

Social Security and the U.S. Retirement System

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Overview of the U.S. Retirement System

	Social Security	Defined Benefit Pensions	Defined Contribution Plans
Type of Program	Mandatory social insurance program administered by federal government covering 93 percent of workers providing retirement, survivors and disability benefits	Optional employer-sponsored benefit	Optional employer-sponsored benefit (e.g., 401(k) or 403(b))
Financing	PAYGO: 12.4% payroll tax split between workers and their employers, subject to a taxable maximum (\$168,600 in 2024)	Employer (and sometimes employee) contributions	Employer and employee contributions
Number of Participants	<ul style="list-style-type: none"> 52.7 million beneficiaries receiving retirement benefits 5.8 million beneficiaries receiving survivor benefits 8.5 million beneficiaries receiving disability benefits 	<ul style="list-style-type: none"> 11.6 million active participants in 2021 (down from 27.2 million in 1975) 	<ul style="list-style-type: none"> 87.9 million active participants in 2021 (up from 11.2 million in 1975)

	Social Security	Defined Benefit Pensions	Defined Contribution Plans
Eligibility for Benefits	Must work in Social Security covered employment for 10+ years for retirement benefits; benefits can be claimed at early retirement age, but illiquid before then	Minimum years of service needed to “vest” in a plan	Withdrawals can be taken at age 59 ½; early withdrawals may be subject to a penalty
Benefit Calculation	Benefits based on an individual’s earnings history/age of claiming/other factors and payable upon claiming until death	Benefits based on a formula that typically incorporates salary and years of service; generally payable until death	Account accumulation depends on contributions and investment returns
Accrual Pattern	Large accrual after 10 years of covered employment; smaller accrual after 35 years of earnings history	Accruals tend to be much higher for long tenure/older workers	Age-neutral accrual patterns
Tax Advantages	Portion of benefits are taxable if income exceeds \$25,000; share of beneficiaries paying income taxes on benefits has grown over time	Contributions (if any) may be pre-tax; DB benefits are subject to income taxes	Accounts receive tax preferences up to certain contribution limits (that may vary with income/age)

Social Security provides valuable insurance

- In addition to retirement benefits, the program also provides important benefits to survivors and those with disabilities
- Once claimed, benefits are indexed to inflation and therefore help beneficiaries insure against inflation risks
- Benefits are paid monthly until death, providing a way to insure against the risk of outliving one's savings

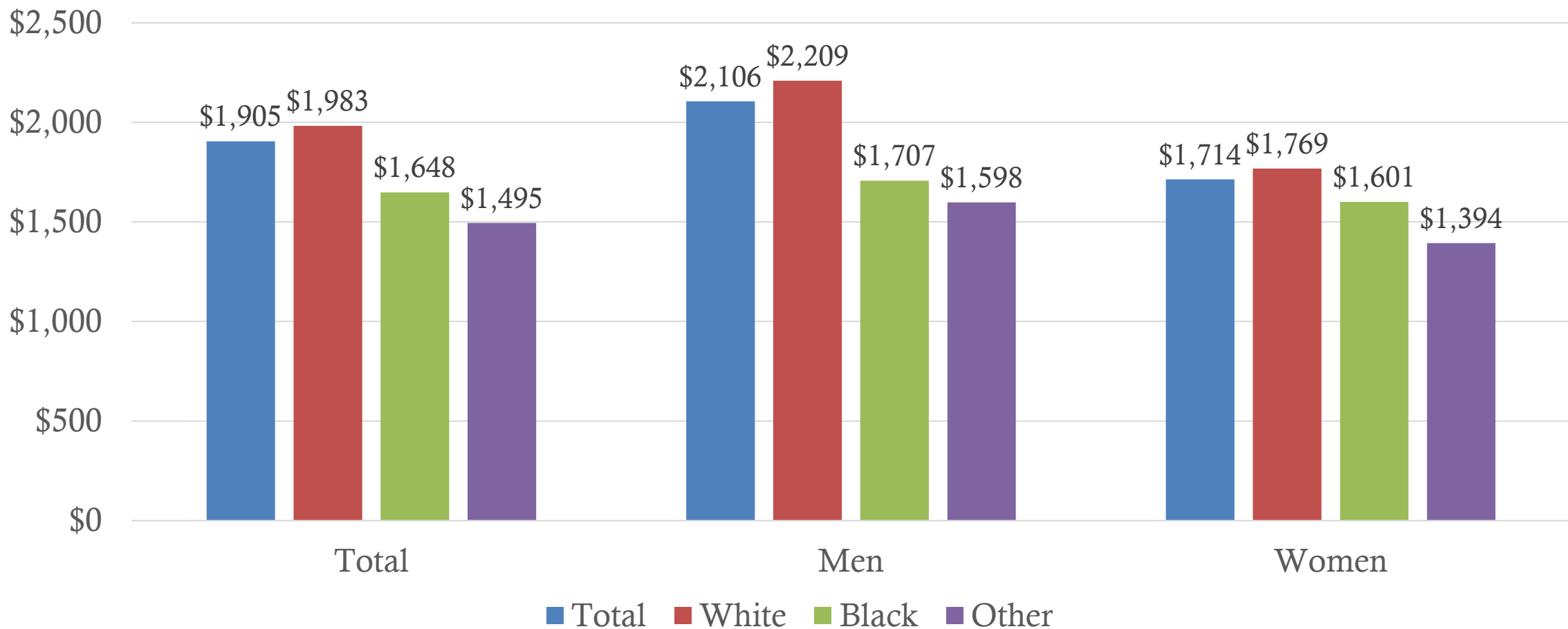
Fun facts about Social Security

- More than **50 million** beneficiaries receive retired worker benefits averaging **\$1,905/month**
 - 53% of these beneficiaries are women
 - An additional 2.6 million beneficiaries receive benefits as spouses/children of retired workers
- Social Security constitutes **21 percent** of the federal budget and **5 percent** of GDP
- **181 million** workers are employed in Social Security covered employment and are subject to the payroll tax
 - **2/3 of taxpayers** pay more in payroll taxes than income taxes!

Source: Annual Statistical Supplement, December 2023,

<https://www.ssa.gov/policy/docs/statcomps/supplement/2024/5a.html#table5.a1.1> .

Average Monthly Retired Worker Benefits by Race and Gender



Note: Race breakdowns subject to concerns about statistical reliability. Unknown (~3% of sample) not shown.

