

# Covered Employment and the Age Men Claim Retirement Benefits

by JULIAN ABBOTT\*

*Data from the Social Security Administration's Continuous Work-History Sample have been studied to determine the relationship between a retiree's work experience and the decision to claim a reduced social security benefit. The study focuses on the differences in prcentitlement work experience for men aged 62 and those aged 65.*

*Most men who became entitled in 1970 elected reduced benefits payable at award. Those who chose to start receiving full benefits at age 65 had higher earnings and more years of employment at these higher earnings than the men claiming their benefits at the earliest possible age—62. Those claiming full benefits also suffered a smaller decline in earnings in the years just before retirement. Consequently, their primary insurance amounts were higher than those for the younger men. Some differences between the two groups have narrowed. A relative improvement has been noted in length of employment and earnings levels of retirees aged 62. Thus, though many men entitled at age 62 are comparatively disadvantaged, some have had favorable work and earnings experience and presumably feel financially able to retire at the earliest possible age.*

AGE 65 HAS become the traditional retirement point in this country, although today more and more employers, both public and private, are amending their plans to permit earlier retirement.

Workers covered under the social security program who retire at age 65 or later are entitled to full benefits based on their average monthly earnings. Since 1961, however, men have been able to draw benefits at age 62 under the old-age, survivors, disability, and health insurance (OASDHI) program. (For women, this provision became effective in 1956.) When early retirement is chosen, the benefit amount for the retired-worker beneficiary is reduced by 5/9 of 1 percent for each month of entitlement before age 65 (with a maximum reduction of 20 percent at age 62).<sup>1</sup>

Literature available on early retirement indi-

\* Division of Retirement and Survivor Studies, Office of Research and Statistics.

<sup>1</sup> If retirement benefits are withheld because of work before age 65 or if the worker is entitled to disability benefits for any month, the retirement benefit amount will be refigured at age 65.

cates that some companies are moving in the direction of offering pension plans with a relatively low percentage reduction for early retirement so that the pension may exceed the amount of the strict actuarial reduction applicable for retirement before age 65.<sup>2</sup> Other companies supplement the early-retirement payments under the pension plan until age 65 when full social security benefits can be claimed.<sup>3</sup>

Whatever factors enter into an individual's decision to retire (and the range is a wide one that includes retirement policies, health, financial, and other personal reasons), many workers have, over the years, elected full or partial retirement before age 65 and accepted actuarially reduced benefits. In 1970, 53 percent of the men claiming retirement benefits received reduced benefit awards.<sup>4</sup> Some of the possible reasons for retirement are indicated by findings from the Survey of Newly Entitled Beneficiaries (SNEB), conducted by the Social Security Administration, that was designed to determine why workers retire before age 65. To obtain the desired survey information, questionnaires were mailed monthly to a sample of United States residents who were awarded retired-worker benefits for the first time between July 1968 and June 1970.<sup>5</sup>

<sup>2</sup> Dan M. Bechter, "The Retirement Decision: Social Pressures and Economic Trends," *Monthly Review*, Federal Reserve Bank of Kansas City, November 1972, page 14.

<sup>3</sup> "Why the Nationwide Trend to Early Retirement," *U.S. News and World Report*, Oct. 23, 1972, page 56. See also Richard Barfield and James Morgan, *Early Retirement: The Decision and the Experience*, Institute for Social Research, University of Michigan, 1969, page 161.

<sup>4</sup> Based on data for currently payable regular awards of social security benefits plus those originally awarded as conditional or deferred that have moved to payment status.

<sup>5</sup> See Patience Lauriat and William Rabin, *Men Who Claim Benefits Before Age 65*, Survey of Newly Entitled Beneficiaries (SNEB), 1968-70, Report No. 1, November 1970 (also in the *Social Security Bulletin*, November 1970); Virginia Reno, *Retirement Patterns of Men at OASDHI Entitlement*, Report No. 2, March 1971; and Virginia Reno, *Why Men Stop Working At or Before Age 65*, Report No. 3, May 1971 (also in the *Social Security Bulletin*, June 1971).

This article uses data from the 1-percent Continuous Work-History Sample (CWHS), maintained by the Social Security Administration since 1937, to examine the relationship between the retiree's work experience and whether or not he claimed reduced benefits.<sup>6</sup> The analysis focuses on the differences in preentitlement labor-force attachment of men aged 62 and 65 in 1970, when they became entitled to currently payable benefits.<sup>7</sup> Labor-force attachment is measured in terms of the duration and recency of covered employment during the period 1951-69 and the level of covered earnings. The study also examines the relationship of work experience to size of retired-worker benefits, which are the most important form of retirement income for most of the aged. The article presents the latest available data on work experience; these data may suggest some of the reasons why the men claimed their benefits when they did and thus supplement the findings of other studies on retirement.

Men who claim reduced benefits may become entitled at any point on or after attaining age 62 and before reaching age 65; some retirees who draw full benefits do not become entitled until age 66 or later. Beneficiaries who meet the requirements of the annual retirement test<sup>8</sup> receive currently payable awards, while awards made to claimants whose postentitlement work and earnings exceed the allowable amounts are said to be in conditional or deferred-payment status, and their benefits are postponed at the time that the award is made.

In 1970, 61 percent of the men who claimed reduced benefits payable at award became entitled at age 62, and 70 percent of those with full benefits payable at award became entitled at age 65. Although the discussion focuses on these two groups, the tables that follow include data for men entitled to payable benefits at ages 63-64 and 66 or later, as well as for men whose benefits were

<sup>6</sup> A detailed discussion of the CWHS sample design, including estimates of sampling variability, is given in the Technical Note at the end of this article.

<sup>7</sup> For an analysis of the work experience of women, also based on the CWHS, see Lucy B. Mallan, "Women Born in the Early 1900's: Employment, Earnings, and Benefit Levels," *Social Security Bulletin*, March 1974.

<sup>8</sup> In 1970 a beneficiary under age 72 could earn up to \$1,680 a year, or \$140 a month, and receive his regular retirement benefits. For each \$2 of annual earnings from \$1,681 to \$2,880, \$1 of benefits was withheld; for each \$1 of annual earnings above \$2,880, \$1 of benefits was withheld.

postponed at the time of award, in order to provide complete data for all men who became entitled to retired-worker benefits in 1970.

The term "retired" is applied here to those whose benefits were payable at award. Actually, some of these beneficiaries continue to work at low earnings levels and may, in a sense, be only "partly retired." In addition, some who receive conditional or deferred awards may stop working altogether shortly after the award is made. A recent study showed that about 40 percent of the men entitled to reduced benefits between January and June of 1969 had sufficiently low earnings to qualify for some benefits while they continued work.<sup>9</sup> In other words, they were retired as defined by the retirement test. The terms "out of work" or "not employed" as used in this article refer to covered employment and may, therefore, be applied to individuals who are in fact working but in noncovered employment (Federal Government or railroad employees, for example).

Benefit levels in this article refer to the retired worker's primary insurance amount (PIA), regardless of the amount of benefits actually received. The PIA is the amount, based on the worker's average monthly earnings, that is payable to the retired worker who first receives benefits at age 65 or later. If he claims benefits before age 65, the benefit is actuarially reduced. The PIA is also the basis for computing benefit amounts for any dependents entitled on the earnings record of the retired worker. Benefit levels are expressed here in terms of levels effective January 1971—with the minimum PIA, for example, at \$70.40 instead of the \$64.00 prevailing in 1970.

