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Social Security: Potential Impacts of Changes in Computation Years

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Social Security is a social insurance program that protects insured workers and their family members against loss of income due to old age (i.e., retirement), disability, or death. The amount of monthly benefits payable to workers and their family members is largely based on the worker's career-average earnings from jobs covered by Social Security. Under current law, the retired worker's career-average earnings are measured by the highest 35 years of wage-indexed earnings. The 35 years—specified in statute since 1976—are known as benefit computation years or, more plainly, as computation years.

The number of computation years is one factor that affects the Social Security monthly benefit amount. Retired workers with more than 35 years of covered earnings may have less incentive to work for another year, because the additional earnings would not be included in the benefit calculation if they are lower than the highest 35 years of indexed earnings. Conversely, workers with less than 35 years of covered earnings may have more incentive to work, because additional earnings would be included in benefit calculation. That is, any years of zero earnings are still used in the calculation of career-averaged earnings when a worker has less than 35 years of Social Security-covered earnings, likely resulting in relatively lower monthly benefits and providing an incentive to remain in the workforce.

The Social Security Administration (SSA) estimates that, for workers who were born between 1950 and 1959 and have survived to age 67, about 62% have 35 or more work years in covered employment between ages 22 and 67, 31% have 10-34 work years, and 8% have fewer than 10 work years (i.e., likely not eligible for Social Security benefits on their own work records). The share of workers with 35 or more work years between ages 22 and 67 is typically lower for women with children, people identifying as Hispanic or Latino of any race, individuals with fewer years of education, and foreign-born workers. The SSA's projections also show that, between ages 22 and 67, younger birth cohorts tend to have smaller percentages of workers with 35 or more work years during their lifetimes than do older cohorts. It appears that most decreases in the lifetime work years across generations are attributable to the increase in foreign-born workers, who likely arrive in the United States at later ages and have shorter remaining working lives.

Proposals to change the number of computation years used in the Social Security benefit calculation can go in either direction. Some propose to increase the number of computation years. Research suggests that this policy change would likely encourage people to work longer, improve individual equity (because those who contribute more in payroll taxes would receive more benefits), and improve the funding of Social Security. However, increasing the number of computation years would likely result in years of lower earnings being included in the benefit calculation, which would reduce the monthly benefit payable to some beneficiaries. Research finds that this benefit reduction would disproportionately impact individuals with low lifetime earnings and women who retire on the basis of their own earnings.

Others propose to decrease the number of computation years for certain groups, such as parents caring for small children. This type of policy would likely increase the monthly benefits for the target group and improve the income security for those families. However, equity issues may arise, because many women and men who raise children also work outside the home and so will not have foregone earnings during those years. This policy change would likely increase the financial outlays of the program.

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Introduction

Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI), commonly referred to on a combined basis as OASDI, are social insurance programs that protect insured workers and their family members against the loss of income due to old age (i.e., retirement), disability, or death. These programs are often referred to as Social Security. In August 2022, the combined program paid cash benefits to nearly 66 million people of all ages, with an average monthly benefit of \$1,547.¹ Beneficiaries include retired workers, disabled workers, and the eligible family members of retired, disabled, or deceased workers (including spouses and dependent children). For more information about how Social Security monthly benefits are calculated, see CRS Report R46658, *Social Security: Benefit Calculation*.

The amount of monthly benefits payable to workers and their family members is largely based on the worker’s career-average earnings from jobs covered by Social Security (i.e., jobs in which the worker’s earnings were subject to the Social Security payroll tax).² Under current law, the retired worker’s career-average earnings are measured by the Average Indexed Monthly Earnings (AIME), which equals the monthly average of the highest 35 years of wage-indexed earnings for retired workers. The 35 years are known as *benefit computation years* or, more plainly, as *computation years*.³

The number of computation years is one factor that affects the Social Security monthly benefit amount. This report describes the current-law computation years and the legislative background for the provision. It also discusses the estimated work year distributions for workers in the current retiring cohorts and younger cohorts. The report concludes with a discussion of policy options that would change the number of computation years, including an analysis of effects on beneficiaries, related costs to the Social Security program, and a discussion of policy considerations.

The Computation Years Under Current Law

Social Security benefits are linked to a worker’s career-average, wage-indexed earnings in Social Security-covered employment. Computing a retired worker’s benefits involves three main steps:

1. First, a summarized measure of lifetime Social Security-covered earnings is computed. That measure is the AIME, which is based on the highest 35 years of wage-indexed earnings for retired workers.
2. Second, a benefit formula is applied to the AIME to compute the primary insurance amount (PIA), which is the worker’s basic benefit amount before any adjustments are made (as noted in step 3 below). To do this, the AIME is sectioned into three brackets (or segments) of earnings, which are divided by dollar amounts known as “bend points.” The bend points are indexed to average earnings, so they generally increase each year. Three factors—fixed in law at 90%, 32%, and 15%—are applied to the three brackets of AIME resulting in a

¹ Social Security Administration (SSA), *Monthly Statistical Snapshot, August 2022*, https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/.

² For the purposes of this report, the term *payroll tax* includes the Social Security self-employment tax.

³ The number of computation years used in the benefit calculation can be smaller than 35 for deceased workers and disabled workers under current law.

- progressive benefit formula. As a result, benefits received by people with lower earnings replace a larger share of their career-average earnings.⁴ The formula also results in individual equity (i.e., generally, the more a worker earns and pays in payroll tax, the higher the AIME and the larger the Social Security benefit received).
3. Third, an adjustment may be made based on the age at which a beneficiary chooses to begin receiving benefits. The unadjusted PIA is payable for retired workers who claim benefits at their full retirement age (FRA, ranging from age 65 to 67 depending on year of birth) and for disabled workers. Retired workers who claim earlier than the FRA receive monthly benefits that are lower than the PIA (i.e., an actuarial reduction), and those who claim later than the FRA receive monthly benefits that are higher than the PIA (i.e., a delayed retirement credit).⁵

The first step of this process—computation of a worker’s AIME—requires information on wage indexing, benefit computation years, and computation base years. *Computation base years* are the years of available earnings during covered employment that can be used in benefit calculation. A worker’s past earnings from these *computation base years* are indexed to the Social Security Administration’s (SSA’s) Average Wage Index (AWI) to update past earnings by the growth in overall economy-wide earnings. For retired-worker benefits, the sum of the highest 35 years of indexed earnings is divided by 12 (to change the measure from an annual to a monthly measure). Thirty-five, for most past and current workers and all future workers, is the number of *benefit computation years*.⁶ Benefit computation years are determined as the difference between *elapsed years* and *dropout years*, as defined below.⁷

Elapsed Years

Section 215(b) of the Social Security Act defines *elapsed years* as the number of calendar years after 1950—or, if later, the year in which the individual attained age 21—and before the year in which the individual died, or, if earlier (but after 1960), the year in which the worker attained age 62.⁸ This calendar year period excludes any period of disability.⁹ The *Code of Federal Regulations* states:

We count the years beginning with 1951, or (if later) the year you reach age 22, and ending with the earliest of the year before you reach age 62, become disabled, or die. Years wholly or partially within a period of disability (as defined in § 404.1501(b) of subpart P of this part) are not counted unless your primary insurance amount would be higher. In that case, we count all the years during the period of disability, even though you had no earnings in some of those years. These are your elapsed years.¹⁰

For example, consider a worker born in 1918 who then turned 62 in 1980. This worker would have turned 22 in 1940. Under this scenario, the number of elapsed years would be the number of years after 1950 until the worker attained age 62, or 29 years (1951-1980). Alternatively, consider a worker born in 1958 who turned 62 in 2020. This worker turned 22 in 1980. Given that this

⁴ For more information, see CRS Report R46658, *Social Security: Benefit Calculation*.

⁵ For more information, see CRS Report R44670, *The Social Security Retirement Age*.

⁶ Commonly referred to as *computation years*.

⁷ 42 U.S.C. §415(b). See also 20 C.F.R. §404.211(e).

⁸ 42 U.S.C. §415(b)(2)(B)(iii).

⁹ To qualify for a period of disability, an individual must meet the program’s definition of *disability*, have a sufficient work history to be insured for disability, and meet certain other requirements. See 20 C.F.R. §404.320.

¹⁰ 20 C.F.R. § 404.211(e)(1).

worker attained age 22 after 1950, his or her elapsed years would be 1980-2020, or 40. This last example provides a likely description of the number of elapsed years for most workers—and all future workers—as 40.

Dropout Years

Dropout years is not explicitly defined in statute. Rather, Section 215(b) of the Social Security Act specifies the number of years by which to reduce a worker's elapsed years to determine benefit computation years.¹¹ For old-age insurance benefits and survivors' insurance benefits, this number is set at five and is commonly referred to as dropout years.¹²

Benefit Computation Years and Base Years

The number of benefit computation years is computed by reducing the number of elapsed years by the number of dropout years (i.e., 5). For instance, borrowing from an earlier example, the worker born in 1918 with 29 elapsed years would have 24 benefit computation years (i.e., 29 minus 5). Alternatively, the worker born in 1958 with 40 elapsed years would have 35 benefit computation years (i.e., 40 minus 5). Thus, the number of benefit computation years for most Social Security old-age beneficiaries—and all future beneficiaries—is 35 years.

The number of benefit computation years determines the length of a worker's earning history that is used in benefit calculation (i.e., 35 under current law). However, it does not determine *which* years of earnings are used in the benefit calculation.