Source: Annual Statistical Supplement, 2024, <https://www.ssa.gov/policy/docs/statcomps/supplement/2024/5a-expanded.html>.

What is the importance of Social Security across the population?

Table 5. Percentage of individuals aged 65 or older for whom Social Security income represents a selected proportion of family income, by gender: Estimates from five alternative data files, 2015¹

Social Security as a % of family income is:	Survey data (unmatched)		Survey data matched with administrative records ²		
	HRS	CPS	HRS+SSA	CPS+SSA	CPS+SSA+IRS
			<i>All</i>		
50% or more	49.1	52.5	51.1	52.7	41.7
75% or more	29.6	33.6	29.6	33.0	21.3
90% or more	20.5	25.6	19.9	24.0	13.7

Source: Bee, Dushi, Mitchell, Trenkamp June 2024, “Measuring Income of the Aged in Household Surveys: Evidence from Linked Administrative Records,” <https://www.census.gov/library/working-papers/2024/adrm/CES-WP-24-32.html>

Social Security

- How are retired worker benefits calculated?
- How does Social Security impact retirement?
- Data sources and research opportunities

Social Security

- **How are retired worker benefits calculated?**
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How are retired worker benefits calculated?

Obtain earnings history for each year a worker had earnings in Social Security-covered employment



Apply Average Wage Index (AWI) to each year of earnings



Determine 35 highest wage-indexed earnings years (including zeroes)



Divide by 35×12 to obtain Average Indexed Monthly Earnings (AIME)

How are retired worker benefits calculated?

Calculate Primary Insurance Amount (PIA)



