount—		Ratio of benefits withheld to amount before withholding
		Total	Earnings unknown	\$1,681-2,880	\$2,881-4,080	\$4,081-5,280	\$5,281 or more	Withheld	Before withholding	
Total.....	1,528,399	100 0	9 2	18 0	10 5	11 3	51 0	\$1,426	\$2,009	0 710
Wage and salary.....	874,718	100 0	6 8	28 7	14 5	12 0	40 0	1,095	1,898	580
Men.....	558,405	100 0	7 3	22 5	12 3	11 5	46 4	1,201	2,052	585
Women.....	316,313	100 0	5 9	34 2	18 2	12 9	28 8	908	1,601	567
Self-employed.....	83,342	100 0	6 5	35 0	17 4	10 7	30 4	986	2,130	463
Men.....	72,251	100 0	6 8	33 5	17 1	10 7	31 0	1,017	2,206	461
Women.....	11,091	100 0	4 2	44 4	19 3	10 9	21 2	781	1,633	478
Wage and salary and self-employed.....	25,643	100 0	6 4	28 5	17 6	12 7	34 8	978	2,055	476
Men.....	21,988	100 0	6 7	28 0	17 4	12 5	35 4	992	2,114	469
Women.....	3,655	100 0	4 8	31 7	18 7	13 5	31 2	891	1,896	525
Type unknown.....	544,696	100 0	13 7	9	2 6	10 2	72 6	2,045	2,182	937
Men.....	415,305	100 0	13 7	7	1 0	8 9	76 8	2,130	2,273	937
Women.....	129,391	100 0	13 8	1 6	4 9	20 6	69 1	1,774	1,887	940

considerably more than those with low monthly benefits to realize a financial advantage from annual earnings above \$2,880.

Some retired-worker beneficiaries had earnings within the nonoptimal range—for several possible reasons. First, some of them could not control the conditions of their employment and may have had to earn more than \$2,880 in order to earn anything at all. The need to supplement the retirement income may have prompted them to continue to work, even if earnings beyond \$2,880 did not provide an additional financial advantage. The need for additional income was probably greater for those with dependent children and, with taxes disregarded, earnings beyond \$2,880 created at least \$2,280 of additional income. Some individuals may not have been aware of the optimal amount of earnings in relation to their benefits and worked beyond that point (even if they had some control over how much they could earn). Finally, some individuals may have derived something other than financial satisfaction from their work. Such considerations as status, associations with others, and the opportunities for accomplishment and self-expression provided by their work may have outweighed financial motives.

TYPE OF EMPLOYMENT

Among persons whose earnings were high enough to be affected by the earnings test, the type of employment (either wage and salary,

self-employment, or a combination of the two) was obtained for about 60 percent of the men and 70 percent of the women from the annual reports they were required to file. Relatively more men than women were self-employed or had a combination of wage and salary employment and self-employment.

Type of employment was unknown for a substantial number of workers—mainly those who were not required to file annual reports because their earnings were high enough to offset all benefits payable for the year. While type of employment was not available for this group, the amount of earnings was available for most of them from their earnings records. At least 77 percent of these men and 59 percent of the women had earnings above \$5,280. Among those whose type of employment was known, relatively fewer men and women had earnings above \$5,280 (table 7). Entitled workers whose type of employment was not known lost about 94 percent of their benefits to earnings.

The proportion of entitled workers with earnings of \$1,681-2,880 was higher among those with earnings from self-employment than among those with earnings from salaries and wages only or from both salaries and wages and self-employment. The self-employed probably had more control over the amount of time that they worked or over their level of earnings than those who had worked for an employer. It is difficult to draw conclusions about the relationship of earnings to type of employment, because of the large

number of workers whose type of employment was unknown.

MONTHS OF ENTITLEMENT AND NONWORK

Tables 8 and 9 show information on the number of months workers were entitled in 1971 (either 12 months or less than 12 months) and the number of months in which they did not earn over \$140 or did not render substantial services in self-employment (nonwork months). Both for months of entitlement in 1971 and for nonwork months the pattern did not differ much among men and women but did differ for the two age groups. The proportion of retired-worker beneficiaries entitled for all months of 1971 was higher among those aged 65-71 than among those aged 62-64. More of the younger group may have become entitled during the year, but more of the older group may have been on the rolls for some time. The proportion of those who had one or more nonwork months was higher for the group aged 62-64 than for those aged 65-71. Since those under age 65 would have little incentive to file for benefits unless they could actually receive some payment, the fact that there were months for which payment could be made (regardless of total annual earnings) might have prompted

some people in this age group to come on the rolls.

One would expect that persons with earnings from self-employment would have more nonwork months than persons with earnings from wages and salaries or a combination of the two types of employment since the self-employed may have greater control over their work time. The data indicate, however, that among those whose type of employment was known, relatively more of those with a combination of wage and salary and self-employment had some nonwork months than did those who had either wage and salary employment or self-employment. As expected, all persons whose types of employment was unknown had zero nonwork months—these were individuals who did not file annual reports because no benefits were payable to them for the year.