Computation base years¹³ are any years of earnings during covered employment that can be used in benefit calculation. Section 215 of the Social Security Act defines *computation base years* as calendar years after 1950 and up to (but not including) the year in which the individual becomes entitled to retired- or disabled-worker benefits.¹⁴ For some workers, the number of computation base years (i.e., years of covered work) is less than the number of benefit computation years, which is typically 35. When this occurs, years of no (zero) earnings are used in the benefit formula. For example, a worker with 25 years of earnings has 25 base years. Since the benefit formula uses 35 computation years, 10 years of no (zero) earnings would be used in the calculation. Alternatively, for some workers, the number of base years is greater than the number of computation years. In these cases, there are more years of earnings than required by the benefit formula. When this occurs, the 35 years with the highest earnings are used. That is, the years of relatively lower earnings are excluded from the calculation.

¹¹ 42 U.S.C. §415(b)(2).

¹² For Social Security Disability Insurance (SSDI), there is the *disability dropout* provision. In the case of disability, the elapsed years are divided by five while disregarding any fraction. The result, which may not exceed five, is the number of dropout years. That number is subtracted from the number of elapsed years to get the number of benefit computation years, which may not be fewer than two. After the worker dies, the disability dropout no longer applies, and the basic five dropout years are used to compute benefits for survivors. See 20 C.F.R. § 404.211(e)(3) and CRS Report R43370, *Social Security Disability Insurance (SSDI): Becoming Insured, Calculating Benefit Payments, and the Effect of Dropout Year Provisions*.

¹³ Commonly referred to as *base years*.

¹⁴ See 42 U.S.C. §415(b)(2)(B)(ii). Base years include years after 1950 and up to (but not including) the year in which the individual becomes entitled to retired- or disabled-worker benefits. (The survivors computation includes years after 1950 and through the year of death.) SSA may use unindexed earnings from the year of entitlement and later years in a recomputation of the benefit if doing so would result in a higher PIA amount. See 20 C.F.R. §404.211(b)(2).

Legislative History

Prior to current-law wage-indexing, Social Security benefit calculation used the average monthly wage, or AMW.¹⁵ In 1939, Congress established the AMW as the ratio of total creditable earnings after 1936 and before the year of death or retirement divided by the number of months after 1936 and before the calendar quarter in which the death or retirement occurred, excluding months before age 22 in quarters that the individual was paid less than \$50 of wages.¹⁶

In 1950, the Social Security program was broadened to cover roughly 10 million additional workers.¹⁷ Because workers whose occupations had been excluded from coverage before 1950 would have suffered a disadvantage from the original benefit calculation method,¹⁸ the AMW was amended to be based on creditable earnings *elapsed* from a starting date to a closing date. The starting date was December 31, 1950, or the day preceding the quarter in which the person attained age 22 (if later), while the closing date was the first day of the second quarter preceding the quarter in which the person died, attained age 65, or became entitled to old-age insurance, whichever resulted in a higher AMW. Until this point, the number of elapsed years used in the benefit calculation was not a *constant* number.

In 1954, Congress passed legislation to drop out four years of low earnings (five years if the worker had 20 quarters of coverage¹⁹) when computing the AMW.²⁰ The dropout years were intended to account for periods of unemployment or illness, which might otherwise reduce the AMW amount.²¹ The number of dropout years increased to five in 1956.²² The five dropout years remains the same today (in the case of retirement benefits) in computing the AIME.

In 1960, the calculation of the number of computation years was changed to be five less than the number of years (excluding years for periods of disability) elapsing after 1950 or after the year in which the individual attained age 21, whichever is later, and up to the year in which the person was first eligible for old-age insurance benefits (generally the year in which men attained age 65 or women attained age 62).²³ Under the provision, starting for those born in 1929, the benefit computation in retirement cases generally included the highest 38 years of earnings for men and the highest 35 years of earnings for women. The law also set the computation of the AMW for retirement benefits on the basis of a *constant* number of years, regardless of when the person started to work (before age 22) or when he or she filed an application for benefits (after age 65 for men or age 62 for women). The earnings used in the computation would be the earnings in the

¹⁵ Earnings used to calculate the average monthly earnings started to be indexed after 1978 (P.L. 95-216). For more information, see CRS In Focus IF11931, *Social Security: The Average Wage Index*.

¹⁶ P.L. 76-379.

¹⁷ P.L. 81-734. See also CRS Report RL30920, *Social Security: Major Decisions in the House and Senate Since 1935*.

¹⁸ U.S. Senate, *Social Security Act Amendments of 1950, Report to Accompany H.R. 6000*, 81st Congress 2nd Session, May 17, 1950, <https://www.ssa.gov/history/pdf/Downey%20PDFs/Social%20Security%20Amendments%20of%201950%20Vol%202.pdf#page=27>.

¹⁹ In 1954, *quarter of coverage* was defined as a calendar quarter in which an individual had been paid \$50 in wages or had been credited with \$100 of self-employment income.

²⁰ P.L. 83-761.

²¹ U.S. House of Representatives, *Congressional Record*, June 1, 1954, <https://www.ssa.gov/history/pdf/Downey%20PDFs/Social%20Security%20Amendments%20of%201953-54%20Vol%201.pdf#page=245>.

²² P.L. 84-880.

²³ P.L. 86-778. The original Social Security Act of 1935 set the age at which retirement benefits could be received at 65. The 1956 amendments to the Social Security Act allowed female workers and wives to start receiving benefits at age 62. The 1961 amendments lowered the age at which male retirees could receive reduced benefits to age 62.

highest years. Earnings in years prior to attainment of age 22 or after attainment of the retirement age could be used if they were higher than earnings in the intervening years. This computation was considered to be “simpler and easier” than the method before 1960.²⁴

The provision was then amended in 1961.²⁵ Men were allowed to claim retirement benefits at age 62, but the elapsed years for men’s AMW continued to end with the year in which the individual died, the first year after 1960 in which he attained age 65, or (if later) the first year in which he was fully insured.²⁶ The fully insured requirement was eliminated in 1965,²⁷ as almost all individuals were insured by the time they reached the retirement age. The deletion of the provision resulted in a simplification of the computation provisions.²⁸ In 1972, the requirement of age 65 was reduced to age 62 for men, the same as women.²⁹ Since 1976 (after a three-year transitional period), the number of computation years for AMW for retired workers has been 35 for both men and women. Since 1979, when the earnings started to be wage-indexed in the benefit formula, the number of computation years used in the AIME calculation for retired workers has been 35.³⁰

Distribution of Work Years for Selected Cohorts

This section presents the *estimated/projected* distribution of work years in Social Security–covered employment among U.S. workers for selected birth cohorts, excluding those who are disabled or have substantial earnings not covered by Social Security (i.e., 30 or more years of

²⁴ U.S. Congress, Senate Committee on Finance, *Major Differences in the Present Social Security Law and H.R. 12580 as passed by the United States House of Representatives*, June 24, 1960, pp. 10-11, <https://www.ssa.gov/history/pdf/Downey%20PDFs/Social%20Security%20Act%20of%201960%20Vol%202.pdf#page=661>.

²⁵ P.L. 87-64.

²⁶ A worker is *fully insured* for benefits if he or she has earned at least one credit for each year after turning 21 and the earliest of the following: the year before he or she attains age 62, the year before he or she dies, or the year before he or she becomes disabled. A worker is permanently and fully insured if he or she has at least 40 credits (at least 10 years of covered work). A permanently and fully insured worker will not lose fully insured status when he or she stops working under covered employment. A Social Security credit is also called a quarter of coverage. In 2022, one credit is earned for every \$1,510 earned in covered employment up to a maximum of four credits for covered earnings of \$6,040 or more. This amount generally increases each year to account for wage growth.

²⁷ P.L. 89-97.

²⁸ Social Security Amendments of 1965, Report of the Committee on Ways and Means on H.R. 6675, 89th Congress, 1st Session, March 29, 1965, <https://www.ssa.gov/history/pdf/Downey%20PDFs/Social%20Security%20Amendments%20of%201965%20Vol%201.pdf#page=7>.

²⁹ P.L. 92-603.

³⁰ According to P.L. 95-216, persons eligible for Social Security benefits after 1978 would have their benefits calculated based on the wage-indexed formula.

earnings not covered).³¹ The employment estimation and projection is based on the microsimulation results from SSA’s Modeling Income in the Near Term.³²

Typically, a worker’s career-average earnings (i.e., AIME) can be calculated based on all earnings if the worker has 35 work years in covered employment. Earnings beyond 35 years can increase the AIME amount only when they are higher than those already included in the benefit computation. For most workers, the increase in the benefit recomputation due to additional higher earnings beyond 35 years is usually relatively small. For workers with 10-34 work years, some zero earnings will be included in the calculation of AIME, because a worker’s 35 years of highest earnings are required to be included in the benefit formula. For these workers, additional years of covered employment would likely increase the benefit amount, and sometimes the increase can be substantial. Because workers generally need at least 10 years of covered earnings to become eligible for Social Security retired-worker benefits, workers with fewer than 10 years of covered earnings are generally not eligible for Social Security retired-worker benefits.

