NEW ICI ANALYSIS

Most Americans Maintain or Increase Spendable Income After Claiming Social Security, Tax Data Show

BY THE NUMBERS

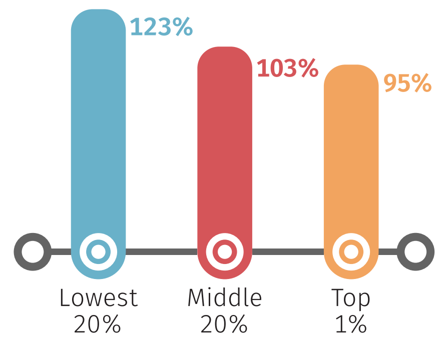
89%

Percentage of tax filers who hold or have income from employer retirement plans, annuities, or IRAs

103%

Median replacement rate for spendable income three years after claiming Social Security

Lower-Income Taxpayers Replace More of Their Spendable Income



OVERVIEW

Can American workers maintain their spendable income after claiming Social Security? A new analysis from Investment Company Institute (ICI) economists Peter Brady and Steven Bass, along with economists Jessica Holland and Kevin Pierce of the Internal Revenue Service Statistics of Income (SOI) Division, shows that they can, finding that after-tax income from Social Security, retirement income (from employer-sponsored retirement plans, annuities, or IRAs), and labor income immediately after claiming matches the income they had prior to claiming.

The authors analyzed administrative tax data for individuals aged 55 to 61 in 1999 who were working and not receiving Social Security benefits. Analysis of data on these individuals through 2010 revealed that most workers maintained or increased their spendable income in the three years after they claimed Social Security benefits.

HIGHLIGHTS

- Most individuals in the study were able to maintain spendable income after claiming Social Security, and lower-income individuals typically had higher replacement rates.
  - Three years after claiming, the median taxpayer in the study reported spendable income that was greater (103 percent) than spendable income in the year before claiming.
  - Median replacement rates three years after claiming were higher for individuals in the lowest quintile of 1999 income (123 percent), and lower for the highest income (95 percent for the top 1 percent of the income distribution).
- For most individuals, both Social Security benefits and retirement income (from employer-sponsored retirement plans, annuities, or IRAs) provide substantial income. Social Security is relatively more important for lower-income individuals, while retirement income matters more to higher-income individuals.
- More than 80 percent of individuals reported income from employer-sponsored retirement plans, annuities, or IRAs, either directly or through a spouse. Another 8 percent received a Form 1099-R (reporting a rollover or other retirement account transaction that did not generate income), a Form 5498 (indicating IRA ownership), or both.

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This research was conducted as part of the SOI Joint Statistical Research Program. Although ICI had no direct access to the administrative tax data, they were able to assist SOI in developing the data analyzed in the working paper and also provided SOI with the computer programs used to produce the statistics reported in the paper.

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