Adjust for claiming age

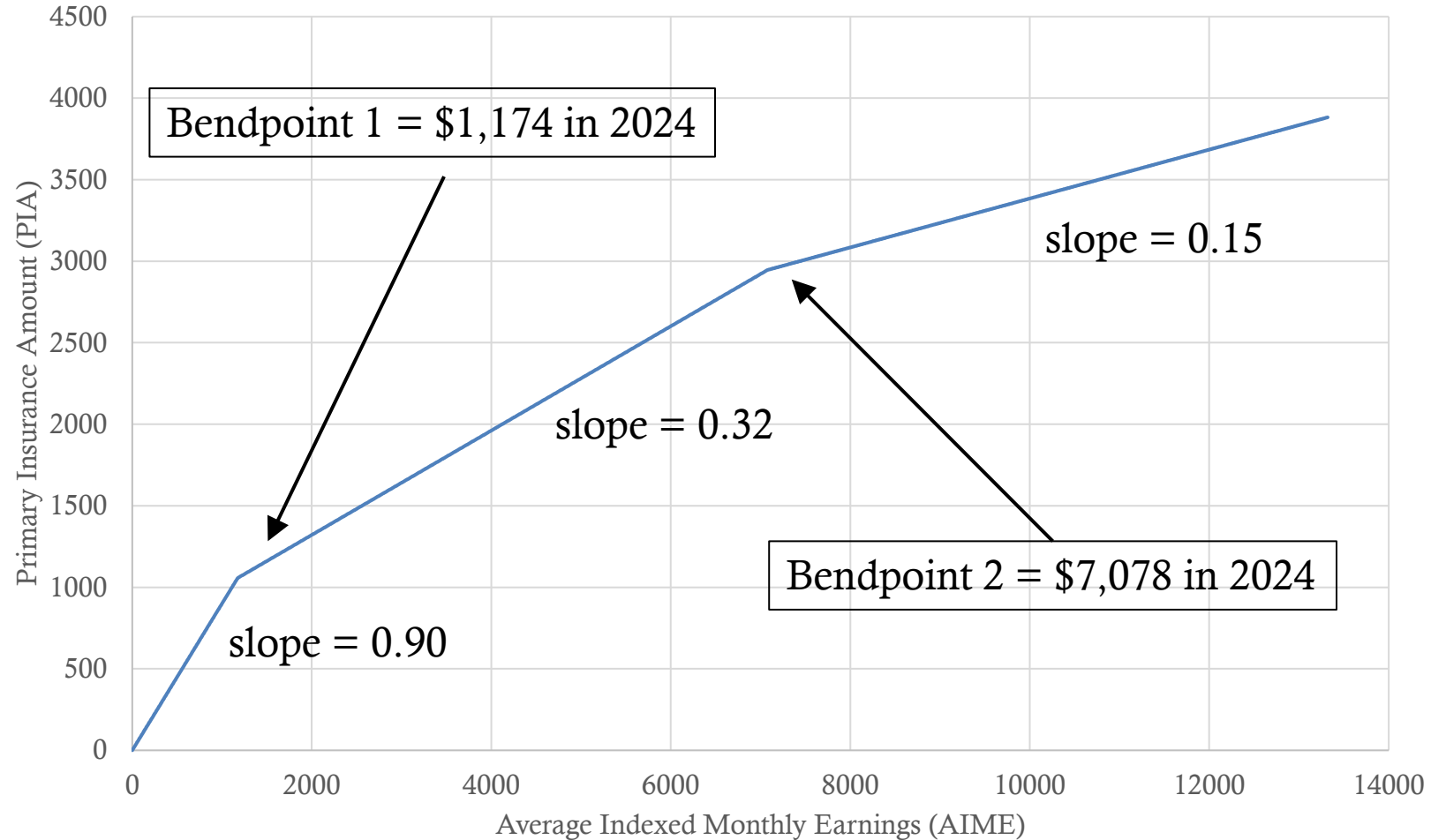


Adjust for spousal benefits

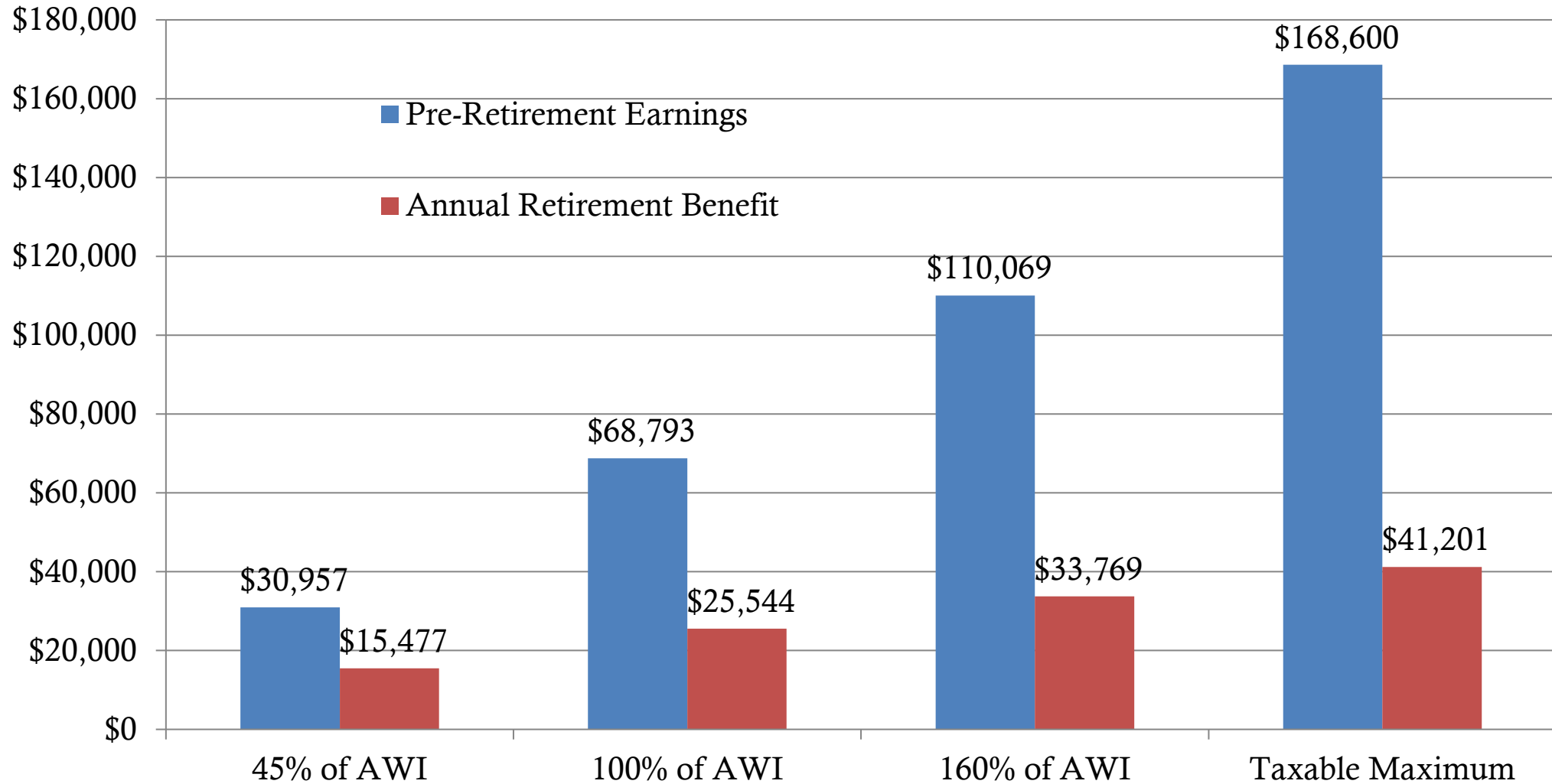


Adjust for earnings test

Converting AIME to PIA

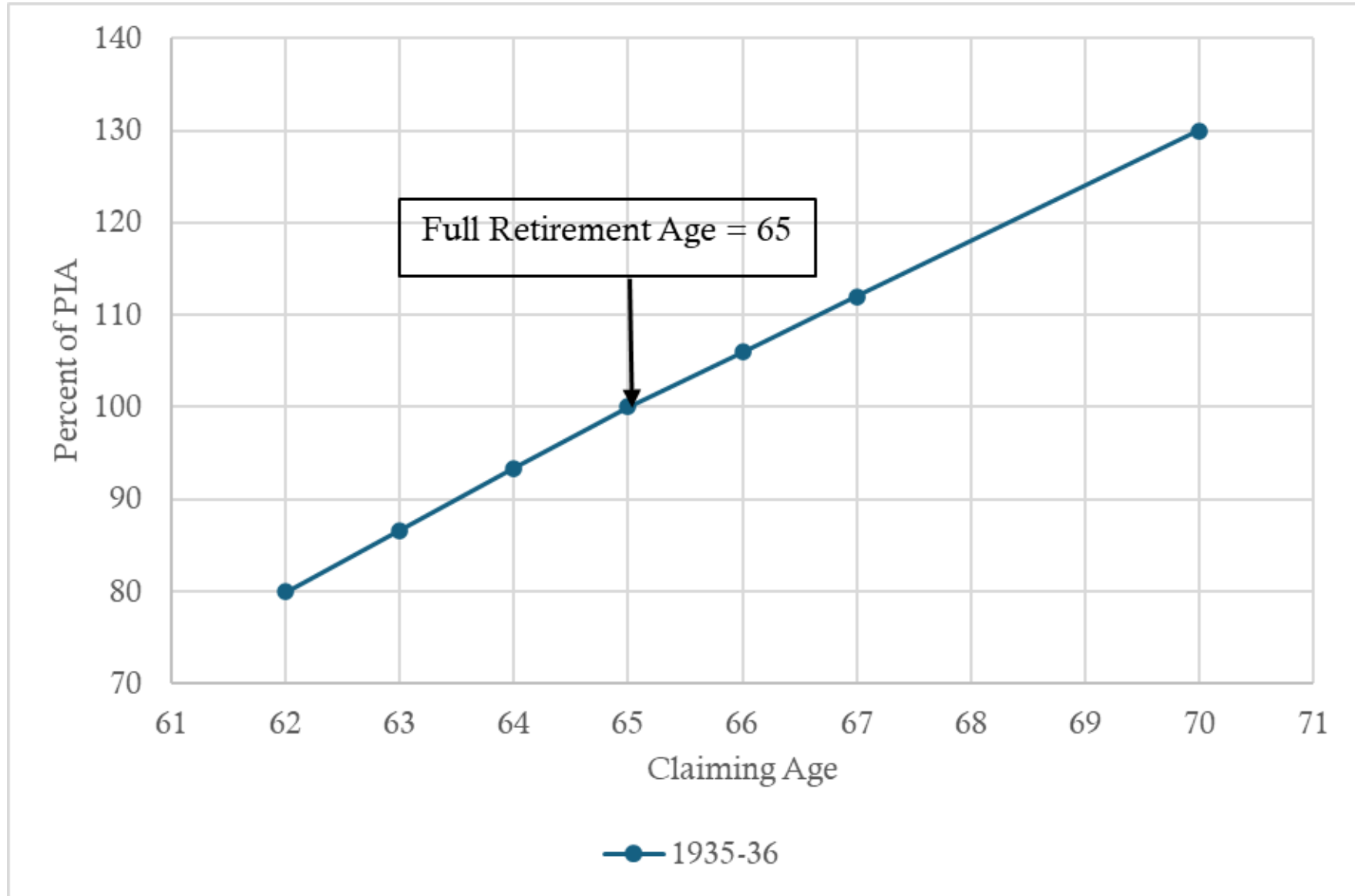


