

# Social Security Earnings Limit Removed

THOMAS P. BURKE

In April, 2000, President Clinton signed into law the repeal of an original provision of the 1935 Social Security Act—the so-called “earnings limit.” In signing the new law, the President described the changes as follows:

Today, one in four Americans between 65 and 69 has at least a part-time job. Eighty percent of the baby boomers say they intend to keep working past age 65.... Yet, because of the Social Security retirement earnings test, the system withholds benefits from over 800,000 older working Americans, and discourages countless more—no one knows how many—from actually seeking work.... This bill not only means that our seniors will be able to enjoy extra income and personal fulfillment that comes with work without being penalized. It means that companies with labor shortages will have a fresh supply of experienced workers.... [I]t will mean more baby boomers working longer, contributing more to the tax base and to the Social Security trust fund at precisely the time when the percentage of younger workers paying into the system will be dropping.<sup>1</sup>

The Social Security earnings limit was initially designed to eliminate the monthly Social Security benefit of any retiree who continued to earn wages; by 1940, Congress had modified the limit to allow recipients to earn up to \$14.99 a month before their benefits were reduced. The provisions

A new law removes the Social Security earnings limit for workers aged 65 through 69. The limit was originally designed to eliminate benefits for those who earned wages while receiving benefits. The earnings limit has been modified numerous times. In April, 2000, the limit was repealed for those aged 65 and beyond; this article discusses the effect of the new law.

of the earnings limit have subsequently been modified, treating retirees of different ages differently and increasing the earnings amount above which Social Security benefits are affected.

This article describes the provisions of the earnings limit under the former law and the details of the new law.

## Former law

Under the earnings limit, Social Security benefits for those at the normal retirement age (currently age 65) through age 69 were reduced \$1 for every \$3 that recipients earned above \$17,000 per year.<sup>2</sup> Younger recipients, aged 62 to 64, were subject to a more stringent requirement—Social Security benefits were reduced \$1 for every \$2 a worker earned above \$10,080 per year. The dollar amount thresholds for those between age 65 (normal retirement age) and age 70 (full retirement age) were scheduled to increase to \$25,000 per year in 2001 and \$30,000 per year in 2002, and to be indexed for inflation thereafter. The limit for workers under the normal retirement age (age 62 to 65) was indexed annually for inflation. At age 70, recipients were exempt from the earnings limit. (See table 1 for a history of the earnings test limits over the last 26 years.)

The earnings test applied, and still applies, only to wage income (so-called “earned income”); recipients could, and still can, receive unlimited unearned income, such as interest, dividends, and capital gains, without losing any Social Security benefits.<sup>3</sup>

A retiree’s benefits were not the only benefits affected by the Social Security earnings test. The provisions also applied to benefits of “auxiliary” beneficiaries—spouses or

Thomas P. Burke is an economist in the Division of Compensation Data Analysis and Planning, Bureau of Labor Statistics.  
Telephone: (202) 691-6261  
E-mail: Burke\_T@bls.gov

**TABLE 1. Annual exempt amounts under the Social Security retirement earnings test by recipient's age, 1975–2000**

Year	Aged 62 through 64	Aged 65 through 69 <sup>1</sup>
1975 .....	\$2,520	\$2,520
1976 .....	2,760	2,760
1977 .....	3,000	3,000
1978 .....	3,240	4,000
1979 .....	3,480	4,500
1980 .....	3,720	5,000
1981 .....	4,080	5,500
1982 .....	4,440	6,000
1983 .....	4,920	6,600
1984 .....	5,160	6,960
1985 .....	5,400	7,320
1986 .....	5,760	7,800
1987 .....	6,000	8,160
1988 .....	6,120	8,400
1989 .....	6,480	8,880
1990 .....	6,840	9,360
1991 .....	7,080	9,720
1992 .....	7,440	10,200
1993 .....	7,680	10,560
1994 .....	8,040	11,160
1995 .....	8,160	11,280
1996 .....	8,280	12,500
1997 .....	8,640	13,500
1998 .....	9,120	14,500
1999 .....	9,600	15,500
2000 .....	10,080	<sup>2</sup> 17,000

<sup>1</sup> From 1975-82, the higher earnings limit applied to recipients up to age 71.

<sup>2</sup> Beginning in 2000, the higher earnings limit applies to those months from the beginning of the year until the month the recipient attains full retirement age. There was no earnings limit beginning with the month the recipient attains full retirement age (70).

SOURCE: Social Security Administration.

other dependents whose benefits are based on another income source. For example, a spouse could receive a benefit equal to 50 percent of the retiree's benefit. If the retiree's benefit was reduced, the spousal benefit also was reduced.

The earnings test was designed to result in only a temporary reduction of Social Security benefits. When benefits were reduced, or when eligible workers chose to delay their receipt of benefits beyond the normal retirement age, their subsequent benefits were increased to account for the delayed benefits. In addition, when a recipient's benefits were reduced because of the earnings test, future benefits were computed based on their new earnings and years of work. Therefore, future benefits, available when earnings fell below the threshold or at age 70, were increased. In effect, the earnings test reduced immediate benefits, but in return, provided an increase in future benefits.

**Demographic changes**

Life expectancy among Americans rose steadily throughout the 20th century, from 47 years in 1900 to 76 years during the 1990s.<sup>4</sup> This change provided more work years for indi-

**TABLE 2. Percent of men and women participating in the labor force by age, 1999**

Age	Labor force participation rate	
	Men	Women
55 .....	82.5	65.9
60 .....	68.4	49.2
61 .....	64.2	43.3
62 .....	52.7	37.7
63 .....	46.8	32.7
64 .....	40.7	30.6
65 .....	35.7	22.3

viduals, and, after the advent of Social Security, more retirement years.