#### AGE, SEX, AND BENEFIT-PAYMENT STATUS

Nearly 1,210,000 persons became initially entitled to retired-worker benefits during 1970 (excluding "special age-72" beneficiaries and persons whose disabled-worker benefits were converted to retired-worker benefits at age 65). Approximately 25,000 or 2 percent of these retirees had had no covered earnings since 1950 and became eligible for retired-worker benefits based on pre-1951 earnings.

Of the 1,184,700 newly entitled workers with

<sup>9</sup> Virginia Reno, SNEB Report No. 2, *op. cit.*

TABLE 1.—Benefit-payment status at award and age at entitlement of workers with earnings, 1951-69, by sex: Number and percentage distribution of workers aged 62 and over initially entitled in 1970 to retired-worker benefits payable and postponed at award

Benefit-payment status at award and age at entitlement	Number (in thousands)			Percentage distribution by benefit-payment status			Percentage distribution by sex		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Total.....	1,184.7	711.2	473.5	100.0	100.0	100.0	100.0	60.0	40.0
Payable.....	825.0	449.1	376.8	69.7	63.1	79.6	100.0	54.4	45.6
Reduced.....	714.4	387.5	326.9	60.3	54.5	69.0	100.0	54.2	45.8
62.....	479.0	236.6	243.3	40.5	33.3	51.4	100.0	49.3	50.7
63-64.....	234.5	150.9	83.6	19.8	21.2	17.7	100.0	64.3	35.7
Full.....	111.5	61.6	49.9	9.4	8.7	10.5	100.0	55.2	44.8
65.....	73.8	43.4	30.4	6.2	6.1	6.4	100.0	58.8	41.2
66 and over.....	37.7	18.2	19.5	3.2	2.6	4.1	100.0	48.3	51.7
Postponed <sup>1</sup> .....	358.8	262.1	96.7	30.3	36.9	20.4	100.0	73.0	27.0

<sup>1</sup> Conditional and deferred awards.

some covered earnings during 1951-69, 60 percent were men (table 1). Almost two-fifths of the men and one-fifth of the women did not receive cash payments at the time of award because they continued to work and had earnings above the allowable amount. They received conditional or deferred awards. Reduced benefits were payable at the time of award to more than two-thirds of the women, compared with slightly more than half the men. About one-third of the men and half the women were entitled to currently payable benefits at age 62. For both men and women, only 6 percent received benefits payable at award at age 65. Although women represented 40 percent of all workers entitled to retired-worker benefits in 1970, they comprised almost half of those claiming currently payable reduced benefits and only about one-fourth of the workers not eligible for payment at time of award.

Twenty-eight percent of the men entitled to benefits payable at award in 1970 had earnings at the taxable maximum (\$7,800) in 1968 or 1969,<sup>10</sup> and 50 percent had some covered earnings in each of the 19 years before entitlement (table 2). For women with benefits in the same payment status, the proportions were 5 percent and 24 percent, respectively. These women were about three times as likely as men to have earned less than \$2,400 in their highest earnings year and more than twice as likely to have worked fewer than 10 years during 1951-69.

<sup>10</sup> The annual taxable limit on covered earnings was \$3,600 in 1951-54; \$4,200 in 1955-58; \$4,800 in 1959-65; \$6,600 in 1966-67; and \$7,800 in 1968-71. The data exclude noncovered earnings—largely from the Federal Government and railroad employment—as well as amounts above the taxable maximum.

## LENGTH OF EMPLOYMENT

Length of employment is an important factor in determining the amount of basic benefits the retired worker receives, since his PIA is based on his average monthly earnings. The computation of this average took into account creditable earnings in the years beginning with 1951 up to the year in which the worker reached age 65 (age 62 in the case of women), less the 5 years of lowest earnings.<sup>11</sup>

Less than half the men who became entitled in 1970 to currently payable benefits at age 62 had covered employment in every year from 1951-69. About three-fifths of those who waited until age 65, and almost as many who became entitled to reduced benefits at ages 63 and 64, had 19 years of covered employment, as table 2 shows. Men past age 65 when they became entitled to benefits payable at award had less covered employment than any other group. Most of them had less than 10 years of covered employment, and fewer than 1 in 5 had covered earnings in each of the 19 years. About two-thirds of the men who received conditional or deferred awards had earnings in each of the 19 years.

A sizable number of the retirees aged 62 had extensive employment. The proportion with some covered earnings in each of the 19 years preceding entitlement was about three-fourths as large as that for men claiming full benefits payable at award at age 65 (46 percent compared with 60 percent). In both groups, approximately 3 out of 4 retired workers had covered earnings in at

<sup>11</sup> The 1972 amendments eliminated this difference. Starting January 1973 and becoming fully effective in January 1975, only years up to age 62 will be taken into account in computing benefits for men.

TABLE 2.—Highest covered earnings and years with covered earnings, 1951-69, by benefit-payment status at award and age at entitlement: Percentage distribution of workers aged 62 and over initially entitled in 1970 to retired-worker benefits payable and postponed at award

Highest covered earnings and years with covered earnings	Benefit-payment status at award							
	Payable benefits						Postponed benefits	
	Total	Reduced			Full			
		Total	Age 62	Age 63-64	Total	Age 65		Age 66 and over
	Men							
Total number (in thousands).....	449 1	387.5	236 6	150.9	61.6	43 4	18.2	262.1
Total percent.....	100 0	100 0	100 0	100.0	100 0	100.0	100.0	100.0
\$7,800.....	28.3	27.7	24.1	33.3	32 0	39.4	14.3	52.5
6,600-7,799.....	13 9	14 6	14.2	15.1	9 6	10.6	7.1	14.7
4,800-6,599.....	21.3	21.4	21.0	22.1	20 4	23 5	13.2	20.2
4,200-4,799.....	7.5	7.7	7 9	7.4	6 0	6.2	5.5	4.8
3,600-4,199.....	8 0	8 0	8 7	7.0	7.8	6.9	9.9	3 3
3,000-3,599.....	5 6	5.6	6.6	4 0	5.3	5.1	6.0	1.6
2,400-2,999.....	4 0	4.2	4 9	3.1	2 6	1.2	6.0	.9
Less than 2,400.....	11.5	10 8	12.6	8.0	16 2	7.1	37.9	1.9
Total percent.....	100.0	100.0	100.0	100 0	100.0	100 0	100 0	100.0
19.....	50.4	50.8	49 1	58.1	47.9	60.4	18.1	67.0
15-18.....	24.2	25.6	27 9	22.1	15 6	17.7	10.4	17.2
10-14.....	12.6	13.2	15 3	10 0	8 9	9.0	8.8	9 6
Less than 10.....	12 8	10 4	10.8	9.8	27.6	12.9	62.6	6.2
	Women							
Total number (in thousands).....	376.8	326 8	243 3	83.6	49.9	30 4	19.5	96.7
Total percent.....	100 0	100.0	100 0	100.0	100.0	100 0	100.0	100.0
\$7,800.....	5.3	5 0	3 9	8 1	7.0	9.5	3.1	19.8
6,600-7,799.....	4.6	4 5	3 7	7.1	5.4	6.6	3.6	10.3
4,800-6,599.....	15.0	14.7	13 2	18 9	16 8	22 0	8.7	29 3
4,200-4,799.....	7.7	7.3	7.2	7.8	10.2	11.8	7.7	11.4
3,600-4,199.....	9 6	10.0	9.6	11 0	7.0	9.9	2.6	13.1
3,000-3,599.....	11.8	12.3	12 9	10 5	8.6	8.9	8.2	8.7
2,400-2,999.....	11.0	11.3	11.8	10 0	9 0	8.2	10 3	3 0
Less than 2,400.....	35.0	34.9	37.7	26.6	35 9	23 0	55.9	4.4
Total percent.....	100 0	100 0	100.0	100.0	100.0	100.0	100.0	100 0
19.....	24.0	24.0	20 7	33 5	24.6	31.3	14.4	48 6
15-18.....	20 8	21 5	21.7	20 8	16.4	20.7	9.7	22.8
10-14.....	25.3	25 7	27.2	21.2	22 8	25 0	19.5	17.3
Less than 10.....	24 8	23.9	30.4	24.5	36.1	23.0	56.4	11.4