Social Security Retirement Benefits at Various Income Levels, 2024

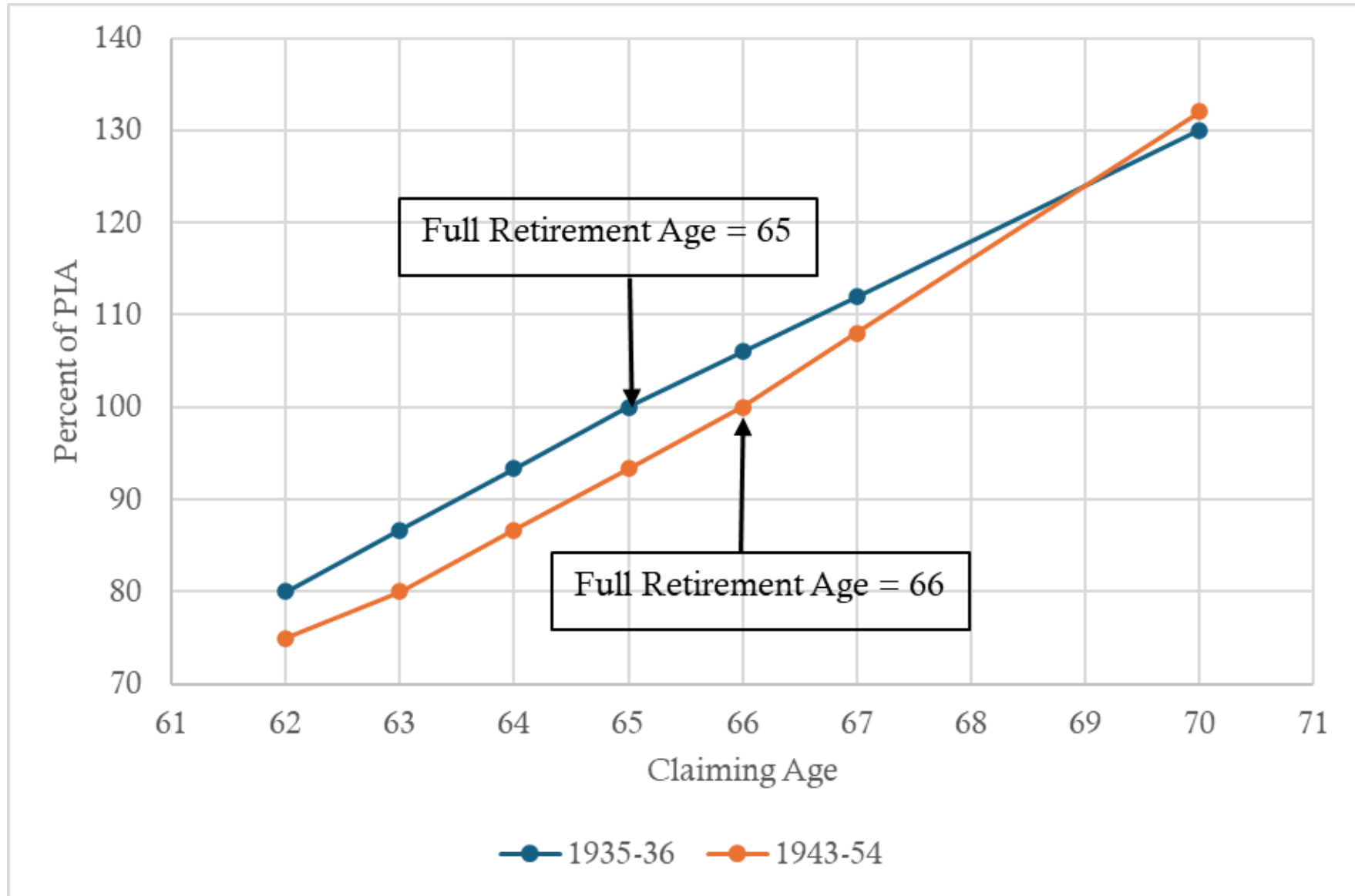


Source: 2024 Trustees Report, Table V.C7; assumes retirement at age 65 for cohort attaining age 65 in 2024.