The proportion of retired-worker beneficiaries with earnings exceeding \$5,280 was higher among those whose entitlement during 1971 was less than 12 months than among those who were entitled for the entire year (table 9). Possibly some of those who were entitled for less than a full year were working at fairly high wages until they retired; others might have been working full time and came onto the rolls solely to file for Medicare. Relatively more of those who were entitled for all months of 1971 may have

TABLE 8.—Number of retired-worker beneficiaries affected by earnings test in 1971, number of months of entitlement and number of nonwork months, by sex, age group, and type of employment

Sex, age, and type of employment	Length of entitlement									
	Entitled for 12 months					Entitled for less than 12 months				
	Number	Percentage distribution, by number of nonwork months			Number	Percentage distribution, by number of nonwork months				
		Total	0	1-6		7-11	Total	0	1-6	7-11
Men.....	797,405	100 0	60 7	22 9	16 4	270,544	100 0	57 9	31 3	10 8
62-64.....	63,574	100 0	42 2	31 0	26 8	45,664	100 0	38 3	51 2	10 5
65-71.....	733,831	100 0	62 3	22 2	15 5	224,880	100 0	61 9	27 3	10 8
Wage and salary.....	406,016	100 0	36 4	37 8	25 8	152,389	100 0	33 3	49 6	17 1
Self-employed.....	59,529	100 0	27 7	38 6	33 7	12,722	100 0	36 8	47 9	15 3
Wage and salary and self-employed.....	16,579	100 0	27 1	39 4	33 5	5,409	100 0	22 9	57 5	19 6
Type unknown.....	315,281	100 0	100 0	0	0	100,024	100 0	100 0	0	0
Women.....	354,618	100 0	60 7	23 2	16 1	105,832	100 0	52 7	37 8	9 5
62-64.....	44,983	100 0	46 2	30 8	23 1	29,729	100 0	32 2	60 5	7 3
65-71.....	309,635	100 0	62 8	22 1	15 1	76,103	100 0	60 6	29 0	10 4
Wage and salary.....	242,794	100 0	45 5	32 3	22 2	73,619	100 0	34 2	52 6	13 2
Self-employed.....	8,958	100 0	42 9	29 7	27 4	2,133	100 0	43 5	43 8	12 7
Wage and salary and self-employed.....	2,989	100 0	35 5	37 3	27 2	666	100 0	23 5	62 1	14 3
Type unknown.....	99,877	100 0	100 0	0	0	29,514	100 0	100 0	0	0

TABLE 9.—Number of retired-worker beneficiaries affected by earnings test in 1971, percentage distribution by amount of earnings, and average benefit amount withheld and before withholding, by sex, months of entitlement, and number of nonwork months

Sex and number of nonwork months	Number	Percent of total	Percentage distribution, by amount of earnings					Average benefit amount—		Ratio of benefits withheld to amount before withholding	
			Total	Amount of earnings unknown	\$1,681-2,880	\$2,881-4,080	\$4,081-5,280	\$5,281 or more	Withheld		Before withholding
Men											
Entitled 12 months											
Total.....	797,405	100 0	100 0	10 3	17 7	9 1	9 3	53 6	\$1,771	\$2,476	0 715
0 nonwork months.....	484,063	60 7	100 0	12 4	12 5	6 7	6 4	62 0	2,087	2,469	845
1-6 nonwork months.....	182,909	22 0	100 0	9 3	13 2	9 4	16 3	51 8	1,694	2,601	637
7-11 nonwork months.....	130,433	16 4	100 0	3 7	43 9	17 4	10 3	24 7	847	2,464	344
Entitled less than 12 months											
Total.....	270,544	100 0	100 0	8 2	6 4	7 5	10 7	67 2	880	1,188	741
0 nonwork months.....	156,644	57 9	100 0	12 5	5 0	5 1	8 0	69 4	1,048	1,164	900
1-6 nonwork months.....	84,786	31 3	100 0	2 4	6 3	9 9	14 4	67 0	665	1,159	574
7-11 nonwork months.....	29,114	10 8	100 0	1 7	14 0	13 8	15 2	55 3	599	1,399	428
Women											
Entitled 12 months											
Total.....	354,618	100 0	100 0	8 6	28 7	14 7	14 2	33 8	1,272	1,895	671
0 nonwork months.....	215,381	60 7	100 0	9 8	25 6	16 5	13 3	34 8	1,424	1,905	746
1-6 nonwork months.....	82,066	23 2	100 0	9 7	15 9	12 8	18 5	43 1	1,307	1,965	665
7-11 nonwork months.....	57,171	16 1	100 0	2 5	59 1	11 1	10 9	16 4	651	1,759	370
Entitled less than 12 months											
Total.....	105,832	100 0	100 0	6 1	13 7	13 8	18 7	47 7	732	970	755
0 nonwork months.....	55,742	52 7	100 0	9 4	13 5	11 4	18 0	47 7	850	973	874
1-6 nonwork months.....	40,034	37 8	100 0	2 4	11 8	16 1	17 9	51 8	603	951	634
7-11 nonwork months.....	10,056	9 5	100 0	2 2	22 5	14 6	19 2	41 6	584	1,025	570