Birth Cohorts 1950-1959

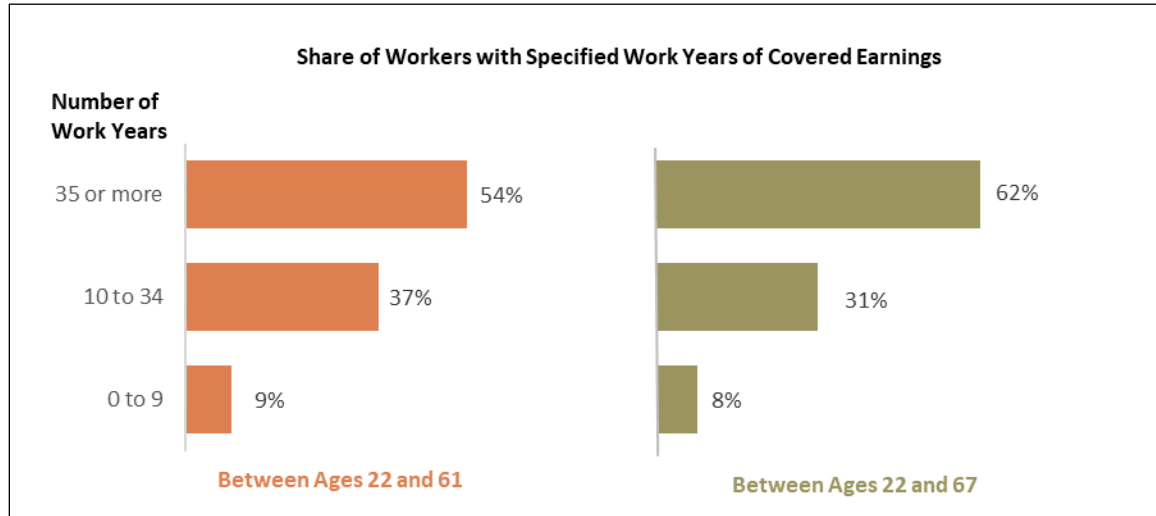
As discussed above, the number of computation years under Social Security is equal to the number of elapsed years *minus* the number of dropout years (e.g., five years for retired workers). The elapsed years are those from age 22 to 61 for retired workers (or 40 years). **Figure 1** displays the estimated distribution of Social Security–covered work years between ages 22 and 61 for workers born in 1950-1959. Among workers surviving to age 61, about 54% are estimated to have 35 or more years of covered earnings, 37% have between 10 and 34 years, and 9% have fewer than 10 years.

People can work before age 22 and after age 61, and those covered earnings can also be included in the benefit calculation if these earnings lead to a higher benefit. It is estimated that about 71% of workers born in 1950-1959 who survive to age 67 will have performed some work between ages 62 and 67, including 38% who will have worked five to six years during those ages (not shown in **Figure 1**). Accounting for all ages between 22 and 67, about 62% of workers in this cohort are estimated to have 35 or more work years in covered employment, 31% have 10-34 work years, and 8% have fewer than 10 work years.

³¹ A worker’s employment or self-employment is considered covered by Social Security if the services performed in that job result in earnings that are taxable and creditable for program purposes. The vast majority of the workforce is covered by Social Security. SSA’s Office of the Chief Actuary (OCACT) estimates that about 182 million people will work in covered employment in 2022 and about 94% of all workers in paid employment or self-employment are covered under the Social Security program. See OCACT, <https://www.ssa.gov/oact/FACTS/index.html>. Noncovered lifetime workers mainly include state and local government employees covered by alternative staff-retirement systems and most permanent civilian federal employees hired before January 1, 1984, who are covered by the Civil Service Retirement System or other alternative retirement plans.

³² The information in this section is based on the Modeling Income in the Near Term (MINT, version 8.19) microsimulation results received by CRS from the SSA’s Office of Research, Evaluation, and Statistics on May 2, 2022. For more information about MINT, see SSA, “MINT Overview,” <https://www.ssa.gov/policy/about/mint.html>. Some of SSA’s research uses the MINT microsimulation model to project future retirement income, marital trends, Social Security benefits, income, and poverty. MINT is built primarily on the Survey of Income and Program Participation and linked at the individual level with SSA benefits and earnings records. The estimates described in this report were based on the intermediate assumptions in OCACT, *The 2019 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, <https://www.ssa.gov/OACT/TR/2019/tr2019.pdf>.

Figure 1. Estimated Distribution of Work Years of Social Security–Covered Earnings
Birth Cohort 1950-1959



Source: Estimates received by CRS from the Social Security Administration’s Office of Research, Evaluation, and Statistics on May 2, 2022.

Notes: The samples in the two subfigures include workers surviving to age 61 and age 67, respectively, and exclude disabled workers and those with 30 or more years of earnings not covered under Social Security. Components in each category may not sum to 100% due to rounding.

By Sex and Number of Children

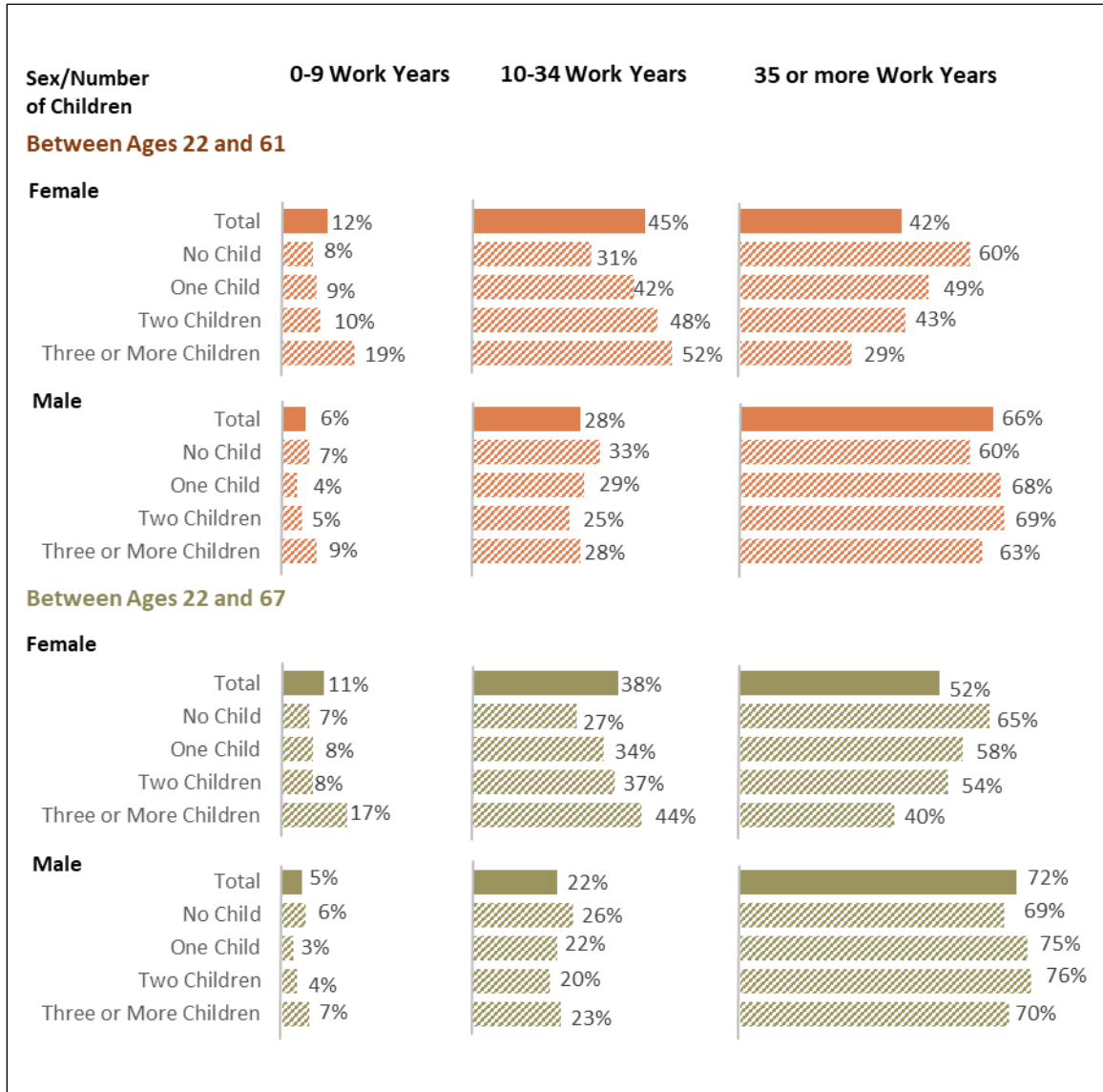
Men and women generally differ in the distribution of work years for covered earnings (see **Figure 2**). Since women spend more time outside of the labor force compared to men, on average, a larger proportion of men tend to have 35 or more work years over their lifetimes than women do, and a smaller proportion of men tend to have fewer than 10 work years over their lifetimes than women do. For example, for those born in 1950-1959, 66% of men are estimated to have 35 years of covered earnings between ages 22 and 61, compared to 42% of women. In addition, 6% of men were estimated to have fewer than 10 years of covered earnings (and thus are usually not eligible for Social Security retired-worker benefits), compared to 12% of women.