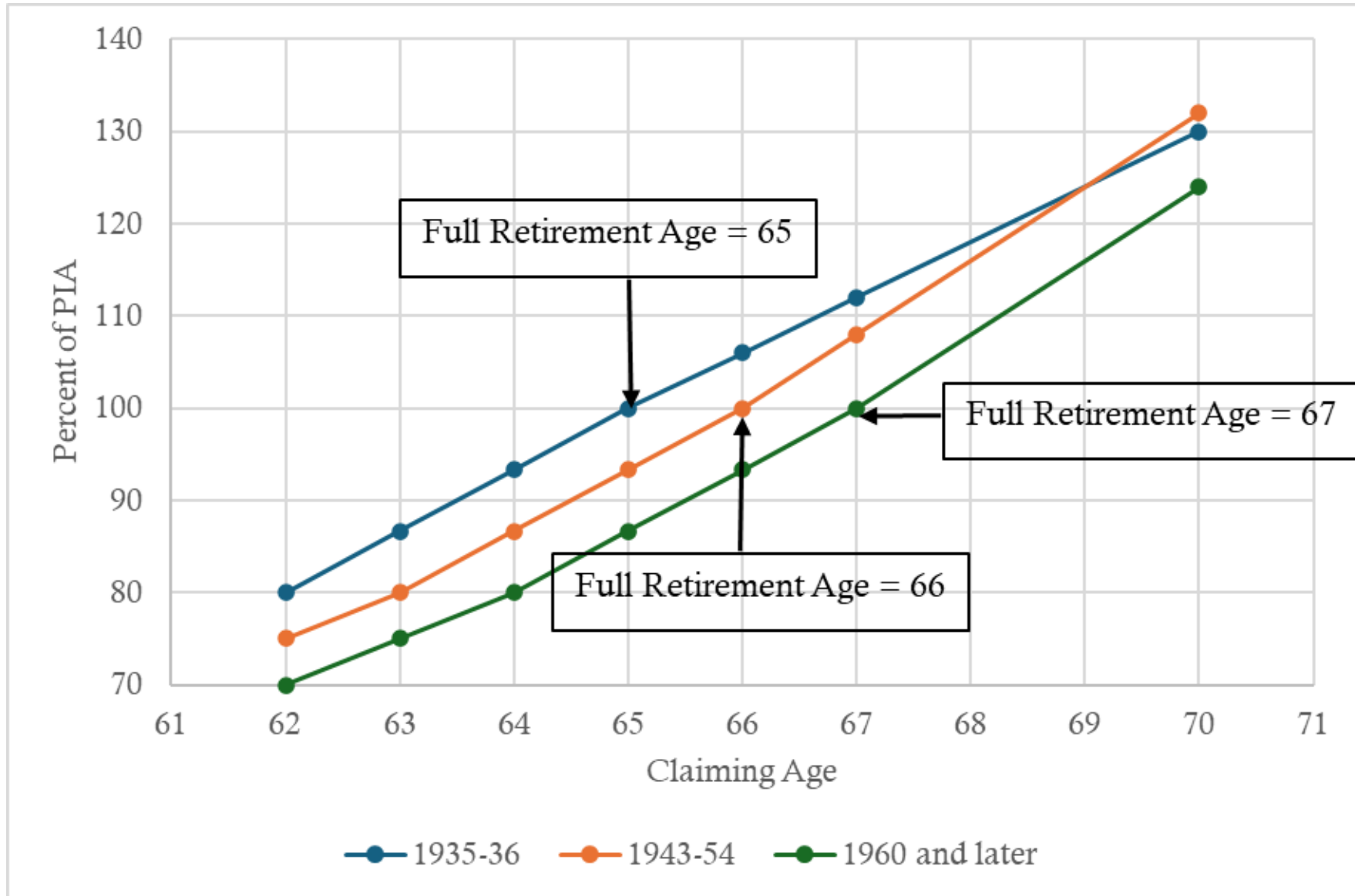
Adjustment for Claiming Age



Adjustment for Claiming Age



Adjustment for Claiming Age



Adjust for Spousal Benefits

- Worker's spouse may be eligible for a benefit based on the worker's earnings
 - Spouse must be above age 62 OR be caring for a child under 16
- Spousal benefit = max ($\frac{1}{2}$ of primary earner's PIA, own PIA) and is adjusted for early/delayed claiming
- Can claim spousal benefits prior to claiming own worker benefits (letting those increase for delayed claiming)

Adjust for Earnings Test

- If benefits claimed prior to the full retirement age, a portion of benefits are withheld if earnings exceed a certain level
 - \$22,320 for people attaining full retirement age after 2024
 - \$59,520 for people attaining full retirement age in 2024
- \$1 withheld for every \$2 of earnings above lower amount and every \$3 of earnings above higher amount
- Amount withheld is not lost – results in higher benefit after full retirement age

Additional adjustments to benefits

Taxation of benefits

- Up to 85% of Social Security benefits is subject to income taxes if “combined income” is above \$25,000 (single)/\$32,000 (married)

Indexation of benefits

- Benefits increase automatically each year with CPI

Divorce/remarriage

- Divorced spouses receive spousal benefits based on former spouse’s earnings if marriage lasted 10+ years
- Remarriage can change eligibility for spousal benefits

Death of a spouse

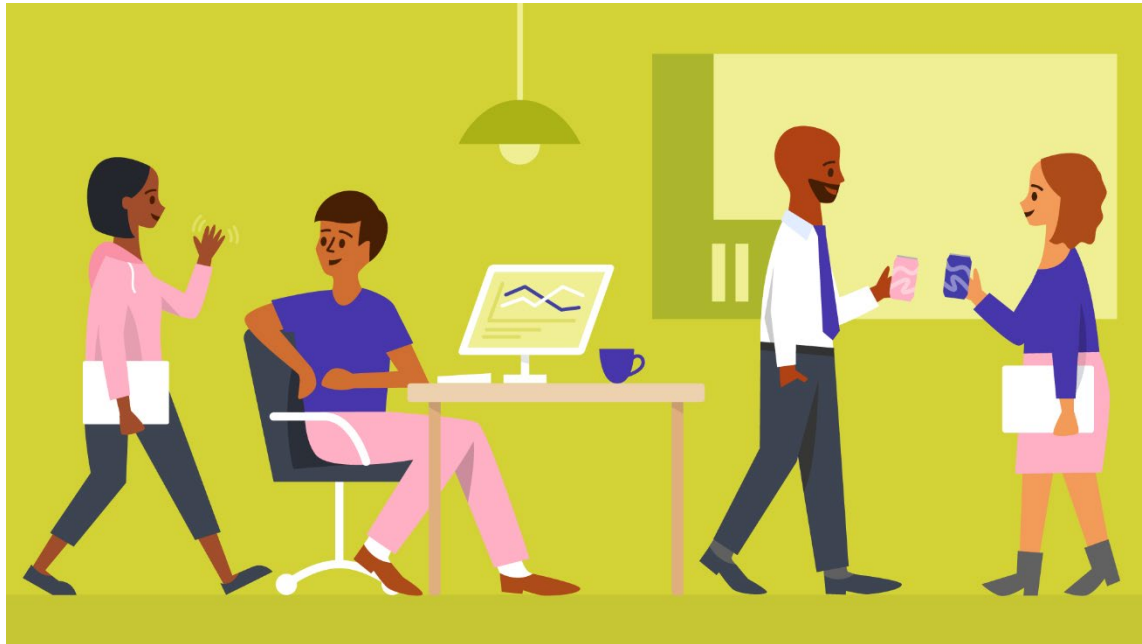
- Surviving spouse receives higher PIA, adjusted for early/delayed retirement

Social Security

- How are retired worker benefits calculated?
- **How does Social Security impact retirement?**
- Data sources and research opportunities

What is retirement?

When you stop/reduce working?



When you claim retirement benefits?