least 15 of the 19 years, and about 1 in 10 had worked fewer than 10 years in the previous 19. This degree of employment attachment for the men claiming benefits at age 62 is an improvement over the situation 4 years earlier. At that time the proportion of the younger men with some covered earnings in each of the 15 years then under study was barely two-thirds that for men entitled at age 65, with full benefits payable at award.<sup>12</sup> Almost 15 percent of the retirees at age 62, compared with 9 percent entitled at age 65, had worked fewer than 9 years in the 15-year period preceding their entitlement in 1966.

<sup>12</sup> Lenore E. Bixby and E. Eleanor Rings, "Work Experience of Men Claiming Retirement Benefits, 1966," *Social Security Bulletin*, August 1969, page 13.

### PIA and Years of Covered Employment

A positive correlation between length of employment and high PIA's can be seen in table 3. Approximately 88 percent of the men who became entitled to benefits payable at award in 1970 with a PIA of \$190 or more (1971 level) had some covered earnings in each of the 19 years from 1951-69. Less than 2 percent of those at that PIA level and 7 percent of those with a PIA between \$150 and \$189.90 had less than 15 years in covered employment.

At the lower end of the benefit range, more than two-thirds of the men entitled to the minimum PIA (\$70.40) with benefits payable at award had worked fewer than 10 years. As a matter of fact, less than one-tenth of the men

TABLE 3.—Years in covered employment, 1951-69, by primary insurance amount. Percentage distribution of men aged 62 and over initially entitled in 1970 to retired-worker benefits payable at award

Years in covered employment	Primary insurance amount (at 1971 levels)					
	Total	\$70 40	\$70 50-109 90	\$110 00-149 90	\$150 00-189 90	\$190 00 or more
Total number (in thousands).....	449.1	38.2	61.1	91.0	111.3	147.5
Total percent.....	100.0	100.0	100.0	100.0	100.0	100.0
19.....	50.4	.5	6.4	29.8	58.0	88.5
17-18.....	13.3	1.3	10.0	18.9	23.1	6.9
15-16.....	10.9	5.8	16.7	21.0	11.9	3.0
13-14.....	6.7	7.1	12.1	12.7	5.5	1.6
10-12.....	5.9	16.2	18.2	8.9	1.1	0
1-9.....	12.8	69.1	36.7	8.7	.4	.1

awarded the minimum PIA had covered earnings in as many as 15 years, and practically none had earnings in all 19 years. These proportions lend support to the assumption that many beneficiaries who receive the minimum PIA worked in covered employment and acquired eligibility only in their later years.

The recent increase in the number of years of covered employment for the beneficiaries aged 62, compared with those retiring at age 65, lessens the effect of this variable on the difference in benefit levels between these two groups of men. The relatively extended employment of the younger men, though at low earnings for many, increases their average monthly earnings by reducing the number of possible years with zero earnings that would otherwise be included in the PIA computation.

## REGENCY OF EMPLOYMENT

Work and earnings in the months immediately before an individual becomes eligible for retired-worker benefits can be the deciding factor in whether or not he claims benefits before age 65. Men who were out of work or who had a history of low earnings were very likely to file for reduced benefits payable at award as soon as they became eligible for benefits.

In 1970, men claiming payable benefits at age 62 were less likely than older retirees to have had covered employment in the calendar year immediately preceding the year of entitlement. About 14 percent of the men entitled to full cash benefits at age 65 had no covered earnings in 1969, but 22 percent of the retirees claiming currently payable benefits at age 62 were not employed

that year (table 4). One-tenth of the men filing for reduced benefits at ages 63-64, and 20 percent of those who became entitled after age 65, had no covered earnings in 1969. It is likely that, for many of the men first entitled after age 65, covered work in the year preceding entitlement was necessary to establish eligibility. Only 5 percent of the men whose awards were conditional or deferred had no covered earnings in the year immediately before entitlement.

Although 1 in 8 of the men who in 1970 claimed full benefits payable at age 65 had no covered employment after 1967, they apparently did not wish to become entitled until 1970. It is possible that they were engaged in noncovered work, or perhaps, had sufficient other income to permit them to wait until age 65 to draw full retired-worker benefits. About one-sixth of the 62-year-old retirees' last covered work was in 1967 or earlier, but they were not old enough to claim reduced retirement benefits until 1970. According to the SNEB findings, about 1 in 12 men initially entitled to payable benefits at age 65, and twice as large a proportion of those entitled at age 62 between July and December 1968, reported that they had not been employed for 3 years or more.<sup>13</sup> Presumably, benefits at this time were a source of much needed income to many of these men. In the same survey, 45 percent of the nonworking men aged 62 reported that they had no pensions and did not want to retire when they had to leave their jobs.<sup>14</sup> The likelihood that a larger proportion of men aged 62 are out of work more frequently and for longer periods immediately before retirement, compared with retirees aged 65, appears to be generally consistent over the years.<sup>15</sup>

A few companies in recent years have instituted mandatory retirement even before age 62 for a select group of employees,<sup>16</sup> and more and more pension plans are including early retirement options, with some offering substantial financial inducements for voluntary early retirement.<sup>17</sup> Some studies show conclusively, however,

<sup>13</sup> Patience Lauriat and William Rabin, SNEB Report No. 1, *op. cit.*, table 5, page 11.

<sup>14</sup> Virginia Reno, SNEB Report No. 3, *op. cit.*, page 18.

<sup>15</sup> See Lenore A. Epstein, "Early Retirement and Work-Life Experience," *Social Security Bulletin*, March 1966, and Lenore E. Bixby and E. Eleanor Rings, *op. cit.*

<sup>16</sup> "The Growing Trend to Early Retirement," *Business Week*, Oct. 7, 1972.

