Plymouth Institute for Free Enterprise

End Social Security's Earnings Penalty

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ADVANCING AMERICAN FREEDOM

TOPLINE: Congress should eliminate Social Security's Retirement Earnings Test, which functions like an additional 50% tax on some working Social Security recipients' benefits, causing them to work and earn less than they would otherwise choose.

BACKGROUND: When Social Security began in the wake of the Great Depression, policymakers wanted to push older workers out of the labor force as they incorrectly thought it would free up jobs for younger workers, so they included a retirement earnings test (RET) to limit Social Security benefits for older individuals who kept working. Despite some modifications, the RET still strongly discourages work by taking away 50 cents in Social Security benefits for every $1 someone under age 67 earns above the $24,480 RET limit. While some or all of those lost benefits can be recouped later if the individual lives long enough, the RET nevertheless imposes effective marginal tax rates of 74% for a Social Security beneficiary who earns $29,000 a year and 84% for someone earning $70,000. The RET is also confusing for seniors and difficult and costly for the Social Security Administration to administer.

Action Items (Congress):

- **Eliminate Social Security's earnings test**, allowing retirees to earn as much as they want without losing current benefits.
    - In 2000, Congress passed a bipartisan bill that eliminated the RET for individuals over the full retirement age, which was 65 at the time. The full retirement age has increased to 67 (beginning in 2027), which means that millions more seniors are potentially impacted by the test today.

How It Would Make Life More Affordable:

- Expanding the workforce would increase incomes and lower prices. I estimate that eliminating the RET would add up to 1 million older Americans to the workforce.
- By increasing economic output and incomes, this would also increase government revenues by up to $18 billion per year and save taxpayers $70 million per year in administrative costs at the Social Security Administration.
- This would modestly reduce poverty among older Americans and modestly improve Social Security's finances.

Related Legislation: Senior Citizen's Freedom to Work Act of 2026 (S. 4184, H.R. 8344).

BOTTOMLINE: Federal policy should never penalize work. Expanding work and growing incomes would unequivocally improve affordability.