How does Social Security impact work incentives? Benefit Formula

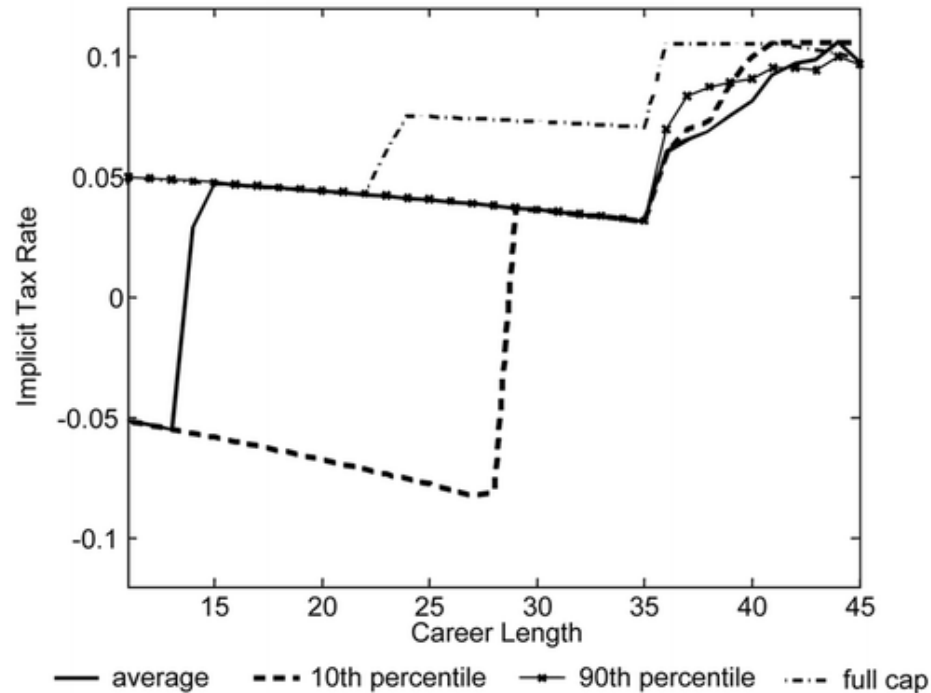


Fig. 1. Implicit tax rates of Social Security under current rules

[View Large Image](#) [Download PowerPoint](#)

Source: Goda, Shoven and Slavov 2011

“We find that individuals approaching retirement (age 52 and older) respond to the Social Security tax-benefit link on the extensive margin of their labor supply decisions: we estimate that a 10% increase in the net-of-tax share reduces the two-year retirement hazard by a statistically significant 2.0 percentage points from a base rate of 15%.

The evidence with regard to labor supply responses on the intensive margin is more mixed: we estimate that the elasticity of hours with respect to the net-of-tax share is 0.42 and statistically significant, but we do not find a statistically significant earnings elasticity.”

Source: Liebman, Luttmer and Seif 2009

How does Social Security impact work incentives?

Earnings Test

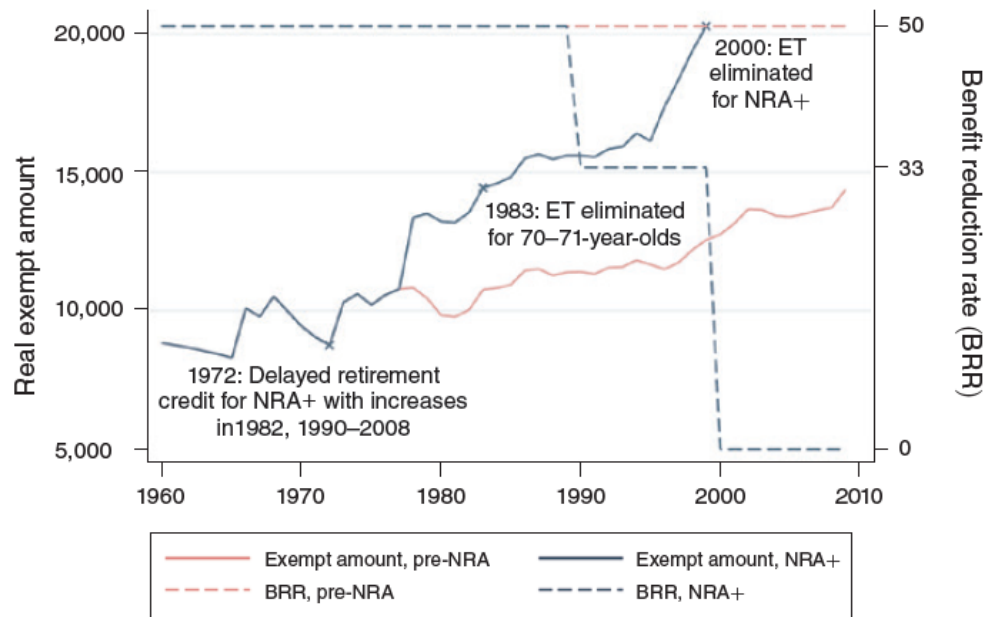


FIGURE 1. KEY EARNINGS TEST RULES, 1961-2009

Notes: The right vertical axis measures the benefit reduction rate in Social Security payments for every dollar earned beyond the exempt amount. The left vertical axis measures the real value of the exempt amount over time.

Source: Gelber, Jones, Sacks 2020

“Our estimated effects suggest that labor supply elasticities with respect to the net-of-tax rate are approximately 0.05–0.07 for working primary beneficiaries aged 65–69 whose earnings are between the median and the 80th percentile.