<sup>17</sup> Richard Barfield and James Morgan, *op. cit.*

TABLE 4.—Last year in covered employment, 1937–69, by benefit-payment status at award and age at entitlement: Percentage distribution of men aged 62 and over initially entitled in 1970 to retired-worker benefits payable and postponed at award

Last year in covered employment	Benefit-payment status at award							Postponed benefits
	Payable benefits							
	Total	Reduced			Full			
		Total	Age 62	Age 63–64	Total	Age 65	Age 66 and over	
Total number (in thousands).....	454.3	390.5	238.0	152.5	63.8	44.6	19.2	263.6
Total Percent.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1969.....	82.6	82.4	77.8	89.5	84.0	85.6	80.2	94.8
1968.....	4.6	4.9	6.7	2.2	2.7	2.0	4.2	1.2
1966–67.....	4.0	4.2	5.5	2.1	2.5	2.0	3.6	.6
1963–65.....	2.8	2.9	3.8	1.6	1.9	1.8	2.1	.9
1959–62.....	2.0	2.0	2.6	1.2	2.2	2.2	2.1	.9
1951–58.....	2.8	2.7	2.9	2.4	3.3	3.6	2.6	1.0
1950 and earlier.....	1.1	.8	.6	1.0	3.4	2.7	5.2	.6

that involuntary early retirement, for a variety of reasons—failing health the most prevalent—is a major factor in why many men elect to receive currently payable reduced benefits at age 62.<sup>18</sup> It is likely that among those entitled in 1970, the majority of the men who were not working also were involuntary early retirees.

### PIA and Recency of Employment

Classification by PIA for men entitled in 1970 to benefits payable at award, by latest year with covered earnings, emphasizes the association between recency of employment and size of the PIA (table 5). Covered earnings in 1968 and 1969 had added significance for workers who became entitled to retired-worker benefits in 1970 because of the new higher taxable earnings limit. The annual taxable maximum for covered earn-

<sup>18</sup> Virginia Reno, SNEB Report No. 3, *op. cit.*

TABLE 5.—Last year in covered employment, 1951–69, by primary insurance amount: Percentage distribution of men aged 62 and over initially entitled in 1970 to retired-worker benefits payable at award

Last year in covered employment	Primary insurance amount (at 1971 levels)					
	Total	\$70 40	\$70 50–109 90	\$110 00–149 90	\$150 00–189 90	\$190 00 or more
Total number (in thousands).....	449.1	38.2	61.1	91.0	111.3	147.5
Total percent.....	100.0	100.0	100.0	100.0	100.0	100.0
1969.....	83.6	64.4	62.4	80.3	85.7	97.8
1968.....	4.7	4.4	8.0	4.6	6.5	2.0
1966–67.....	4.0	7.3	6.2	5.7	5.3	2
1963–65.....	2.8	6.5	6.1	4.5	2.2	-----
1959–62.....	2.1	6.0	6.1	3.4	.2	-----
1951–58.....	2.8	11.3	11.3	1.4	.2	-----

ings had been raised from \$6,600 to \$7,800 effective in 1968. Inclusion of these higher earnings would be expected to have a favorable effect on the computation of the worker's PIA.

Beneficiaries entitled to the minimum PIA were less likely than those at any other PIA level to have had covered employment in the 2 years before entitlement. Almost one-third of them had no covered earnings in 1968 or 1969. Only 8 percent of the men with PIA's between \$150 and \$190 had no earnings in 1968 and 1969, and practically all beneficiaries whose PIA was \$190 or more had worked in those 2 years. About one-sixth of the retirees aged 62 and 12 percent of those entitled at age 65 had no covered employment in that period.

The exception to the rule that workers who continue working up through the year before entitlement generally receive higher PIA's would be most likely to be found among the early retirees with long years of employment at consistently low earnings and the late retirees entitled at age 66 and later. Although a high proportion of these older workers were employed in the year before entitlement, they generally had low earnings and few years of covered employment.

### LEVEL OF EARNINGS

The amount of covered earnings is another significant variable that may affect the worker's decision on early retirement and that directly affects the amount of benefits he will receive. It is only one factor, however, in a complex rela-

tionship that also involves such factors as when the wages were earned and over how long a period of time. The level of covered earnings seems to have a direct relationship to the number of years of employment and to the employment status of the worker in the years immediately preceding entitlement. Employees with high earnings generally work longer, and more often up until they retire, than do those at lower earnings levels.

Among retired men who become entitled to benefits payable at award, those claiming benefits at age 65 have higher earnings than those entitled at ages 62-64 and at age 66 and over. About one-fourth of the men who became entitled in 1970 at age 62 had earned the current taxable maximum of \$7,800 and two-fifths of those who waited until age 65 to claim their benefits had attained this earnings level, as shown in table 2. The proportions with highest covered earnings in the broad range from \$3,000-\$6,599 were almost identical for the retirees aged 62 and those aged 65, but the younger men were twice as likely to have earned less than \$3,000 a year in their year of highest earnings between 1951 and 1969.

#### **Highest Earnings and Number of Years**

The percentage of beneficiaries who worked in all 19 years, 1951-69, was much higher among those whose earnings in their highest year reached \$7,800 than among retirees with lower earnings in their best-paid year (table 6). At the \$7,800 maximum, for example, for all except the group over age 65, the ratio of men with some covered earnings in each year of the period to men with earnings in 17 or 18 years was more than 10 to 1. At the other end of the scale, about half of the men aged 62-64 with peak earnings under \$2,400 had fewer than 10 years in covered employment.

Although the correlation of high earnings with long years of covered employment is close, the proportion for the retirees aged 62 is below that for men at age 65. Slightly more than two-fifths of the men retiring at age 62 with 19 years of covered employment had earned \$7,800 in either 1968 or 1969, but 57 percent of the retirees aged 65 with earnings in the same 19 years earned at least that amount. Further comparison shows that 21 percent of the younger men having at least 15 years of covered employment had never

earned as much as \$4,800, but only 12 percent of the men retiring at age 65 with 15 or more years of employment earned less than this amount in their year of highest earnings. These disparities point up the fact that even with identical length of employment, the early retirees are more likely to have low earnings than are those retiring at age 65.

Men electing reduced benefits payable at age 62 had low earnings for longer periods than men who became entitled at age 63 or later. About a third of the beneficiaries aged 62 with highest annual earnings under \$3,000 had worked at least 15 years for such low earnings. A much smaller percentage of men retiring at age 63 or later (less than one-tenth of those aged 65) with peak earnings under \$3,000 had worked as many as 15 years. These findings suggest that extended employment at very low wages tends to induce many workers to claim early benefits.

#### **PIA and Level of Earnings**

Since the PIA is based on average monthly earnings, its size is necessarily correlated with the level of covered earnings, modified by the number of years of covered employment. Of the men entitled to benefits payable at award in 1970, 28 percent earned the taxable maximum of \$7,800 in their highest earnings year, but 12 percent never had as much as \$2,400 in covered earnings in any year between 1951 and 1969. Almost three-fourths of the men awarded a PIA of \$190 or more had covered earnings of at least \$7,800, but almost 83 percent of those who received the minimum PIA of \$70.40, adjusted to the 1971 benefit rate, had highest earnings of less than \$2,400 (table 7). The minimum PIA is associated with relatively low covered earnings throughout the beneficiary's working years. Only about 1 out of 10 men who became entitled to the minimum PIA had ever earned \$3,000 or more, but all who received a PIA of \$190 or more earned at least \$4,800 in their year of highest earnings.