Labor force participation trends track closely with Social Security age requirements. For example, data from the Current Population Survey<sup>5</sup> indicate that there is a decline in the percent of individuals participating in the labor force when they reach age 62 (when first eligible for Social Security benefits) and again at age 65 (normal retirement age for Social Security benefits).<sup>6</sup> (See table 2.)

**New law**

Congress passed the earnings test repeal, known as the Senior Citizens Freedom to Work Act, by unanimous vote on April 7, 2000. The law eliminates the earnings test for those who have reached the Social Security normal retirement age, currently age 65.<sup>7</sup> For those who are receiving Social Security benefits and are under the normal retirement age, benefits will continue to be reduced \$1 for every \$2 a worker earns above \$10,080 per year (indexed for inflation annually). During the year in which a recipient attains the normal retirement age, earnings in the month prior to actually attaining that age are subject to a reduction of \$1 for every \$3 earned above \$17,000. (The \$17,000 limit increases annually, as described above.) Earnings in or after the month in which the recipient reaches normal retirement age do not count toward this limit. Beyond normal retirement age, earnings do not affect Social Security benefits. The new law is in effect for calendar year 2000 and beyond.

In debating this legislation, the House of Representatives documented the intent of the new law and the anticipated impact, as follows:

The purpose of the legislation is to remove work disincentives for seniors who reach full retirement and to improve the fairness of the Social Security program. The legislation would have a negligible effect on the long-term financial status of the Social Security Trust Funds.... [R]epealing the earnings test will improve the personal and financial well-being of America's senior citizens. As seniors continue to enjoy increased longevity and better health, they should be allowed to work as long as they are willing to do so. Studies have shown that allowing seniors to remain productive in

retirement has a positive impact on their health and self-esteem. Moreover, repealing the earnings test would allow seniors the freedom to work without penalty so they can supplement their Social Security benefits. This is particularly important to many lower- and moderate-income retirees who rely more heavily

on earnings from work rather than savings and pensions.<sup>8</sup>

Social Security Administration actuaries estimate the cost of repealing the earnings limit to be \$23 billion over the next 10 years. However, long-term costs should be negligible, as taxes paid by older workers will offset increased benefits.<sup>9</sup> ■

<sup>1</sup> Remarks by President Clinton at the bill signing for the Senior Citizens Freedom to Work Act of 2000, April 7, 2000.

<sup>2</sup> Social Security provides full benefits at the “normal retirement age” and reduced benefits at the “early retirement age.” The normal retirement age is 65 for those born in or before 1938. For those born after 1938, the normal retirement age increases gradually to age 67 for those born in 1960 or later. Early retirement benefits are available at age 62, with reductions in benefits for those years before the normal retirement age in which benefits are received.

<sup>3</sup> For a detailed discussion of the justification for and the arguments against the “earnings limit,” see Robert J. Myers, *Social Security*, 4th ed. (Philadelphia, Pension Research Council Publications, 1993), pp. 470-75.

<sup>4</sup> *EBRI Data Book on Employee Benefits*, 4th ed. (Washington, Employee Benefits Research Institute, 1997), p. 167.

<sup>5</sup> The Current Population Survey (CPS) is a monthly survey of about 50,000 households conducted by the Census Bureau for the Bureau of Labor Statistics. The survey has been conducted for more than 50 years.

<sup>6</sup> For an earlier discussion of labor force participation among older men, see Diane E. Herz, “Work after early retirement: an increasing trend among men,” *Monthly Labor Review*, April 1995, pp. 13-20.

<sup>7</sup> Department of Health and Human Services, Public Health Service, *Health, United States, 1994* (Washington, U.S. Government Printing Office, 1995).

<sup>8</sup> Committee on Ways and Means, U.S. House of Representatives, Report 106-507, Mar. 1, 2000.

<sup>9</sup> For additional information on the impact of the new law, see Elliot Carlson and Trish Nicholson, “You’ll see more people working,” *AARP Bulletin*, April 2000, p. 3.

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## Compensation and workplace data available on the Internet

The following Internet sites provide overviews, answers to frequently asked questions, and lists of contacts for the Office of Compensation and Working Conditions surveys and programs. The surveys and programs homepages are:

<i>Program or survey</i>	<i>Homepage</i>
<ul style="list-style-type: none"> <li>• Collective Bargaining .....                Collective Bargaining Agreement File                Work Stoppages</li> </ul>	<p><a href="http://stats.bls.gov/cbahome.htm">http://stats.bls.gov/cbahome.htm</a></p>
<ul style="list-style-type: none"> <li>• Employment Cost Trends .....                Employment Cost Index                Employer Costs for Employee Compensation</li> </ul>	<p><a href="http://stats.bls.gov/ecthome.htm">http://stats.bls.gov/ecthome.htm</a></p>
<ul style="list-style-type: none"> <li>• National Compensation Survey .....                Employee Benefits Survey                Occupational Compensation Survey</li> </ul>	<p><a href="http://stats.bls.gov/comhome.htm">http://stats.bls.gov/comhome.htm</a></p>
<ul style="list-style-type: none"> <li>• Safety and Health Statistics .....                Census of Fatal Occupational Injuries                Survey of Nonfatal Injuries and Illnesses</li> </ul>	<p><a href="http://stats.bls.gov/osshome.htm">http://stats.bls.gov/osshome.htm</a></p>

Alternatively, the Office of Compensation and Working Conditions Internet site is available at <http://stats.bls.gov> under the heading, “Surveys & Programs.”

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