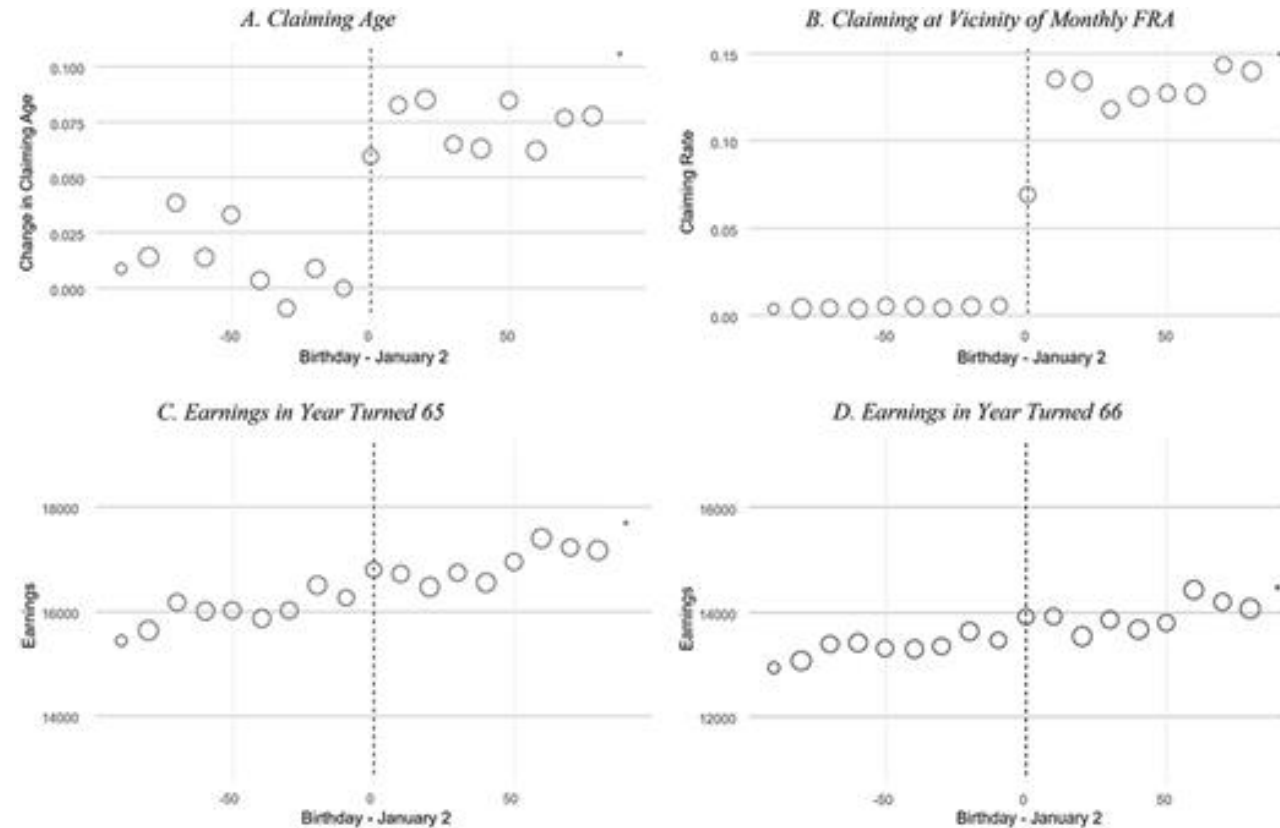
Further, results show that applications for Social Security benefits following the earnings test removal accelerated by 2 to 5 percentage points among individuals aged 65–69 and by 3 to 7 percentage points among those reaching age 65.”

Source: Song and Manchester 2007

How does Social Security impact work incentives?

- Taxation of benefits
 - Reduced incentive to earn income above certain thresholds if collecting Social Security (Jones and Li 2018)
- Spousal benefits
 - Significant amount of secondary earner's payroll tax contributions are a pure tax; eliminating marriage-related provisions estimated to increase labor supply of married women (Nishiyama 2019; Borella, De Nardi, Yang 2023)

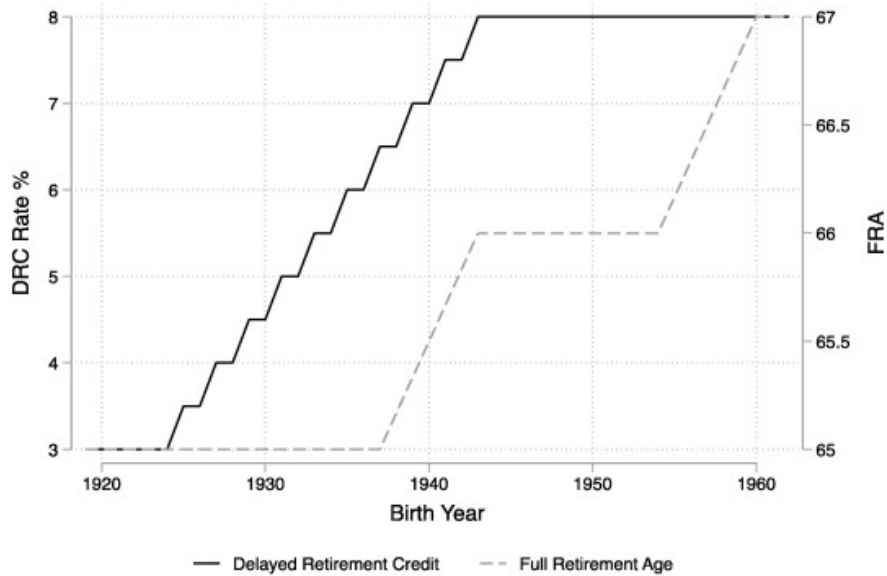
What influences when people claim benefits? Changes in Full Retirement Age



“We find that while **claiming ages strongly and immediately shift** in response to increases in the FRA, **retirement ages exhibit persistent ‘stickiness’** at the old FRA of 65.”

What influences when people claim benefits?

Changes in Delayed Retirement Credit



[Download: Download high-res image \(180KB\)](#)

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Fig. 1. Delayed Retirement Credit and Full Retirement Age by Birth Year. Notes: Illustrates the delayed retirement credit (DRC) and full retirement age (FRA) by birth year.

“Our findings demonstrate that the increase in the DRC led to an increase in delayed claiming of Social Security benefits among men and strongly suggest that the effects were larger for those with higher lifetime incomes, who would have a greater financial incentive to delay given their longer life expectancies. Furthermore, liquidity constraints play an important role in responsiveness to DRC increases. We do not find evidence of changes to the claiming behavior of women or to labor supply for either men or women.”

What influences when people claim benefits?

- Expected mortality
 - If you expect to live longer, you benefit from delaying claiming
- Spousal/survivor benefits
 - Claiming later has bigger returns for the primary earner

However, little evidence that these factors influence actual claiming age (Shoven and Slavov 2014)

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Social Security Data Sources

- **Health and Retirement Study (HRS)** – biannual, longitudinal survey of older adults age 50 and over since 1992
- **Understanding America Study (UAS)** – internet panel of households with ability to field specialized surveys and link to responses collected to HRS and other questions
- **SSA Public Use Files**
 - OASDI Public Use Microdata File, 2001
 - Benefits and Earnings Public Use File, 2004
 - Earnings Public Use File, 2006
- **SSA Administrative Data**
 - Continuous Work History Sample – 10% sample of SSNs
 - Master Beneficiary Record – calendar month of claiming
 - Summary Earnings Record – data on annual earnings in each calendar year

Areas ripe for additional research

- Communication and outreach about Social Security
 - Where do different communities receive information about Social Security? What is effective in ensuring choices reflect full and accurate information?
 - How does different terminology (e.g. “minimum benefit age”) impact decisions?
 - What is the best way to meet the needs of specific demographic groups?
- Disparities by race, ethnicity and sex
 - How does retirement security differ across groups? What inequities and structural barriers contribute to these differences? What is Social Security’s role?
 - How do structural barriers in e.g. the labor market influence well-being in retirement?
 - What are best practices for researchers estimating disparities and the roles of structural barriers?