#### **Entitlement Age and Highest and Latest Covered Earnings**

Many workers undoubtedly earn as much or more in their last year of work as in any previous year. A sizable number, however, do suffer declines in earnings before they retire. These de-

TABLE 6.—Highest covered earnings and years with covered earnings, 1951–69, by benefit-payment status at award and age at entitlement: Percentage distribution of men aged 62 and over initially entitled in 1970 to retired-worker benefits payable and postponed at award

Highest covered earnings and years with covered earnings	Benefit-payment status at award							Postponed benefits	
	Payable benefits						Total		
	Total	Reduced			Full				
		Total	Age 62	Age 63-64	Total	Age 65			Age 66 and over
Total number (in thousands).....	449 1	387.5	236 6	150 9	61.6	43 4	18.2	262.1	
Total percent.....	100 0	100.0	100.0	100 0	100.0	100 0	100.0	100.0	
\$7,800.....	28.3	27.7	24 1	33 3	32.0	39 4	14.3	52.5	
19.....	28.9	22.2	19 4	26 7	26 9	34 3	9.3	39.6	
17-18.....	2.0	2.0	1.8	2 4	1.9	2 1	1.6	4.3	
15-16.....	1.7	1.8	1.4	2 4	1.0	.9	1.1	3.1	
10-14.....	1 3	1.3	1.3	1 4	1.3	1.6	.5	4.0	
1-9.....	.4	.3	.3	.3	.8	.5	1.6	1.5	
6,600-7,799.....	13 9	14.6	14 2	15.1	9.6	10.6	7.1	14.7	
19.....	8 7	9.2	8.4	10 4	5 5	7.4	1.1	10.8	
17-18.....	2.9	3 1	3.6	2 2	1.8	1.8	1.6	1.6	
15-16.....	1.1	1.2	1.0	1.5	.5	.7	-----	1.3	
10-14.....	.7	.8	.9	.7	.2	.2	-----	.7	
1-9.....	.4	.3	.3	.2	1.6	.5	4.4	.2	
4,800-6,599.....	21.3	21.4	21.0	22.1	20.4	23.5	13.2	20.2	
19.....	11.1	11.2	9.7	13.6	10.2	12.4	4.9	12.1	
17-18.....	3 9	3.9	4.2	3 4	3.4	4.1	1.6	2.6	
15-16.....	2.7	2.9	3.3	2.2	1.8	2.1	1.1	1.9	
10-14.....	2 4	2.5	2 8	1 9	2 4	3 2	.5	2.6	
1-9.....	1.2	.9	1.0	.9	2.5	1.6	4.9	1.1	
4,200-4,799.....	7.5	7.7	7.9	7 4	6.0	6.2	5.5	4.8	
19.....	2.8	2 9	2.7	3 0	2.6	3.2	1.1	2.3	
17-18.....	1.2	1.3	1.6	.9	.5	.7	-----	.7	
15-16.....	1.0	1.1	1.1	1.2	.6	.7	.5	.3	
10-14.....	1.4	1.4	1.6	1.2	1.1	.9	1.6	.7	
1-9.....	1.0	1.0	8	1.1	1.1	.7	2.2	.8	
3,600-4,199.....	8.0	8.0	8.7	7.0	7.8	6.9	9.9	3.3	
19.....	2.2	2.4	2 3	2.5	1.3	1.4	1.1	1.4	
17-18.....	1.2	1.3	1.4	1.2	.8	.9	.5	.3	
15-16.....	1.3	1 3	1.4	1.1	1.5	1.6	1.1	.2	
10-14.....	1.4	1.5	1.8	1.0	1.0	.7	1.6	.6	
1-9.....	1.8	1.6	1.9	1.1	3.2	2.3	5.5	.8	
3,000-3,599.....	5 6	5.6	6 6	4.0	5.3	5 1	6.0	1.6	
19.....	1 5	1.6	1.9	1.1	.8	1.2	-----	.5	
17-18.....	.9	1.0	1.3	.4	.5	.7	-----	.2	
15-16.....	1 2	1.3	1 6	.9	.8	1.2	-----	.3	
10-14.....	1.2	1.3	1.4	1.3	.8	.5	1.1	.2	
1-9.....	.7	.4	.5	.3	2.6	1.6	4.9	.4	
2,400-2,999.....	4 0	4.2	4 9	3 1	2.6	1.2	6.0	.9	
19.....	.6	.7	.9	.3	.3	.5	-----	.2	
17-18.....	.4	.4	.5	.3	-----	-----	-----	.1	
15-16.....	.7	.8	.9	.6	.2	.5	.5	.1	
10-14.....	1.1	1 2	1 4	.8	.5	.5	.5	.2	
1-9.....	1.2	1.1	1.2	1.1	1.6	.2	4.9	.3	
Under \$2,400.....	11.5	10 8	12 6	8.0	16.2	7.1	37.9	1.9	
19.....	.5	.6	.7	.3	.2	-----	.5	-----	
17-18.....	.8	.9	1.1	.6	.2	-----	.5	(1)	
15-16.....	1.2	1 3	1.8	.5	.2	.2	-----	.1	
10-14.....	3 0	3 2	4.1	1.7	1.8	1.4	2.7	.6	
1-9.....	6 1	4 8	4.8	4.8	14.0	5.5	34.1	1.2	

<sup>1</sup> Less than 0.05 percent.

clines from peak earnings may have been caused by ill health, job shifts, or layoffs or simply by the fact that some men who had had full-year jobs worked only part of the last year before becoming entitled to benefits. An earnings decline in the year before entitlement for all age groups entering the benefit rolls in 1970 is consistent with previous findings of this general occurrence.<sup>19</sup>

<sup>19</sup> See Lenore A. Bixby and E. Eleanor Rings, *op. cit.*

As shown earlier, men who retired in 1970 at age 62 with benefits payable at award were more likely to be out of work in 1968-69 than those who claimed benefits at age 65. They were only about half as likely as the retirees aged 65 to have maximum earnings of \$7,800 in their last year before entitlement (table 8). At the same time, these early retirees showed a much greater tendency than any other age group, except for men who became entitled after age 65, for their latest



TABLE 7.—Highest covered earnings, 1951-69, by primary insurance amount: Percentage distribution of men aged 62 and over initially entitled in 1970 to retired-worker benefits payable at award

Highest covered earnings	Primary insurance amount (at 1971 levels)					
	Total	\$70 40	\$70 50-109 00	\$110 00-149 00	\$150 00-189 00	\$190 00 or more
Total number (in thousands).....	449 1	38 2	61 1	91.0	111.3	147 5
Total percent.....	100 0	100 0	100 0	100.0	100 0	100 0
\$7,800.....	28 3	.3	.3	3.5	13 1	73.9
6,600-7,799.....	13 9		1.8	4 9	23 9	20.4
4,800-6,599.....	21 3	1 8	5.4	27.7	52 0	5.7
4,200-4,799.....	7.5	1.0	8.2	20.7	8 4	-----
3,600-4,199.....	8.0	3 9	17.3	23.2	2 4	-----
3,000-3,599.....	5.6	2 9	17.7	14 3	.2	-----
2,400-2,999.....	4 0	7.3	17.7	4 7	-----	-----
Less than 2,400.....	11.5	82.7	31.6	1.0	-----	-----

earnings to fall below \$2,400. The following tabulation compares the percentage distributions by highest and latest covered earnings levels for men retiring in 1970 at ages 62 and 65:

Amount	Age 62		Age 65	
	Highest earnings	Latest earnings	Highest earnings	Latest earnings
\$7,800.....	24.1	20 3	39.4	37.1
6,600-7,799.....	14 2	7.5	10.6	10.1
4,800-6,599.....	21.0	13.3	23.5	19 8
4,200-4,799.....	7.9	5.4	6.2	5.3
3,600-4,199.....	8 7	5.5	6 9	4.4
3,000-3,599.....	6.6	5 3	5.1	5.3
2,400-2,999.....	4 9	6.8	1.2	2 8
Less than 2,400.....	12 6	36.0	7.1	15 2

Neither age group showed much of a drop in the percent with \$7,800 since earnings of that amount were creditable only in 1968 and 1969. Among those in each group whose highest earn-

TABLE 8.—Latest covered earnings, 1951-69, by benefit-payment status at award and age at entitlement: Percentage distribution of men aged 62 and over initially entitled in 1970 to retired-worker benefits payable and postponed at award

Latest covered earnings	Benefit-payment status at award							Postponed benefits
	Payable benefits							
	Total	Reduced			Full			
		Total	Age 62	Age 63-64	Total	Age 65	Age 66 and over	
Total number (in thousands).....	449 1	387.5	236 6	150.9	61.6	43.4	18.2	262.1
Total percent.....	100.0	100.0	100.0	100 0	100 0	100 0	100 0	100.0
\$7,800.....	25 0	24.3	20.3	30 6	29.5	37.1	11.5	50.1
6,600-7,799.....	8.7	8.7	7.5	10 6	8.4	10.1	4 4	12.1
4,800-6,599.....	15 3	15.1	13 3	18.0	16 9	19 8	9 9	18.5
4,200-4,799.....	5.3	5.5	5 4	5 7	4 2	5 3	1 6	4.9
3,600-4,199.....	5.5	5.5	5 5	5 5	5 5	4.4	8.2	4.0
3,000-3,599.....	5 3	5.2	5 3	5 2	5.8	5 3	7.1	2 8
2,400-2,999.....	5 8	6 2	6 8	5 2	3 4	2 8	4 9	1 8
Less than 2,400.....	29.0	29.5	36.0	19.3	26.1	15 2	52 2	5 9

ings were \$4,800 or more, however, nearly a third of the younger men did not maintain that level in their latest year and less than a tenth of the men entitled at age 65 fell below that level. For both groups, the proportions with less than \$2,400 as their latest covered earnings rose sharply. Only 13 percent of the men who became entitled at age 62 had never earned \$2,400 or more, but almost three times as many earned less than that amount in their latest year with earnings before entitlement. By contrast, 7 percent of the group aged 65 had highest earnings of less than \$2,400, and twice as many of them had these low earnings in the year before they became entitled. Table 9 shows the year in which these workers received their latest earnings.

The earnings distribution of men whose benefits were postponed at award was significantly better than for any other group of workers. Half these men had \$7,800 as their latest covered earnings, and only 6 percent earned less than \$2,400 in the year before entitlement (table 8). This finding was to be expected, since most workers with benefit awards in conditional status file for retirement benefits at age 65 mainly to establish coverage for hospital insurance benefits under Medicare and do not consider themselves as retired. The picture was not so bright for the men who became entitled to payable benefits after age 65. Only 1 in 8 earned \$7,800 in the last year worked before benefits were awarded, and more than half of this group earned less than \$2,400 in that year. For these men the earnings in their last year were the least favorable of the earnings of any who retired in 1970.

## PIA and Latest Covered Earnings

Distribution by latest covered earnings indicates that more than three-fourths of the men entitled to currently payable benefits, based on a PIA of less than \$110 (at 1971 rates), made less than \$2,400 in their latest earnings' year (table 10). About 94 percent of those who received the minimum PIA had earnings that low in their latest work year. The proportion of beneficiaries aged 62 with latest covered earnings of less than \$2,400 was more than twice as large as for those aged 65, but those who became entitled

at age 66 or later were the worst off with respect to latest earnings.

All but 5 percent of the men awarded a PIA of \$190 or more, with benefits payable at award, had latest covered earnings of at least \$4,800. Two out of 3 at these high PIA levels reached the \$7,800 taxable maximum as their latest earnings. The less favorable earnings for the early retirees in the last year worked, in addition to the greater tendency for them to be out of work in the year before entitlement, are certainly factors tending to increase the chances of lower PIA's for these men than for the retirees aged 65.

TABLE 9.—Latest covered earnings and last year in covered employment, 1951-69, by benefit-payment status at award and age at entitlement: Percentage distribution of men aged 62 and over initially entitled in 1970 to retired-worker benefits payable and postponed at award

Latest covered earnings and last year in covered employment	Benefit-payment status at award							Postponed benefits	
	Payable benefits								
	Total	Reduced			Full				
		Total	Age 62	Age 63-64	Total	Age 65			Age 66 and over
Total number (in thousands).....	449.1	387.5	236.6	150.9	61.6	43.4	18.2	262.1	
Total percent.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
\$7,800.....	25.0	24.3	20.3	30.6	29.5	37.1	11.5	50.1	
1969.....	24.7	23.9	19.7	30.5	29.4	36.9	11.5	49.9	
1968.....	.3	.4	.5	.1	.2	.2		.2	
6,600-7,799.....	8.7	8.7	7.5	10.6	8.4	10.1	4.4	12.1	
1969.....	7.9	7.9	6.4	10.3	7.8	9.4	3.8	12.0	
1968.....	.3	.3	.4		.3	.2	.5	.1	
1966-67.....	.5	.5	.6	.3	.3	.5		0	
4,800-6,599.....	15.3	15.1	13.3	18.0	16.9	19.8	9.9	18.5	
1969.....	14.2	13.9	11.5	17.6	16.1	18.7	9.9	18.1	
1968.....	.4	.5	.7	.1	.2	.2		.1	
1966-67.....	.3	.3	.4	.1	.5	.7			
1963-65.....	.3	.4	.5	.1	.2	.2		.2	
1959-62.....	.1	.1	.1	.1				0	
4,200-4,799.....	5.3	5.5	5.4	5.7	4.2	5.3	1.6	4.9	
1969.....	4.9	5.1	4.9	5.4	3.7	4.6	1.6	4.8	
1968.....	0	0	0					0	
1966-67.....	1	2	.2					0	
1963-65.....	.1	.1	.1	.1	.2	2		0	
1959-62.....	0	.1	.1					0	
1951-58.....	.1	.1	0	.1	.3	.5		0	
3,600-4,199.....	5.5	5.5	5.5	5.5	5.5	4.4	8.2	4.0	
1969.....	4.9	5.0	4.8	5.2	4.5	3.5	7.1	3.7	
1968.....	.2	.2	.3	1	.5	.2	1.1	0	
1966-67.....	.1	.1	.2		.2	.2		0	
1963-65.....	.1	.1	.2	.1				0	
1959-62.....	0				.2	.2		.1	
1951-58.....	.1	.1	.1	.1	.2	.2		0	
3,000-3,599.....	5.3	5.2	5.3	5.2	5.8	5.3	7.1	2.8	
1969.....	4.7	4.5	4.3	4.9	5.5	4.8	7.1	2.7	
1968.....	3	.3	.5	.1	.2	.2		.1	
1966-67.....	.1	.1	.1	1					
1963-65.....	1	.1	.2					0	
1959-62.....	0	.1	.1					0	
1951-58.....	.1	.1	.1	.1	.2			0	
2,400-2,999.....	5.8	6.2	6.8	5.2	3.4	2.8	4.9	1.8	
1969.....	4.8	5.1	5.5	4.6	2.4	2.3	2.7	1.4	
1968.....	.4	.4	.7	.1	.2	2		.1	
1966-67.....	.4	.3	.4	.2	.5		1.6	0	
1963-65.....	.2	.2	.2	.1	.2		.5	0	
1959-62.....	.1	.1	0	.1	.2	.2			
1951-58.....	0	0		.1				.1	
Less than 2,400.....	29.0	29.5	36.0	19.3	26.1	15.2	52.2	5.9	
1969.....	17.5	17.5	21.2	11.8	17.5	7.8	40.7	2.8	
1968.....	2.7	2.9	3.6	1.7	1.3	.7	2.7	.5	
1966-67.....	2.5	2.7	3.6	1.5	1.1	.7	2.2	.5	
1963-65.....	2.0	2.1	2.7	1.3	1.5	1.4	1.6	.6	
1959-62.....	1.8	1.8	2.2	1.0	1.9	1.8	2.2	.8	
1951-58.....	2.5	2.4	2.7	2.1	2.8	2.8	2.7	.8	