The number of children a woman has substantially affects her lifetime working experience. Women with children generally work fewer years than do women without children, on average. About 60% of women without children over their lifetimes are estimated to have 35 or more work years between ages 22 and 61, compared to 49% of women with one child, 43% with two children, and 29% with three or more children. Roughly 10% of women with two or fewer children are estimated to have fewer than 10 work years, compared to 19% of those with three or more children. About 65% of women between ages 62 and 67 are estimated to have some work, including about 67% of women with two or fewer children and 61% of women with three or more children. Overall, about 52% of women are estimated to have 35 or more work years between ages 22 and 67.

It is worth noting that men and women without children appear to have a similar distribution of work years over their lifetimes. Men do not appear to be affected in the same way as women in response to having children. Men with children tend to work more years than those without children do. About 60% of men without children over their lifetimes are estimated to have 35 or more years of covered earnings between ages 22 and 61, compared to 68% of men with one child, 69% with two children, and 63% with three or more children. Between ages 62 and 67, about

77% of men are estimated to have performed some work, and men with children tend to be more likely to work and work more years during those ages. Over ages 22-67, about 72% of men are estimated to have 35 or more years of covered earnings.

Figure 2. Estimated Percentage of Workers with Specified Work Years of Social Security-Covered Earnings, by Sex and Lifetime Number of Children
Birth Cohort 1950-1959



Source: Estimates received by CRS from the Social Security Administration’s Office of Research, Evaluation, and Statistics on May 2, 2022.

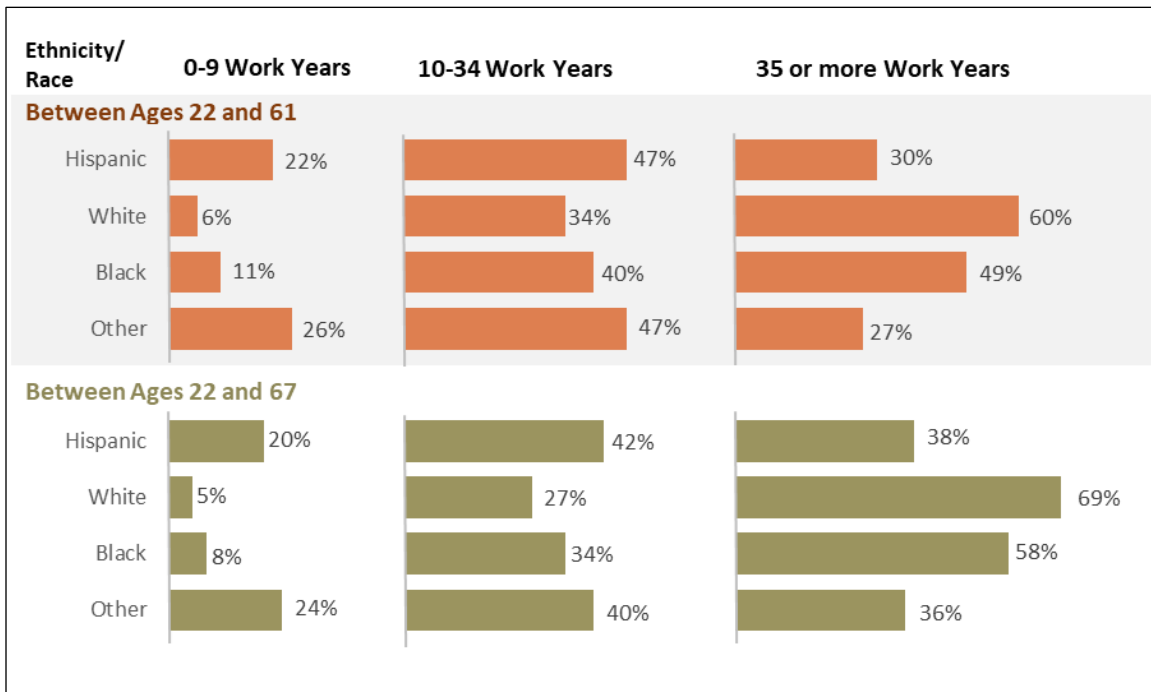
Notes: The samples in the two subfigures include workers surviving to age 61 and age 67, respectively, and exclude disabled workers and those with 30 or more years of earnings not covered under Social Security. Components in each category may not sum to 100% due to rounding.

By Ethnicity and Race

The distribution of work years for covered earnings generally differs by ethnicity and race (see **Figure 3**). A larger share of people identifying as non-Hispanic White than individuals of other ethnicities or races are estimated to have 35 or more work years, on average. Between ages 22 and 61, about 60% of non-Hispanic Whites born in 1950-1959 are estimated to have worked 35 or more years in covered employment, compared to 40% of non-Hispanic Blacks, 30% of Hispanics or Latinos of any race, and 27% of non-Hispanics of other races. About 6% of non-Hispanic Whites are estimated to have fewer than 10 work years, compared to 11% of non-Hispanic Blacks, 22% of Hispanics or Latinos of any race, and 26% of non-Hispanics of other races.

Individuals identified as non-Hispanic White are also more likely to work between ages 62 and 67. About 73% of non-Hispanic Whites are estimated to have some work during ages 62-67, compared to 69% of non-Hispanic Blacks, 61% of Hispanics or Latinos of any race, and 63% of non-Hispanics of other races.³³ Between the ages of 22 and 67, about 69% of non-Hispanic Whites are estimated to have 35 or more work years, compared with 58% of non-Hispanic Blacks and less than 40% of Hispanics or Latinos of any race and non-Hispanics of other races.

Figure 3. Estimated Percentage of Workers with Specified Work Years of Social Security–Covered Earnings, by Ethnicity and Race
Birth Cohorts 1950-1959



Source: Estimates received by CRS from the Social Security Administration’s Office of Research, Evaluation, and Statistics on May 2, 2022.

Notes: The samples in the two subfigures include workers surviving to age 61 and age 67, respectively, and exclude disabled workers and those with 30 or more years of earnings not covered under Social Security. Hispanic includes Hispanics or Latinos of any races, White includes non-Hispanic Whites, Black includes non-

³³ CRS received the estimates in this report from the Social Security Administration’s Office of Research, Evaluation, and Statistics on May 2, 2022.

Hispanic Blacks, and Other includes all other non-Hispanic races. Components in each category may not sum to 100% due to rounding.

By Educational Attainment

On average, the number of work years increases with educational attainment (see **Figure 4**). Among workers with associate's degrees or higher, roughly 60% are estimated to have 35 or more years of covered earnings between ages 22 and 61. More than 74% are estimated to work during ages 62 and 67, and roughly 70% have 35 or more years of covered earnings between ages 22 and 67.

Workers who have less than a high school diploma are more likely to be out of the labor force at some point during their lifetimes than those with higher educational attainment. Between ages 22 and 61, 21% of those workers are estimated to have 35 or more work years, and 31% have fewer than 10 work years. Fewer than half of those individuals tend to work between ages 62 and 67. Between ages 22 and 67, fewer than 30% of workers who have less than a high school diploma are estimated to work 35 or more years in covered employment. These estimates are consistent with earlier findings that workers with less than a high school diploma tend to have fewer years of earnings than other workers do.³⁴ Studies also show that less-educated workers tend to have longer unemployment spells³⁵ and shorter life expectancy,³⁶ thus resulting in fewer work years over their lifetimes.

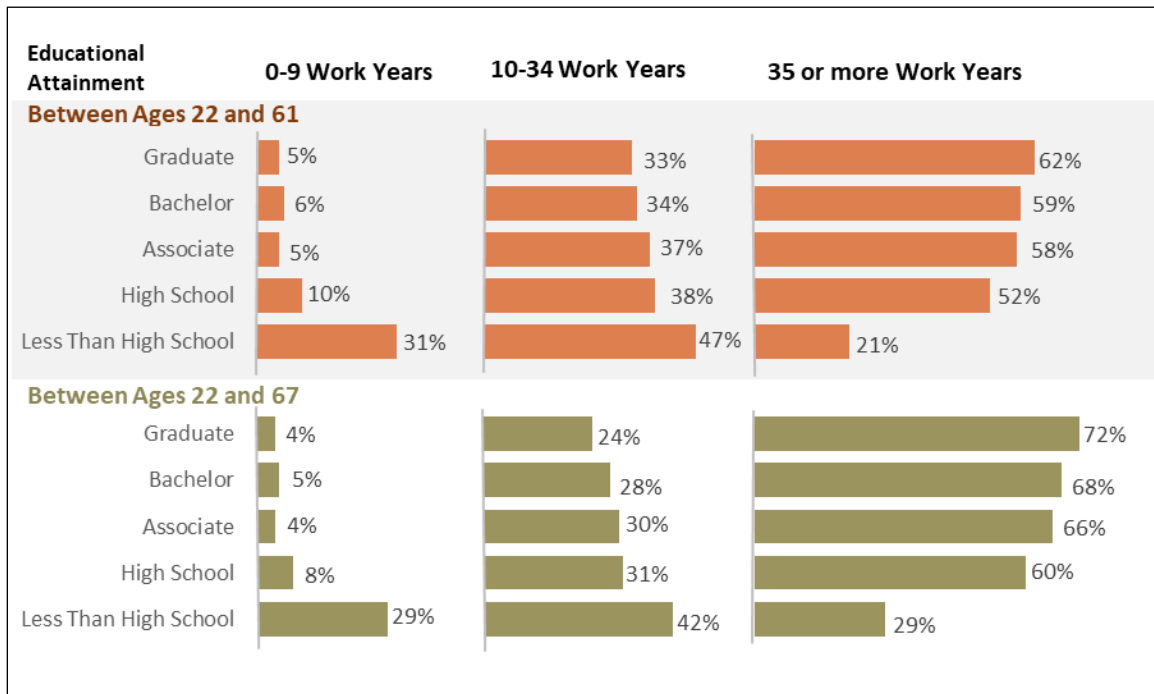
³⁴ Melissa M. Favreault and C. Eugene Steuerle, *The Implications of Career Lengths for Social Security*, Center for Retirement Research at Boston College, February 2008, https://crr.bc.edu/wp-content/uploads/2008/02/wp_2008-5-508.pdf.