been working at fairly low wages to supplement their retirement income.⁵

Retired-worker beneficiaries with 7-11 nonwork months had substantially lower earnings than those with from 0 to 6 nonwork months, as expected, since the former had fewer months in which to accumulate substantial total earnings. The earnings level for those with 1-6 nonwork months did not differ substantially from the earnings level for those with zero nonwork months. Those with 1-6 nonwork months, however, lost a much lower proportion of the total benefits payable to them. Among men entitled for less than 12 months, for example, those with zero nonwork months lost about 90 percent of the benefits payable, but those with 1-6 nonwork

months lost only about 57 percent of their benefits. Obviously, those with some nonwork months were able to receive benefits for these months.

Differences in earnings between those with zero or 1-6 nonwork months and between those with 7-11 nonwork months were greater among those entitled for all months of 1971 than among those entitled for less than 12 months. Among men entitled for all months of 1971, for example, the proportion with earnings exceeding \$5,280 was about 52 percent for those with 1-6 nonwork months and 25 percent for those with 7-11 nonwork months. Among men entitled for less than 12 months, the proportions were 67 percent and 55 percent, respectively. It is likely that many of those with less than 12 months of entitlement in 1971 were new entrants to the social security rolls and may have had fairly high earnings before retirement but several nonwork months after retirement. On the other hand, many of those with 12 full months of entitlement in 1971 were not new entrants; they may have been working at lower wages to supplement their retirement

⁵ The earnings-test provisions are the same, regardless of the number of months of entitlement in the year. Thus, if a worker entitled for less than a full year earned more than \$1,680 he would be subject to the earnings test (even if some of that amount had been earned before he became entitled to benefits). For a discussion of the effect of the earnings test on persons with part-year entitlement, see Barbara A. Lingg, *Social Security Bulletin*, January 1975, pages 28-34.

benefits and the 7-11 nonwork months would hold down their total earnings considerably.

Technical Note*

All data, except those presented in table 2, were derived on a 100-percent basis from the Social Security Administration's master beneficiary record. Sampling variability calculations for the data in table 2 (derived from the 1971 Continuous Work History Sample) are shown in table I.

Since the estimates (in percentages) are based on sample data, they are subject to sampling variability, which can be measured by the standard error. The chances are about 68 out of 100 that the differences due to sampling variability between a sample estimate and the figure that

* The contributions of Robert H. Finch and Beatrice K. Matsui, Division of OASDI Statistics, to the sampling variability calculations are acknowledged. For details on the sample design see *Earnings Distributions in the United States, 1968*, Office of Research and Statistics, 1973, pages 316-18.

TABLE I.—Approximations of standard errors of estimated percentages

Base of percentages (in thousands)	Percent					
	2 or 98	5 or 95	10 or 90	20 or 80	35 or 65	50
All workers						
25,000.....	(¹)	(¹)	0 10	0 10	0 10	0 10
50,000.....	(¹)	(¹)	(¹)	10	10	.10
75,000.....	(¹)	(¹)	(¹)	10	10	10
Workers aged 65 and over						
750.....	0 20	0 30	0 40	0 50	0 60	0 60
1,000.....	10	.20	30	40	50	50
2,500.....	10	.10	20	30	30	30

¹ Less than 0.1 percent

would have been obtained from a compilation of all records is less than the standard error. The chances are 95 out of 100 that the difference is less than twice the standard error and about 99 out of 100 that it is less than 2½ times the standard error. Table I (expressed in percentage points) shows the standard error for percentages of persons with a particular characteristic. Linear interpolation may be used for estimated percentages and base figures not shown here.

Notes and Brief Reports

Quadrennial Advisory Council on Social Security: Summary of Major Findings and Recommendations*

Section 706 of the Social Security Act requires appointment every 4 years of an Advisory Council on Social Security. Early in 1974, the Secretary of Health, Education, and Welfare announced the appointment of the most recent Council.¹ The 13 appointees were required to review the status of the four social security trust funds in

* Reports of the Quadrennial Advisory Council on Social Security, House Document No 94-75, U.S. Government Printing Office, 1975 (Transmitted to the Congress, March 7, 1975).

¹ See "Advisory Council on Social Security Appointed," *Social Security Bulletin*, July 1974.

relation to the long-term commitments of the social security programs, the scope of coverage, the adequacy of benefits, and other aspects of the program, including its impact on public assistance programs under the Social Security Act.

In March 1975, the Council submitted reports of its findings and recommendations to the Secretary, as required by law. He, in turn, sent the reports to the Speaker of the House of Representatives and the President of the Senate. President Ford, commenting on the Advisory Council reports, said, "... I concur strongly in the Council's unanimous endorsement of the basic principles of the social security system." The President took issue, however, with the Council's specific recommendation to change the source of Medicare financing.

The "Summary of Major Findings and Recommendations" section from the Council's submittal follows verbatim.