

Notes and Brief Reports

Reduced Benefit Awards to Retired Workers: Measuring Extent of Early Retirement*

Until 1956 all applicants for old-age (retired-worker) benefits under the social security program were required to be at least age 65. The 1956 amendments provided that women retiring at age 62 could receive actuarially reduced benefits, and benefits at a reduced rate were made available by the 1961 amendments to men retiring as early as age 62.¹ The reduction in the benefit amount is based on the number of months before age 65 that benefits are claimed and is a permanent one (except that the amount is refigured at age 65 and adjusted to take account of any months the benefit was not paid because the beneficiary was working or for other reasons).

The BULLETIN publishes data regularly in table Q-6 (March, June, September, December) on the number and amount of benefits awarded to persons who have elected early entitlement to benefits. The table also shows such awards as a percent of all awards to retired workers—an overall measure of the proportion of workers who accept a small benefit amount in order to get it sooner.

The data published in table Q-6 show that an increasingly larger proportion of women retirees have chosen early retirement and the smaller benefit. Reduced benefit awards to retired women workers rose from more than 53 percent of all retirement awards to women in 1957 to 68 percent in 1964. Toward the end of 1965, the percentage of women with awards at full-benefit rates rose sharply.

About half the men retiring since 1961 have chosen to apply for reduced benefits before age 65, according to table Q-6. The proportion electing early retirement was relatively stable till the

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¹The 1956 amendments also lowered to 62 the minimum age for receipt of benefits for wives (with a reduced amount), widows, and female parents of insured workers. The 1965 amendments made it possible for widows to elect to receive a reduced benefit at age 60.

last quarter of 1965. Then the percentage of awards made to men at reduced rates showed a substantial decline.

With the initiation of health insurance for the aged under the 1965 amendments, it became necessary for insured persons aged 65 and over, who were not already beneficiaries, to establish their entitlement to benefits in order to be eligible for hospital benefits. As a consequence, the number of persons filing applications before actual retirement showed a marked increase in 1965.

It is this influx of persons to the program rolls that accounts for the recent substantial increases in the number of benefit awards. It has also had the result that a clear picture of the relationship of early-retirement awards to all retired-worker awards cannot be obtained unless certain adjustments are made in the total number of retirement benefit awards. Even before the enactment of the health insurance program, the total number of these awards included many that were made to persons not actually retiring or that did not involve a choice between early and normal retirement.

This note presents data for 1963-65 on the number and average amount of reduced and total awards to retired workers that have been adjusted to make it possible to gauge more accurately the effect of the early retirement options. The tables show adjusted data on total awards that exclude (1) awards made when a disabled worker's benefit is converted to a retirement benefit at age 65, (2) awards made to persons aged 72 and over entitled under the transitional insured-status provisions of the 1965 amendments, and (3) those not involving retirement at the time of award (in conditional or deferred-payment status).

Disability benefit conversions are made when the person receiving a benefit because of disability reaches age 65; his benefit is no longer counted as a disability benefit and the payment (usually the same amount) is made from the old-age and survivors insurance trust fund instead of the disability insurance trust fund. Retirement benefit awards of this type are not additions to the beneficiary rolls but a shift from one beneficiary type to another.

Persons added to the rolls as a result of the transitional insured-status provisions are a special category of beneficiaries (aged 72 or over and without enough coverage under the program

TABLE 1.—Number of awards to retired workers, by reduction status, 1963–65

Period	Total	Adjusted total ¹	Awards not reduced for early retirement					Awards reduced for early retirement ³		
			Total	To new beneficiary			Disability conversions	Number	Percent of—	
				Currently payable ²	Conditional and deferred	Transitional insured status			Total	Adjusted total
Total										
1963.....	1,145,602	970,240	526,090	350,728	124,698	-----	50,664	619,512	54.1	63.9
1964.....	1,041,807	883,302	449,001	290,496	113,160	-----	45,345	592,806	56.9	67.1
1965, total.....	1,183,156	879,115	598,270	294,229	204,816	41,725	57,500	584,886	49.4	66.5
Jan.-Aug.....	685,087	578,536	298,166	191,615	70,051	-----	36,500	386,921	56.5	66.9
Sept.-Dec.....	498,069	300,579	300,104	102,614	134,765	41,725	21,000	197,965	39.7	65.9
Men										
1963.....	735,712	596,760	380,332	241,380	97,359	-----	41,593	355,380	48.3	59.6
1964.....	652,152	528,642	323,557	200,047	87,817	-----	35,693	328,595	50.4	62.2
1965, total.....	743,541	519,760	421,440	197,659	161,392	18,389	44,000	322,101	43.3	62.0
Jan.-Aug.....	431,107	349,124	214,562	132,579	54,483	-----	27,500	216,545	50.2	62.0
Sept.-Dec.....	312,434	170,636	206,878	65,080	106,909	18,389	16,500	105,556	33.8	61.9
Women										
1963.....	409,890	373,480	145,758	109,348	27,339	-----	9,071	264,132	64.4	70.7
1964.....	389,655	354,660	125,444	90,449	25,343	-----	9,652	264,211	67.8	74.5
1965, total.....	439,615	359,355	176,830	96,570	43,424	23,336	13,500	262,785	59.8	73.1
Jan.-Aug.....	253,980	229,412	83,604	59,036	15,568	-----	9,000	170,376	67.1	74.3
Sept.-Dec.....	185,635	129,943	93,226	37,534	27,856	23,336	4,500	92,409	49.8	71.1

¹ Excludes awards in conditional and deferred-payment status, those representing conversion of disability benefits to retired-worker benefits on beneficiary's attainment of age 65, and, in 1965, those based on transitional insured status under the Social Security Amendments of 1965.