³⁵ Thomas Palumbo, *Dynamics of Economic Well-Being: Spells of Unemployment, 2004-2007*, U.S. Census Bureau, Current Population Reports, July 2010, <https://www2.census.gov/library/publications/2010/demo/p70-120.pdf>.

³⁶ See CRS Report R44846, *The Growing Gap in Life Expectancy by Income: Recent Evidence and Implications for the Social Security Retirement Age*.

Figure 4. Estimated Percentage of Workers with Specified Work Years of Social Security–Covered Earnings, by Educational Attainment

Birth Cohorts 1950-1959



Source: Estimates received by CRS from the Social Security Administration’s Office of Research, Evaluation, and Statistics on May 2, 2022.

Notes: The samples in the two subfigures include workers surviving to age 61 and age 67, respectively, and exclude disabled workers and those with 30 or more years of earnings not covered under Social Security. Components in each category may not sum to 100% due to rounding.

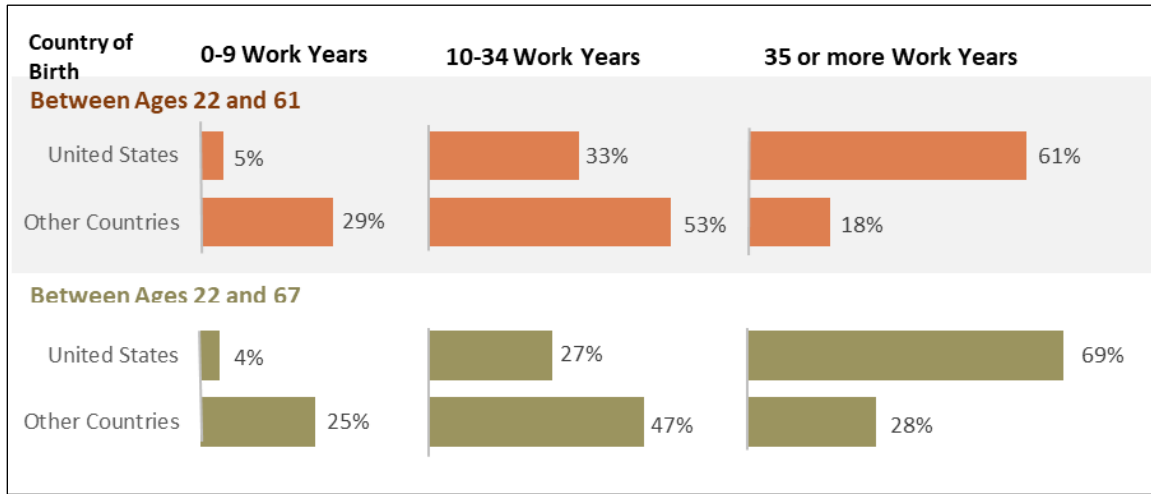
By Country of Birth

The estimates show that a worker’s country of birth substantially affects the distribution of U.S. work years (see **Figure 5**). Among U.S. workers born in 1950-1959, an estimated 18% were born in foreign countries. Foreign-born workers may come to the United States at later ages, limiting the timespan available to accumulate work years under Social Security. They may also have prior work in foreign countries and be eligible for benefits from the social security or retirement systems of those countries. It is estimated that 18% of foreign-born workers have 35 or more years of covered earnings between ages 22 and 61, compared to 61% of those born in the United States. About 29% of workers born in foreign countries are estimated to have fewer than 10 years of covered earnings between ages 22 and 61, compared to 5% of those born domestically.

Foreign-born individuals are also estimated to be less likely to work between ages 62 and 67. About 63% of foreign-born workers have some work during ages 62 to 67, compared to 72% of those born in the United States. Between ages 22 and 67, 28% of foreign-born workers are estimated to have 35 or more years of covered earnings, compared to 69% of those born in the United States.

Figure 5. Estimated Percentage of Workers with Specified Work Years of Social Security–Covered Earnings, by Country of Birth

Birth Cohorts 1950-1959



Source: Estimates received by CRS from the Social Security Administration’s Office of Research, Evaluation, and Statistics on May 2, 2022.

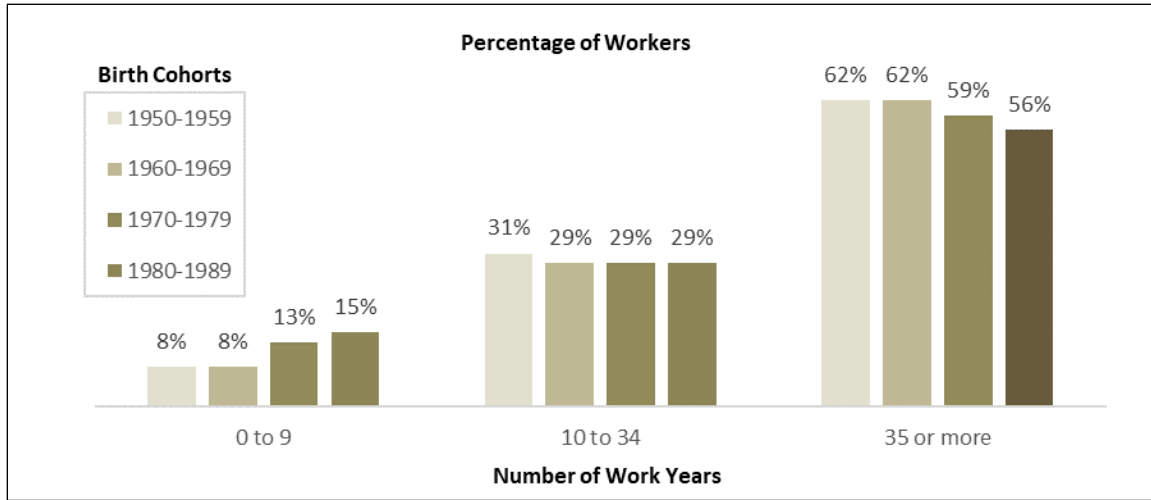
Notes: The samples in the two subfigures include workers surviving to age 61 or age 67, respectively, and exclude disabled workers and those with 30 or more years of earnings not covered under Social Security. Components in each category may not sum to 100% due to rounding.

Younger Birth Cohorts, 1960-1989

Lifetime employment patterns that are covered by Social Security are projected to differ for younger birth cohorts relative to older birth cohorts (see **Figure 6**). Between ages 22 and 67, younger birth cohorts are projected to have smaller percentages of workers with 35 or more work years than older cohorts do. Younger cohorts are also projected to have larger percentages of workers with fewer than 10 years of covered earnings than do older cohorts.³⁷ This implies that increasing the number of computation years is likely to have a larger impact on younger cohorts than on older cohorts.

³⁷ The estimated employment pattern is similar for work years between ages 22 and 61.

Figure 6. Estimated Distribution of Work Years Between Ages 22 and 67 for Social Security–Covered Earnings, by Birth Cohort



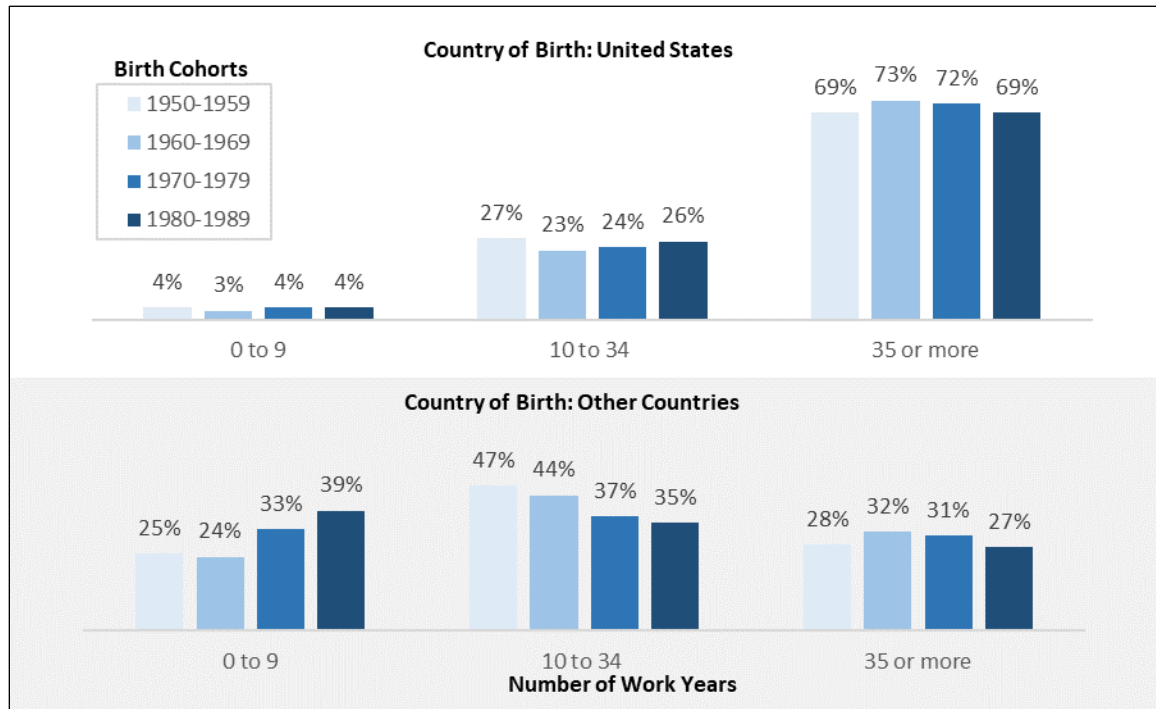
Source: Estimates received by CRS from the Social Security Administration’s Office of Research, Evaluation, and Statistics on May 2, 2022.