WELCOME TO THE

Understanding America Study



WHAT'S
NEW



COVID-19



SURVEYS

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Want to quickly learn more about the UAS? Click [here](#) to download our brochure.

WELCOME

The Understanding America Study (UAS) is a panel of households at the University of Southern California (USC) of approximately 14,000 respondents, growing to 20,000 by 2025 representing the entire United States. The study is an *'Internet Panel,'* which means that respondents answer our surveys on a computer, tablet, or smart phone, wherever they are and whenever they wish to participate.

In general, surveys are designed by research teams around the world; programmed and tested by our team at the Center for Economic and Social Research, translated into Spanish and then fielded.

A majority of the UAS data is publicly available. An excellent start is the [UAS Comprehensive File](#), which merges the data from a number core surveys in the UAS that are repeated every two years. To explore the UAS data in an interactive manner check out the [UAS Visualization Toolkit](#) (opens in a new window).

Interested in getting access to the UAS Data? Register [here](#) now!

For any other inquiries, please write to [us](#)!

Dear UAS Data Users

I am writing to invite you to consider [submitting a proposal](#) to add survey questions, at no cost, to the Understanding America Study

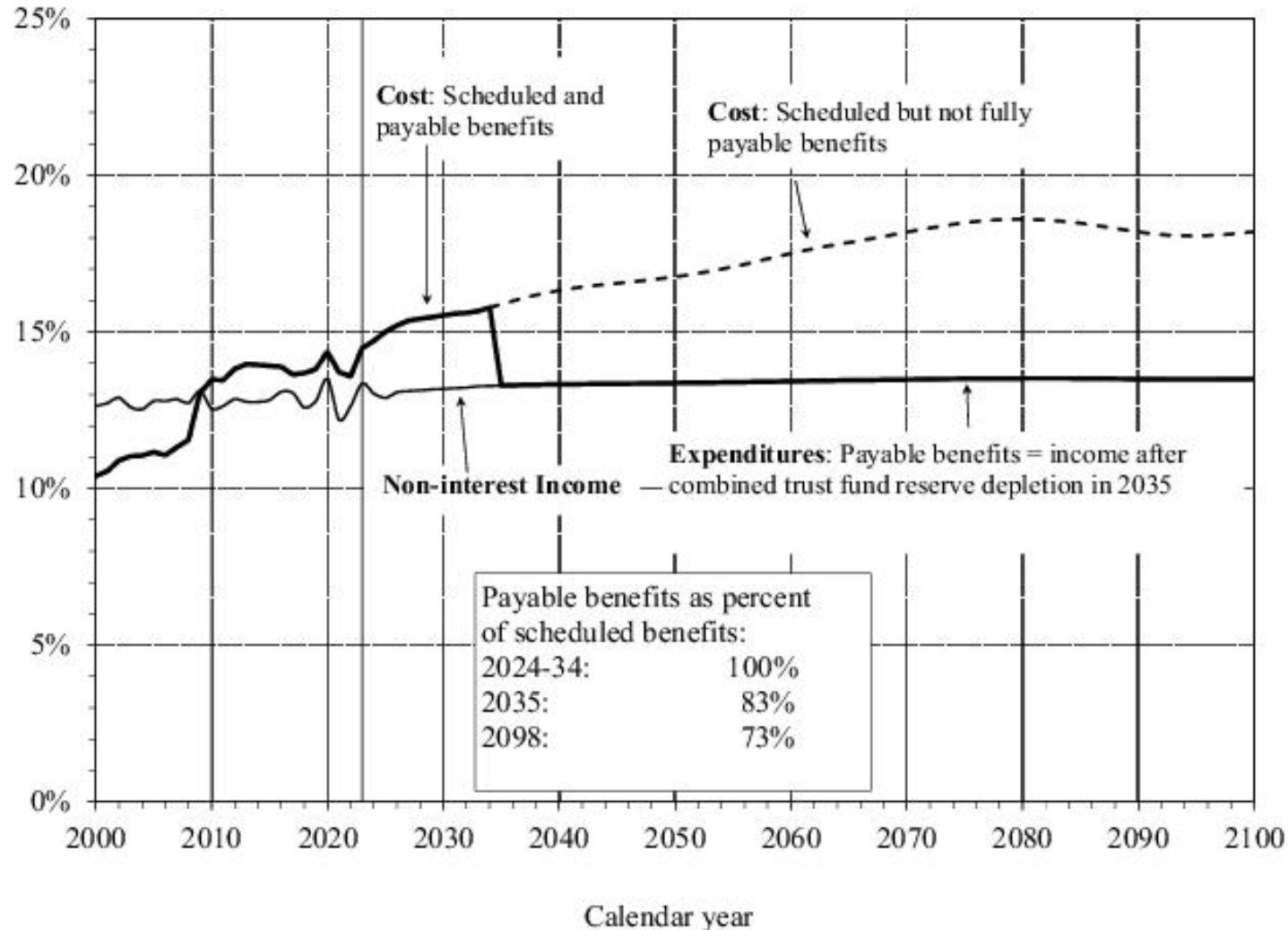
We are considering proposals for surveys and experiments which focus on factors affecting inequality and health disparities over the life course. Items, measures, experiments, and longitudinal designs welcome.

What is the Understanding America Study (UAS)? The UAS is the [probability-based longitudinal study](#) (recruitment via ABS methods) housed at the Center for Economic and Social Research (CESR) at USC. Currently, the UAS has over 15,000 respondents and we are growing to 20,000 over the next few years. We offer a wealth of existing data that can be used for secondary research, as well as the opportunity for researchers to use their own funding (or these free minutes) to collect new data in an environment suitable for academic research, which also provides rich background data for analysis at no additional cost.

How/why are you offering free survey minutes? Thanks to a recently awarded grant from the National Institute on Aging, with support from the Social Security Administration, we are able to offer free question time to researchers. The aim is to obtain input from the broader research community on topics of importance to our funded study of inequality and health disparities.

We are soliciting proposals four times this year with the following deadlines:
March 15, 2024, June 15, 2024, **September 15, 2024**, and December 15, 2024.

The way Social Security is reformed has implications for incentives and retirement security!



Source: Social Security 2024 Trustees Report, Figure II.D2