² For 1965, essentially currently payable awards.
³ Includes a small number of awards in conditional and deferred-payment status.

to qualify for regular benefits), and their benefit is a flat \$35.

All eligible persons who file an application for benefits receive a benefit award, but, because of the retirement test in the law, no benefit payments are made if they continue to work and the award becomes a "conditional" one. Awards may also be "deferred," with payment to begin at some definite date in the future—generally because work deductions based on estimated earnings for the current year must be imposed. Even before the health insurance program was enacted, many persons applied for and received conditional-payment awards on account of the advantages of being on the beneficiary rolls. When earnings no longer disqualify the individual from receiving his benefit, for example, the award can be shifted quickly to payment status.

Considerable time elapses between the date the conditional-payment award is granted and the date the benefit becomes payable. Most deferred-payment awards are normally payable within a short time after the date of award; in adjusting the data, these awards might reasonably have been left in. Data on deferred-payment awards

are not available, by sex, however, except in combination with those in conditional-payment status. Since the latter type of award is far more numerous, the results are not greatly affected by the exclusion of the deferred-payment awards.

When the necessary adjustments in the awards data are made, the proportion of reduced retirement benefit awards to women is seen to fluctuate between 71 and 74 percent during the period 1963–65 (table 1). For men, the proportion is 60 percent in 1963 and 62 percent in 1964 and 1965. Thus it appears that nearly 3 out of 4 women applied for benefits and 3 out of 5 men chose retirement before age 65 despite the reduced benefit rates. The unadjusted data for 1965 had indicated that 60 percent of the women chose early benefits and 43 percent of the men. The difference in the adjusted and unadjusted data emphasizes the growth in the number of persons on the rolls with conditional awards—individuals applying for benefits solely to qualify for health insurance benefits.

Several points are clear from the data in table 2 on the average amount awarded. Not surprisingly, since lifetime taxable earnings of women

TABLE 2.—Average benefit award to retired workers, by reduction status, 1963-65¹

Period	Total	Adjusted total	Average benefit award not reduced for early retirement				Disability conversions	Average benefit award reduced for early retirement
			Total	To new beneficiary				
				Currently payable	Conditional and deferred	Transitional insured status		
Total								
1963.....	\$80.30	\$76.43	\$95.05	\$91.72	\$105.62	-----	\$92.13	\$67.77
1964.....	81.24	77.14	98.99	96.21	108.59	-----	92.85	67.80
1965, total.....	85.43	80.00	100.05	99.00	117.00	\$35.00	94.42	70.52
Jan.-Aug.....	82.69	79.00	99.92	98.00	106.30	-----	92.11	69.41
Sept.-Dec.....	89.20	82.25	100.16	101.00	119.75	35.00	98.56	72.69
Men								
1963.....	\$88.43	\$84.74	\$101.01	\$99.14	\$108.14	-----	\$95.17	\$74.96
1964.....	89.78	85.78	104.61	103.22	111.01	-----	96.64	75.17
1965, total.....	94.66	89.00	107.07	106.50	118.25	\$35.00	98.72	78.47
Jan.-Aug.....	90.89	87.25	105.19	104.50	111.54	-----	96.20	76.72
Sept.-Dec.....	99.87	93.00	109.03	110.50	121.75	35.00	102.93	82.05
Women								
1963.....	\$65.71	\$63.14	\$79.50	\$75.32	\$96.64	-----	\$78.18	\$58.10
1964.....	66.96	64.26	84.49	80.69	100.20	-----	78.81	58.63
1965, total.....	69.82	67.00	83.29	84.00	108.50	\$35.00	80.37	60.76
Jan.-Aug.....	68.78	66.25	86.42	83.75	101.46	-----	78.54	60.12
Sept.-Dec.....	71.25	68.50	80.49	84.50	112.50	35.00	84.04	61.95

¹ See footnotes to table 1.

are lower on the average than those of men, average benefits awarded to women are consistently smaller than those for men. Comparisons of the reduced and unreduced benefit rates, particularly for 1965, makes it clear that the amounts of conditional and deferred-payment awards are considerably higher than unreduced awards that are currently payable. Obviously, high earnings are associated with continuation

of work past normal retirement age.

The difference between the average reduced benefit rates and those unreduced is greater than can be explained by the maximum possible reduction (20 percent). The rest of the difference must be accounted for by differing levels of average earnings. The data imply that it is individuals with lower earnings (and consequently lower benefits) who tend to retire before age 65.

Recent Publications*

SOCIAL SECURITY ADMINISTRATION

OFFICE OF RESEARCH AND STATISTICS. *Social Security Farm Statistics, 1955-1963: Farmers and Farm Workers Under Old-Age, Survivors, Disability, and Health Insurance*. Washington: The Office, June 1966. 34 pp.

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Limited free distribution; apply to the Social Security Administration, Office of Research and Statistics, Publications Staff, Washington, D.C. 20201.

Selected statistics on hired farm workers and self-employed farmers with coverage under the Social Security Act.

GENERAL

CROCKETT, JOHN, ed. *The Organization of Research Establishments*. Cambridge, England: Cambridge University Press, 1965. 275 pp. \$11.50.

FISHMAN, LEO, ed. *Poverty Amid Affluence*. New Haven: Yale University Press, 1966. 246 pp. \$6.

Eleven papers from the West Virginia University Conference on Poverty Amid Affluence held in May 1965.