Notes: The sample includes workers who are projected to survive to age 67, and excludes disabled workers and those with 30 or more years of earnings not covered under Social Security. Components in each category may not sum to 100% due to rounding.

According to the estimates from SSA, the number of foreign-born individuals in the United States is projected to increase for younger generations. The projections show that about 18% of those born in 1950-1959 are born in other countries, compared to 26% of those born in 1960-1969 and more than 30% of those born in 1970-1989. (All projections are among workers expected to survive to age 67.) Research suggests that foreign-born individuals are likely to arrive in the United States at later ages and thus have shorter remaining working lives.³⁸ Among workers born in foreign countries, about 25% of those in the 1951-1959 and 1960-1969 birth cohorts are estimated to work fewer than 10 years between ages 22 and 67, compared to 33% of those in the 1970-1979 birth cohorts and 39% of those in the 1980-1989 birth cohorts (see **Figure 7**).

³⁸ Favreault and Steuerle, *The Implications of Career Lengths for Social Security*.

Figure 7. Percentage of Workers Between Ages 22 and 67 with Specified Work Years of Social Security–Covered Earnings, by Country of Birth and Birth Cohort



Source: Estimates received by CRS from the Social Security Administration’s Office of Research, Evaluation, and Statistics on May 2, 2022.

Notes: The samples in the two subfigures include workers surviving to age 61 or age 67, respectively, and exclude disabled workers and those with 30 or more years of earnings not covered under Social Security. Components in each category may not sum to 100% due to rounding.

Auxiliary Benefits

Social Security auxiliary benefits are paid to eligible spouses, former spouses, survivors, children, or parents of Social Security–insured workers and are equal to a specified percentage of the worker’s PIA (subject to a maximum family benefit amount).³⁹ For example, the spouse of a retired worker may receive up to 50% of the retired worker’s PIA, and the widow(er) of a retired worker may receive up to 100% of the retired worker’s PIA.⁴⁰

Spousal and Widow(er)’s Beneficiaries

Workers without sufficient covered employment (typically 10 work years) are not eligible for Social Security retired-worker benefits. They, however, can receive spousal or widow(er)’s benefits based on the work record of their insured spouses.⁴¹ In December 2021, about 2.3 million

³⁹ For information on how to compute the maximum family benefit amount, see CRS Report R46658, *Social Security: Benefit Calculation*.

⁴⁰ For more information, see CRS Report R41479, *Social Security: Revisiting Benefits for Spouses and Survivors*.

⁴¹ If the person also receives a pension based on his or her own employment in certain federal, state, or local government positions that are not covered by Social Security, a Social Security spousal or survivor benefit is reduced or fully offset by the government pension offset provision. For more information, see CRS Report RL32453, *Social*

individuals received Social Security spousal benefits, and 3.8 million received widow(er)'s benefits.⁴² Those represent 3.5% and 5.8% of all Social Security beneficiaries, respectively.

Dual Entitlement

A person may qualify for a spousal or survivor benefit as well as for a Social Security benefit based on his or her own work record (a retired-worker benefit). In such cases, the person effectively receives the higher of the worker benefit and the spousal or survivor benefit. When the person's retired-worker benefit is higher than the spousal or survivor benefit to which he or she would be entitled, the person receives only the retired-worker benefit. Conversely, when the person's retired-worker benefit is lower than the spousal or survivor benefit, the person is referred to as *dually entitled* and receives the retired-worker benefit plus a spousal or survivor benefit that is equal to the difference between the retired-worker benefit and the full spousal or survivor benefit. In essence, the dually entitled person receives a total benefit amount equal to the higher spousal or survivor benefit.

It is possible that workers with relatively fewer work years (or lower lifetime earnings) are dually entitled and receive higher auxiliary benefits under Social Security. In December 2021, about 7.4 million retired-worker beneficiaries (or 11.4% of all Social Security beneficiaries) were dually entitled, of whom 96% were women. Dually entitled women beneficiaries accounted for 20% of all female beneficiaries in 2021, while dually entitled men accounted for 1% of all male beneficiaries.⁴³

Policy Options

As discussed, the first step in calculating an eligible worker's retirement benefits is to calculate the AIME. One approach to change a worker's AIME is to increase or decrease the number of computation years. For instance, an increase in the number of computation years would better reflect a worker's complete earnings history for workers with long working careers, whereas a decrease in the number of computation years might better reflect the career earnings of workers with fewer years of earnings (e.g., for workers with more years of zero earnings due to caregiving). This section discusses how increases and decreases in the computation years would affect Social Security retired-worker benefits, the cost of the program, and the arguments for or against those changes.

When discussing the effect of changes in computation years on Social Security benefits, this report analyzes five *hypothetical earners*—as defined by SSA—whose career earnings range from *very low earnings* to *maximum earnings* and vary across birth cohort. Hypothetical earners are used to illustrate how changes to the benefit formula (i.e., a change in the number of computation years) could affect workers of different earnings levels and different ages.⁴⁴

Security: The Government Pension Offset (GPO).

⁴² SSA, *Annual Statistical Supplement, 2022 (in progress)*, Table 5.A1, <https://www.ssa.gov/policy/docs/statcomps/supplement/2022/5a.html>. The number includes both nondisabled and disabled widow(er)s.

⁴³ SSA, *Annual Statistical Supplement, 2022 (in progress)*, Table 5.G2, <https://www.ssa.gov/policy/docs/statcomps/supplement/2022/5g.html>.

⁴⁴ For more information, see “Hypothetical Earners” and “Appendix A. Estimated Characteristics of Hypothetical Workers” in CRS Report R47087, *Social Security Benefit Formula and Payroll Taxes: Potential Impacts of Policy Changes on Selected Worker Groups*. The career earnings profiles for hypothetical earners are calculated using an age-specific, scaled factor developed by OCACT. Changes in computation years would likely lead to a behavioral response.

Because most proposals to change the number of computation years would not apply to Social Security disability benefits, discussions in this section focus on the effects on retired workers and their family members (if applicable).

Increasing the Number of Computation Years

Policymakers have proposed increasing the number of computation years (e.g., from 35 years to 38 or 40 years) or totally uncapping the number of years of earnings used in the benefit calculation.⁴⁵ For illustration, the following section explains how Social Security benefits would change if the number of computation years were increased from 35 to 40 (for beneficiaries becoming eligible in some future years).

Potential Effects on Social Security Benefits

Hypothetical Worker Examples

With no changes in worker behavior, an increase in the number of computation years could lead to a reduction in both AIMEs and PIAs. **Table 1** shows how hypothetical workers of varying earnings levels and birth cohorts would be affected by an increase in the number of computation years from 35 to 40 if the change were applied to Social Security beneficiaries who become eligible in 2024 or later.⁴⁶ As can be seen in **Table 1**, an increase in the number of computation years (i.e., from 35 to 40) would decrease the AIME and PIA relative to estimates under current law for most earners in the 1980, 2000, and 2020 birth cohorts. Under such a scenario, those in the 1960 birth cohort would not be affected, as their AIMEs would have been calculated in 2022 (at age 62) before the increase in computation years took effect. The AIMEs, and subsequent calculations, for the younger cohorts would fall with additional computation years because they would include additional years of lower annual earnings. Under current law, AIMEs are computed using a worker's highest 35 years of indexed earnings. Increasing the number of computation years, which for the average hypothetical worker would include years of lower earnings, would lower the AIME.

For very low, low, medium, and high earners in the younger three cohorts, increasing the number of computation years by five years would result in a 6% lower AIME, as the younger three cohorts' benefit calculations now include years of lower earnings that would not otherwise have been included in the calculation. Compared to those earners, the maximum earners' AIME would be impacted to a much lesser degree or not at all (i.e., maximum earners in the 2020 birth cohort). These earners are assumed to always have earnings at the contribution and benefit base (i.e., taxable maximum), a number that cannot decrease.⁴⁷ That is, for maximum earners, the increase

However, hypothetical workers modeled and the results presented reflect hypothetical workers with the same earnings history as under current law.

⁴⁵ For example, see Report of the 1994-96 Advisory Council Report on Social Security, Findings, Recommendations, and Statements, <https://www.ssa.gov/history/reports/adccouncil/report/findings.htm#principles>; and SSA, "Provisions Affecting Level of Monthly Benefits," Option B4: Computation year changes, <https://www.ssa.gov/OACT/solvency/provisions/benefitlevel.html#B4>.

