

ICI Analysis Shows Americans Maintain or Increase Spendable Income After Claiming Social Security

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Nearly 90 Percent Hold or Have Income from Employer Retirement Plans, Annuities, or IRAs

Washington, DC, April 19, 2017—Most American workers maintain or increase their spendable income after claiming Social Security, according to a new analysis of tax data by Investment Company Institute economists Peter Brady and Steven Bass, along with economists Jessica Holland and Kevin Pierce of the Statistics of Income (SOI) Division of the Internal Revenue Service (IRS).

Their research paper, which analyzed tax data from 1999 to 2010, shows that the median worker replaced 103 percent of spendable income after claiming Social Security. 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, retirement income matters more to higher-income individuals, and those in the middle receive a similar amount of income from both sources.

“The vast majority of workers we analyzed reported retirement resources other than Social Security,” says Brady. “Indeed, 89 percent of individuals held or drew income from employer plans, annuities, and IRAs. These results suggest that a much higher share of retirees get income from these sources than reported in government surveys, and adds to the mounting evidence that household survey data understate retiree income. By looking at what tax filers, employers, and financial institutions actually report to the IRS, we are able to paint a more accurate picture.”

Of the 89 percent of individuals who had non–Social Security retirement resources, 81 percent received income, either directly or through a spouse, from employer plans, annuities, or IRAs. Another 8 percent had evidence of these resources—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—but were not yet drawing on them.

The authors followed working taxpayers aged 55 to 61 in 1999 who did not receive Social Security benefits in 1999 using data from the IRS’s SOI Division. The analysis primarily focused on spendable income from the combination of labor income, Social Security benefits, and retirement income (distributions from employer plans, annuities, and IRAs). “Spendable income” offers a consistent measure of an individual’s ability to fund consumption. Spendable income excludes income not available for consumption (e.g., tax payments and retirement contributions), but includes income that isn’t taxed (e.g., non-taxable Social Security benefits and distributions from Roth IRAs or Roth 401(k)s).

The research compares taxpayers’ spendable income, as reported on their tax returns and on information returns provided to the IRS, three years after they claim Social Security with their spendable income the year before they claimed. The 103 percent replacement rate for the median taxpayer indicates that spendable income rose for more than half of taxpayers. Median replacement rates three years after claiming were higher for individuals in the lowest income quintile (123 percent), and lower for top earners (95 percent for the top 1 percent of the income distribution).

This research was conducted as part of the SOI Joint Statistical Research Program. Although ICI had no direct access to the administrative tax data, it was 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.

ICI has prepared a fact sheet describing the research, which is available [here](#).

Additional Resource:

- [Supplemental Tables: Using Panel Tax Data to Examine the Transition to Retirement](#)

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