TABLE 10—Latest covered earnings, 1951-69, by primary insurance amount. Percentage distribution of men aged 62 and over initially entitled in 1970 to retired-worker benefits payable at award

Latest covered earnings	Primary insurance amount (at 1971 levels)					
	Total	\$70.40	\$70.50-109.90	\$110.00-149.90	\$150.00-189.90	\$190.00 or more
Total number (in thousands).....	449.1	38.2	61.1	91.0	111.3	147.5
Total percent.....	100.0	100.0	100.0	100.0	100.0	100.0
\$7,800.....	25.0	.3	3	3.1	10.6	66.0
6,600-7,799.....	8.7	-----	1.0	2.7	9.7	16.9
4,800-6,599.....	15.3	.8	3.6	12.9	33.6	11.7
4,200-4,799.....	5.3	.3	2.9	9.6	10.3	1.2
3,600-4,199.....	5.5	1.8	2.9	12.9	9.1	.3
3,000-3,599.....	5.3	.5	9.0	11.0	6.6	.6
2,400-2,999.....	5.8	2.6	8.5	14.0	5.7	6
Less than 2,400.....	29.0	93.7	71.7	34.0	14.5	2.5

### TRENDS AND COMPARISONS IN EARNINGS LEVELS

There are substantial differences in the level and extent of earnings between men claiming currently payable benefits as early as possible and those retiring at age 65 with benefits payable at the time of the award. Men electing full benefits at age 65 had higher earnings and more years of employment at these high earnings. Their earnings in the years immediately before retirement were also less likely to decline.

Despite the gap between the earnings levels of beneficiaries aged 62 and those aged 65, the early retirees have shown some improvement relatively, as the following figures show.

Highest covered earnings and year of entitlement	Percent with specified amount at—	
	Age 62	Age 65
Less than \$3,000		
1966.....	28.2	12.6
1970.....	17.5	8.3
\$4,800 or more		
1966.....	45.2	71.5
1970.....	59.3	73.5

For both the age groups the proportion with highest earnings less than \$3,000 was smaller in 1970 than in 1966. Even so, the early retirees, in both 1966 and 1970, were more than twice as likely as the older beneficiaries to have had these low earnings as their highest earnings level. The proportion of men earning \$4,800 or more in their year of highest earnings has remained relatively stable for those men who wait until age 65 to draw full benefits. The percentage of those en-

titled at age 62 with peak earnings of at least \$4,800 has risen, however, both within that age group and in comparison with the beneficiaries aged 65 with similar high earnings.

Long years of employment at high income levels are usually associated with men who wait until age 65 to draw full benefits. Thus, the generally rising level of earnings and more favorable employment experience of the men retiring before age 65 in recent years are certainly notable. In 1970, however, these factors apparently have not affected the decision of a very sizable proportion of worker-beneficiaries to claim cash benefits at the earliest possible age. As a group, the retirees aged 62 still have a history of comparatively long-term, low earnings.

### SUMMARY AND IMPLICATIONS

This report compares the work-life characteristics of men who claim reduced retired-worker benefits and those who draw full benefits. The focus of the comparison is on men who became entitled at the earliest possible time (age 62) and on those entitled at age 65.

Many variables affect the worker's decision to retire at a given time. Apart from poor health that makes a willing individual unable to work, it seems reasonable to conclude on the basis of findings in several other studies on retirement that the decision to retire voluntarily is a function of the size of the retirement or replacement income. Work attachment and level of earnings are the basic determinants of the amount of benefits the retired worker will receive because they are the ingredients of the PIA formula.

Fifty-five percent of all men who became entitled in 1970 elected to receive reduced benefits payable at award. Men claiming reduced benefits payable at age 62, on the average, had lower earnings and fewer years of employment and consequently received lower PIA's than the men who drew full benefits, payable at award at age 65.

Among men who elect reduced benefits, the characteristics of those entitled at age 62 and those entitled at ages 63-64 show notable differences. Men entering the rolls at ages 63 and 64 show a close similarity in the level of earnings and duration of employment to those who wait until age 65 to collect full benefits. About 3 out of 5 of the beneficiaries entitled at ages 63 and

64 had some covered earnings in each year from 1951-69, but less than half of those who elected to receive benefits at age 62 had worked in all 19 years.

The workers entitled to benefits payable at award at age 66 or later had the least attachment to the labor force of any group, in terms of level of covered earnings and years of covered employment. The men whose benefits were postponed at time of award had the best earnings records. In general, they have higher earnings and have worked longer and more consistently than any other group. They would therefore, on the average, be expected to receive higher PIA's than those who began drawing benefits upon entitlement.

The foregoing analysis shows that many men entitled at 62 are disadvantaged. That is, considerable intercorrelation is evident among certain unfavorable work-related variables that may have some influences on their decision to retire early—such as low earnings and relatively long but perhaps discontinuous or incomplete employment. The benefit rate resulting from these factors could hardly be considered an income incentive that would lead to employee-initiated early retirement. It is not surprising, then, that the SNEB findings show that among men entitled at age 62 who were not working on the survey date, only 14 percent indicated they had no pension except their social security benefit and had retired willingly, but 45 percent reported they had no second pension and did not want to retire.<sup>20</sup>

Since 1966, however, some of the differences between men aged 62 and 65 at entitlement have narrowed. For the younger men, length of employment and earnings levels have improved relatively, although the percentage out of work for 12 months or more before the year in which they become entitled to benefits has not changed. The CWSHS data also show benefits claimed at the earliest possible age by some men with favorable work and earnings experience, who presumably felt they were financially able to retire. Almost half of the 62-year-old men did have some covered earnings in each of the 19 years before entitlement to social security benefits, and nearly three-fifths had peak earnings of at least \$4,800—with about one-fourth earning at the

\$7,800 taxable maximum, first effective in 1968.