⁴⁶ This is a hypothetical policy option. Not only could the number of computation years be any number larger than 35 (e.g., 37 or 42); it could also be phased in (e.g., an increase from 35 to 40 could be phased in over a 25-year period by increasing the number by one year every five years).

⁴⁷ The formula for determining the contribution and benefit base (CBB) is set by law (42 U.S.C. §430(b)). For any year after 1994, the formula states that the CBB is equal to the base for 1994 (\$60,600) multiplied by the ratio of the AWI for two years before the year for which the amount is being calculated to that for 1992 (i.e., 1994 minus 2), with the

in the number of computation years would not include additional years of lower earnings in the calculation, because those workers are assumed to earn at least the taxable maximum every year (an amount that is projected to increase under the intermediate assumptions in the Social Security trustees report).⁴⁸

Although AIMEs for the very low, low, medium, and high earners in the younger three cohorts are affected in a similar way (i.e., a 6% decrease), their PIAs and replacements rates would be affected differently. Differences in how an increase in computation years would affect PIAs is largely influenced by how the progressive benefit formula is applied to AIMEs. For instance, a hypothetical very low earner has a much smaller amount of AIME that is subject to replacement at 32% (see “The Computation Years Under Current Law”) than does a medium earner. As a result, a hypothetical medium earner’s PIA is influenced more by changes in AIMEs. The hypothetical workers whose AIME would decrease would actually have a higher initial replacement rate, measured as the percentage of AIME (career-averaged earnings) that PIA would replace. This would not reflect an increase in future benefits but rather a decrease in AIME that would be larger than the decrease in PIA. That is, workers’ future benefits decreased, but the measure reflecting career-averaged earnings—the AIME—decreased by a larger amount.

Table 1. Computation Year Increase: Change in Average Monthly Indexed Earnings (AIMEs), Primary Insurance Amounts (PIAs), and Initial Replacement Rates (Ratio of PIA to AIME) for Hypothetical Earners by Birth Cohort

Under Intermediate Assumptions with a Change from 35 to 40 years for Those Becoming Eligible in 2024 or Later

	Very Low Earner	Low Earner	Medium Earner	High Earner	Maximum Earner
Birth Cohorts	Percent Change in AIME				
1960	0.0%	0.0%	0.0%	0.0%	0.0%
1980	-6.0%	-6.0%	-6.0%	-6.0%	-0.5%
2000	-6.0%	-6.0%	-6.0%	-6.0%	-0.6%
2020	-6.0%	-6.0%	-6.0%	-6.0%	0.0%
	Percent Change in PIA				
1960	0.0%	0.0%	0.0%	0.0%	0.0%
1980	-2.3%	-3.2%	-4.3%	-2.4%	-0.3%
2000	-2.3%	-3.2%	-4.3%	-2.4%	-0.3%
2020	-2.3%	-3.2%	-4.3%	-2.4%	0.0%
	Percentage Point Change in Replacement Rate				
1960	0.0	0.0	0.0	0.0	0.0
1980	3.3	1.8	0.8	1.4	0.1
2000	3.3	1.8	0.8	1.4	0.1

result rounded to the nearest multiple of \$300. If the result is less than the current base, then the base is not reduced. Because of the rounding rule, it is possible for the CBB to remain the same as the prior year with a very small increase in the AWL, provided that the cost-of-living adjustment is payable. This situation has never occurred.

⁴⁸ This results from the basic definition of the hypothetical maximum worker. The maximum worker earns at the taxable maximum level in all years (i.e., from age 22 through 64). In reality, this may be unlikely. Maximum earners, by definition, always earn at the taxable maximum level. Since this level represents the amount of earnings that are used to determine benefit levels, the benefit amounts for maximum earners is also the maximum benefit possible. Other hypothetical earners earn at a percentage of the AWL.

2020	3.3	1.8	0.8	1.4	0.0
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Source: CRS calculations based on hypothetical earner profiles developed by SSA.

Notes: Figures in the table reflect calculations for scheduled amounts under current law. Calculations shown in this table are values under current law and using the intermediate assumptions from OCACT, *The 2022 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, June 2, 2022, <https://www.ssa.gov/OACT/TR/2022/tr2022.pdf>.

Projected Effects on Current-Law Beneficiaries

SSA estimates the effect of increasing the number of computation years from 35 to 40 on current-law beneficiaries aged 60 or older in 2030, 2050, and 2070 if the change were applied to beneficiaries who become eligible in 2022 or later.⁴⁹ The policy would affect those aged 60-68 in 2030, those aged 60-88 in 2050, and virtually all beneficiaries in 2070. The estimates show that about 24% of beneficiaries would receive lower benefits than under current law in 2030, compared to 70% in 2050 and 78% in 2070. The estimates also show that a relatively larger share of men, those identifying as non-Hispanic White and non-Hispanic other races, foreign-born, married and never married individuals, those with bachelor’s or higher education degrees, and those with higher household income would receive lower monthly benefits compared to their respective counterparts after an increase in the number of computation years. In 2070, when the increase in the number of computation years would affect almost all beneficiaries, about 10% of current-law beneficiaries aged 60 and older would receive monthly benefits at least 8% lower than under current law, and about half would receive at least a 3% decrease in monthly benefits. The benefit decrease would be relatively larger for average beneficiaries with less than a high school education, those in poverty, and those with the lowest level of household income.

SSA also projects that about 66% of current-law beneficiaries born in 1960-1969 would receive higher initial replacement rates than under current law, whereas 2% would receive a lower replacement rate. The top 50% of earners would receive a 2% increase in replacement rates, and the top 10% of earners would receive a 6% increase or more. Those effects are similar for younger generations.⁵⁰

Potential Effects on Program Costs

As discussed, an increase in the number of computation years used in the benefit formula could take many forms. For instance, the net increase in number of computation years—as well as how the increase is phased in—could vary. In any case, as shown in **Table 1**, an increase in the number of computation years would likely lead to a decrease in future benefit amounts and result in overall lower program costs. The SSA’s Office of the Chief Actuary (OCACT) estimated how a five-year increase in computation years (from 35 to 40), phased in from 2022 to 2030, would affect the program’s finances.⁵¹ The actuaries projected that this increase in the computation years would eliminate 13% of the *long-range actuarial balance* of the combined OASDI trust funds and not affect the year of projected asset reserve depletion.⁵² That is, although it would improve

⁴⁹ SSA, Office of Research, Evaluation, and Statistics, “Projected Effects of a Proposal to Increase the Computation Period,” <https://www.ssa.gov/policy/docs/projections/policy-options/increase-comp-years-to-40.html>.

⁵⁰ SSA, “Projected Effects of a Proposal to Increase the Computation Period.”

⁵¹ See “B4.2” at https://www.ssa.gov/OACT/solvency/provisions_tr2021/charts/chart_run412.html. The estimates are based on the intermediate assumptions of the 2021 annual report.

⁵² The actuarial balance is the difference between the summarized cost rate and the summarized income rate over a 75-year projection horizon. The summarized cost rate is the ratio of the present value of cost to the present value of the taxable payroll for the projection period. The summarized income rate is the ratio of the present value of scheduled

the financial status of the program, it would not eliminate the financial shortfall. This would ostensibly increase the level of *payable benefits* (i.e., the level of benefits that would be supported by continuing revenues once the combined OASDI trust funds' asset reserves are exhausted).

Arguments for or Against Increasing the Number of Computation Years

Supporters of increasing the number of computation years point out that it would better reflect a worker's complete earnings history. That is, one could argue that 35 years is arbitrary.⁵³ The selection of the original FRA (i.e., 65 years)—and, presumably, the number of computation years—was based on state old-age pension systems and what actuarial estimates suggested the program could support in terms of cost. However, since its inception, the program has changed in scope—DI was added in 1956—and in scale—the program now covers about 94% of workers as compared to about 50% when it started.⁵⁴

Moreover, as the Social Security system has changed, so too have the people who are covered by the system. For instance, in 1945, the period life expectancy at birth was 62.9 years for a male and 68.4 years for a female. This indicates that in 1945, shortly after Social Security began regular monthly payments,⁵⁵ the average newborn male was not expected to reach FRA (i.e., age 65), and the average female was not expected to live more than a few years beyond FRA. In 2020, the period life expectancy at birth was 74.5 years for a male and 79.7 years for a female. Thus, males and females born in 2020 can expect at birth to live about 11 years longer than those born in 1945.⁵⁶ In short, workers on average are capable of living longer. However, the number of computation years has remained static.

Supporters also argue that increasing the number of computation years would likely encourage people to work longer,⁵⁷ improve individual equity (those who contribute more in payroll taxes would receive more in benefits),⁵⁸ and improve the funding of Social Security.⁵⁹

However, increasing the number of computation years would allow more years of lower earnings to be included in the benefit calculation, thus reducing the monthly benefit payable to most beneficiaries relative to current law. Research finds that this benefit reduction would

non-interest income to the present value of taxable payroll for the projection period. *Taxable payroll* is the total amount of earnings in the economy that is subject to the Social Security payroll tax (with some adjustments). For more information on the actuarial balance, see "Actuarial Balance" in CRS Report R47040, *Social Security: Trust Fund Status in the Early 1980s and Today and the 1980s Greenspan Commission*.

