

WORKING PAPER

Executive Summary

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THE REPEAL OF THE RETIREMENT EARNINGS TEST AND THE LABOR SUPPLY AND HEALTH OF OLDER MEN

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The impact of Social Security on the work incentives of older individuals is a perennial topic of interest in economics and an important factor in policy debates about the long-run solvency of the program. The key program features in this regard are the Social Security full and early retirement ages, traditionally 65 and 62, respectively, which affect when one claims benefits (i.e., first becomes a beneficiary), and the retirement earnings test, which determines how work affects the time pattern of when benefits are received once one has claimed benefits. The retirement earnings test has been perceived widely as a pure tax on earnings, which, in combination with payroll and income taxation of earnings, placed very high marginal tax rates on the earnings of older workers and has led to concern by economists and policymakers that the test provides a substantial disincentive for work at older ages. Despite a long line of research that has focused primarily on older men, used both structural and reduced-form methods, and variation in incentives induced by past changes in the earnings-test parameters, the specific role of the earnings test on work and earnings remains unclear, with some studies finding large effects and others finding small effects. In this paper,

- We use data from the 1996-2004 waves of the Health and Retirement Study (HRS) and employ a reduced-form, quasi-experimental framework to examine the impact on the labor supply of older men from the most sweeping change in the earnings test in the last two decades: the Senior Citizens Freedom to Work Act of 2000, which repealed the earnings test for beneficiaries between the full retirement age and age 70 beginning in 2000.
- We document substantial bunching of earnings at the exempt amount for men between the full retirement age and age 70 prior to 2000 that then disappears upon the repeal of the earnings test.
- We also find a substantial increase in annual hours associated with the repeal. Pooled over all men, hours rose by 12-17%, with the largest effects, again, concentrated among high school graduates, whose hours rose 19-26%.
- We utilize the rich array of information on health in the HRS and formulate a test for endogenous reporting of health status by examining how reported health changes with the repeal of the earnings test.

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