It may be asked to what extent social security benefits present the complete income picture for the retirees. Additional sources of income for new beneficiaries include private pensions, other public pensions, continued employment, and income from assets. The size of asset income is usually small, however, and nearly one-third of the men awarded payable benefits at age 62 from January to July 1970 had neither earnings nor second pensions to supplement their benefits.<sup>21</sup> The improvement shown in the work history of the early retirees between 1966 and 1970 is therefore of particular significance, since a favorable work history usually means sources of retirement income in addition to social security benefits. As a matter of fact, the SNEB data also showed that, in addition to the involuntary retirees, 24 percent of all nonworking men entitled at age 62 retired willingly with second pensions and had a median income of \$4,100 from all retirement benefits.<sup>22</sup>

Few would disagree about the inadequacy of retirement income for workers with long years of employment at consistently low earnings and, consequently, little or no retirement income other than their social security benefits. Recent benefit increases—especially the 20-percent increase enacted in 1972—have improved the economic situation for beneficiaries. The 1972 amendments, with the introduction of a special minimum benefit for long-term, low-income workers, and the provision for automatic adjustment of regular benefit rates to increases in the cost of living also should help future retirees.

For simplicity, the term retirement as used here, is synonymous with entitlement to retired-worker benefits. For many low-paid workers, however, it makes economic sense to retire only partly, if at all, at entitlement and to claim reduced benefits and continue working if they can. This situation will probably continue in the future. The workers for whom such a course is necessary perhaps consider social security benefits as supplemental to their low earnings rather than vice versa. Although liberalization of the retirement test tends to favor the beneficiary who continues to work and receive relatively high earnings, recent modifications of the test could

<sup>21</sup> Alan Fox, *Income of Newly Entitled Beneficiaries, 1970*, SNEB Report No. 10, table 3.

<sup>22</sup> Virginia Reno, SNEB Report No. 3, *op. cit.*, table 7.

<sup>20</sup> Virginia Reno, SNEB Report No. 3, *op. cit.*, table 7.

mean a proportionately significant addition to the budget of the early retiree who receives a low monthly benefit and no other retirement income.<sup>23</sup> To the extent that some of these retirees are able to control their earnings, they could be expected to earn higher amounts with which to supplement their benefits.

On the other hand, it may be that, based on the differences in work experience of the persons who claim benefits before age 65, attitudes are changing so that a growing number of people want to retire early. The men who have the financial resources to retire completely, and those who are forced to leave their jobs for health or other reasons, may be joined by others influenced in their retirement decision by flexible retirement, the increased promotion of leisuretime activities (some with little or no cost), special discounts for the aged, and "volunteerism."<sup>24</sup> There is growing awareness of and interest in these alternatives, and some individuals may be willing to trade them for some economic loss.

The available literature on retirement seems to indicate that more and more voluntary early retirees will be workers who planned for early retirement and financially are somewhat prepared for it. At this time, it appears likely that early retirement will continue to be common. Whether a significantly larger proportion of workers will opt for early retirement, however, will depend upon developments in the social security program and in the private pension field, as well as the general economy.

### Technical Note\*

The estimates presented here are based on a sample of persons from the Social Security Ad-

---

<sup>23</sup> Beginning 1974, workers under age 72 may earn \$2,400 without reduction in benefits. Effective January 1973, the \$1-for-\$1 reduction in the old law has been eliminated. The 1973 law provides for a \$1 reduction in benefits for each \$2 of all earnings above \$2,400. For any month in which a beneficiary earns less than \$200, no benefits are withheld.

<sup>24</sup> More detailed information, including some relating to these items, is expected to be obtained through a 10-year study, begun by the Social Security Administration, on the process of retirement in the United States. See Lola M. Irelan, "Retirement History Study: Introduction," *Social Security Bulletin*, November 1972.

\* Prepared by Bennie A. Clemmer, Division of Retirement and Survivor Studies.

ministration's Continuous Work History Sample (CWHHS). The sample for this article consists of approximately 12,100 persons in the CWHHS who became entitled to retired-worker benefits, both payable and postponed, during 1970, regardless of when they were actually awarded these benefits. Some of the workers opted to postpone receipt of their cash benefits. Others who qualified for and elected to receive retroactive benefits may have filed their initial claim up to 12 months after the month of entitlement. Awards were for the period from January 1970 through March 1972.

Information concerning individuals in the CWHHS is derived from the reporting forms and records used in administering the OASDHI program. Data on age, sex, and race are obtained from the employee's application for a social security number. Data on amount of earnings and employment are derived from the report forms submitted by employers and self-employed persons.

### Sample Design

The sample for the CWHHS consists of all individuals whose social security numbers have specified combinations of digits in the serial number component (explained below). This procedure was designed to provide a sample of approximately 1 percent of the individuals in any designated target population.

The social security number contains geographical and chronological indicators and a serial number: the first three digits show the area in which the number was issued, the next two digits are the group number, and the final four digits represent the serial number. Each area-group combination defines a stratum. Within each of these strata, the selection is made on the basis of the specified combinations of digits in the serial number component. Because of the particular digital combinations used, the procedure for sampling within strata can be described as a systematic sample of clusters, with subsampling to obtain the overall sampling fraction of 1 percent.<sup>25</sup>

---

<sup>25</sup> For a more detailed discussion of the sampling procedures used for the CWHHS, see *Workers Under Social Security, 1960*, Office of Research and Statistics, 1968.

## Sampling Variability

The standard error is a measure of sampling variability. The chances are about 68 out of 100 that the difference between a sample estimate and the comparable value obtained from a complete tabulation is less than the standard error. The chances are about 95 out of 100 that the difference is less than twice the standard error.

The effects of clustering and stratification in the design, as well as sample size, must be taken into account in determining the standard error. Although these effects are not the same for all

TABLE I.—Approximations of standard errors of estimated number of persons

Size of estimate	Standard error
10,000.....	1,000
25,000.....	1,600
50,000.....	2,300
75,000.....	2,900
100,000.....	3,300
250,000.....	5,300
500,000.....	7,500
750,000.....	9,200
1,000,000.....	10,600
2,000,000.....	14,900

TABLE II.—Approximations of standard errors of estimated percentages

Size of base	Estimated percentages						
	2 or 98	5 or 95	10 or 90	20 or 80	30 or 70	40 or 60	50
25,000.....	0.9	1.4	2.0	2.6	3.0	3.2	3.3
50,000.....	.6	1.0	1.4	1.9	2.1	2.3	2.3
75,000.....	.5	.8	1.1	1.5	1.7	1.9	1.9
100,000.....	.5	.7	1.0	1.3	1.5	1.6	1.6
250,000.....	.3	.4	.6	.8	1.0	1.0	1.0
500,000.....	.2	.3	.4	.6	.7	.7	.7
750,000.....	.2	.3	.4	.5	.6	.6	.6
1,000,000.....	.2	.2	.3	.4	.5	.5	.5
2,000,000.....	.1	.2	.2	.3	.3	.4	.4

variables, the following tables provide general approximations of the standard error of the number of individuals (table I) or the percentage of individuals (table II) with a given characteristic. The standard error of an estimate of the percentage of individuals with a given characteristic who belong to some subpopulation depends on both the size of the percentage and the size of the subpopulation. Linear interpolation may be used for percentages and subpopulations not shown in the tables.