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Retirement Benefits and Incentives for Work: New Evidence from Eligibility Criteria

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Key Findings and Policy Implications

This paper analyzes the behavior of people who are on the threshold of obtaining the 40 quarters of work credit that entitles them to Social Security retirement benefits, and whether there is any bunching of work histories just above this threshold. It uses SSA administrative records for a 25 percent random sample of individuals born between 1937 and 1950. The study finds that:

- Among those approaching the 40-quarter threshold of benefit eligibility, the financial incentive to meet the threshold is substantial. Based on earnings histories at age 70, workers below the 40-quarter threshold have no benefit eligibility. For those who just meet the 40-quarter threshold, average benefit eligibility jumps to $6,061 annually for men and $4,861 annually for women; and then rises continuously for workers with more than 40-quarters of work credits.

- At age 60, there is very little bunching just above the 40-quarter eligibility threshold, but bunching behavior rises by ages 65 and 70. By age 70, we estimate that 2.43 times more 70-year-old men and 1.44 times more 70-year-old women have accumulated just over 40 qualifying quarters than would be predicted if there were no 40-quarter eligibility requirement.

- Analyzing longitudinally across the sample cohorts, bunching has decreased for men and increased for women. In the latest cohort in our data, born in 1950, bunching is similar for men and women.

This paper is the first to study how Social Security eligibility criteria affect incentives to work for individuals who are close to the 40-quarter benefit eligibility threshold. Despite significant bunching, the response is small when compared to the magnitude of benefits offered by meeting the threshold.

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