⁵³ "The original program was designed to pay retirement benefits only at age 65 and only to the covered worker, himself or herself. The selection of age 65 was a pragmatic 'rule-of-thumb' decision based on two factors. First, about half of the state old-age pension systems then in operation in the United States used age 65. Second, the CES actuaries performed calculations with various ages to determine the cost impacts of setting the retirement age at various levels, and age 65 provided a reasonable actuarial balance in the system." Larry DeWitt, "The Development of Social Security in America," *Social Security Bulletin*, vol. 70, no. 3 (2010).

⁵⁴ Social Security Program Fact Sheet, "D. Measures of Protection-Coverage," <https://www.ssa.gov/OACT/FACTS/> and DeWitt, "The Development of Social Security in America."

⁵⁵ The first recurring monthly Social Security payments began in 1940. SSA, "Frequently Asked Questions," <https://www.ssa.gov/history/hfaq.html>.

⁵⁶ Although period life expectancies at age 65 in 2020 are higher than in 1945, they have been decreasing for several years. See OCACT, *2020 Annual Report*, p. 100.

⁵⁷ Gopi Shah Goda, John B. Shoven, and Sita Nataraj Slavov, *Removing the Disincentives in Social Security for Long Careers*, National Bureau of Economic Research, Working Paper 13110, May 2007.

⁵⁸ Favreault and Steuerle, *The Implications of Career Lengths for Social Security*.

⁵⁹ See "B4.2" at https://www.ssa.gov/OACT/solvency/provisions_tr2021/charts/chart_run412.html. The estimates are based on the intermediate assumptions of the 2021 annual report.

disproportionally impact individuals with low lifetime earnings⁶⁰ and women, who are more likely to take time out of the labor force for child or elderly care and experience shorter careers.⁶¹

To alleviate the negative effects associated with lower benefits, research suggests providing additional benefit support to certain groups while extending the number of computation years. For example, one study suggested accompanying a computation-year increase with a minimum benefit. The amount of the minimum benefit would be equal to 60% of the aged poverty level for persons with 20 years of covered earnings. The benefit would increase by 2% of the poverty level for each additional year of covered earnings and reach 100% of the poverty level for 40 years of covered earnings. The authors found that providing a minimum benefit would mitigate the benefit reduction from increasing the number of computation years, especially for those with low lifetime earnings.⁶²

Another study suggested crediting women with across-the-board covered earnings for one, two, or three years (presumably to account for time out of the labor force due to child care) and found that offering credited earnings to women of even one year has a substantial effect on the level of benefits.⁶³ However, the study did not explain how to determine the level of the credited earnings and did not acknowledge that an across-the-board work credit for women would provide credits to all women, including those who did not take time out of the labor force to provide child or elderly care.

Research on computation years has not been able to determine how increasing the number of computation years would affect the benefits of women, because some women with fewer work years can receive higher spousal or survivor benefits.⁶⁴ However, it is worth noting that spousal and survivor benefits today are not as important as they were in the 1960s, because most spouses or survivors today are eligible for larger benefits as retired workers based on their own earnings records. The percentage of women aged 62 or older entitled to benefits based on their own work records—as retired workers or as dually entitled beneficiaries—grew from 43.3% in 1960 to 81.4% in 2020. During the same period, the percentage of those older women beneficiaries entitled only to wife’s benefits decreased from 32.8% to 7.2% and from 23.4% to 11.4% for those entitled to only widow benefits.⁶⁵

Decreasing the Number of Computation Years

Proposals to decrease the number of computation years usually target certain segments of the population that have shorter careers, typically fewer than 35 years (i.e., the number of computation years under current law). There are a myriad of reasons why workers may have gaps in their earnings history, such as additional education, unemployment, caregiving, health problems, or work-related limitations that do not meet Social Security definition of *disability*.

⁶⁰ Andrew G. Biggs, Mark Sarney, and Christopher R. Tamborini, *A Progressivity Index for Social Security*, Social Security Administration, Issue Paper No. 2009-01, January 2009.

⁶¹ Mark Weisbrot, *Unequal Sacrifice: The Impact of Changes Proposed by the Advisory Council on Social Security*, Center for Economic and Policy Research, January 1997.

⁶² Steven H. Sandell, Howard M. Iams, and Daniel Fanaras, “The Distributional Effects of Changing the Averaging Period and Minimum Benefit Provisions,” *Social Security Bulletin*, vol. 62, no. 2 (1999), pp. 4-13.

⁶³ Goda, Shoven, and Slavov, *Removing the Disincentives in Social Security for Long Careers*.

⁶⁴ Favreault and Steuerle, *The Implications of Career Lengths for Social Security*.

⁶⁵ SSA, *Annual Statistical Supplement, 2021*, Table 5.A14, <https://www.ssa.gov/policy/docs/statcomps/supplement/2021/5a.html#table5.a14>. The percentage of widow beneficiaries includes disabled widows, mothers, and female parents.

Potential Effects on Social Security Benefits

Table 2 shows how a reduction in the number of computation years from 35 to 30 would affect hypothetical earners from several birth cohorts. Most earners in the 1980, 2000, and 2020 birth cohorts would have higher AIMEs and PIAs under this scenario. This follows because instead of the benefit formula using a worker’s highest 35 years to compute the AIME, it would now be using the highest 30 years. That is, five years of relatively lower earnings—and possible years of zero earnings—have been removed from the calculation, resulting in a higher average. The result is a 3.3% increase in AIME for very low, low, medium, and high earners in the younger three cohorts. Similar to the previous example, maximum earners would be for the most part unaffected by this change.

Although most workers would receive higher benefits, their initial replacement rates would decrease as a result of now having higher career-averaged earnings. That is, workers’ future benefits would increase, but the measure reflecting career earnings—the AIME—would increase by a larger amount.

Table 2. Computation Year Decrease: Change in Average Monthly Indexed Earnings (AIMEs), Primary Insurance Amounts (PIAs), and Initial Replacement Rates (Ratio of PIA to AIME) for Hypothetical Earners by Birth Cohort

Under Intermediate Assumptions with a Change from 35 to 30 years for Those Becoming Eligible in 2024 or Later

	Very Low Earner	Low Earner	Medium Earner	High Earner	Maximum Earner
Birth Cohorts					
	Percent Change in AIME				
1960	0.0%	0.0%	0.0%	0.0%	0.0%
1980	3.3%	3.3%	3.3%	3.3%	0.5%
2000	3.3%	3.3%	3.3%	3.3%	0.4%
2020	3.3%	3.3%	3.3%	3.3%	0.0%
	Percent Change in PIA				
1960	0.0%	0.0%	0.0%	0.0%	0.0%
1980	1.3%	1.7%	2.4%	1.3%	0.2%
2000	1.3%	1.8%	2.4%	1.3%	0.2%
2020	1.3%	1.8%	2.4%	1.3%	0.0%
	Percentage Point Change in Replacement Rate				
1960	0.0	0.0	0.0	0.0	0.0
1980	-1.6	-0.9	-0.4	-0.7	-0.1
2000	-1.6	-0.9	-0.4	-0.7	-0.1
2020	-1.6	-0.9	-0.4	-0.7	0.0

Source: CRS calculations based on hypothetical earner profiles developed by SSA.

Notes: Figures in the table reflect calculations for scheduled amounts under current law. Calculations shown in this table are values under current law and using the intermediate assumptions from OCACT, *The 2022 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, June 2, 2022, <https://www.ssa.gov/OACT/TR/2022/tr2022.pdf>.

Potential Effects on Program Costs

Contrary to an increase in the number of computation years, a decrease in the number of computation years used in the benefit formula would lead to an increase in future benefit amounts and result in overall higher program costs. Although OCACT does not provide a cost estimate for a universal decrease in the number of computation years (e.g., from 35 to 30 years), it does provide an estimate for reducing the number of computation years for parents with children under the age of six (i.e., for caregiving). While such a change would affect a limited number of people, OCACT analysis shows that it would worsen—albeit marginally—the long-range actuarial balance and decrease the level of payable benefits at the point of asset reserve exhaustion.⁶⁶

Arguments for or Against Decreasing the Number of Computation Years

As shown earlier, not all workers have 35 years of earnings. There are a number of ways in which a worker’s overall duration of employment might differ. Whatever the reason, instances where years of zero earnings are incorporated into the benefit calculation put workers in a less advantageous position than if they had more robust earnings histories. Thus, decreasing the number of computation years to more accurately reflect time in which a worker *was* employed, rather than time in which he or she *could* have been employed, could ensure that future Social Security benefits reflect individual experiences.

However, decreasing the number of computation years may not be the only method to address shorter working careers. For example, for people with shorter careers due to additional education or unemployment, policymakers can revise other provisions under Social Security to encourage affected individuals to work longer. Policies can also revise the DI component of Social Security to address people’s shorter careers due to health problems or work-related limitations.

Proposals have been made that suggest reducing the number of computation years for parents with children under the age of six. However, research suggests that many women and men who raise children also work outside the home, and the portion performing both roles is increasing.⁶⁷ Policymakers have also proposed alternative methods to address the gaps in earnings history due to child care, such as providing caregiver credits (measured as a certain percentage of the national average wage).⁶⁸ Full examination of those alternatives requires an investigation of the distribution of work years and earnings as well as Social Security spousal and survivor benefits.

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⁶⁶ See “B4.4” at https://www.ssa.gov/OACT/solvency/provisions_tr2021/charts/chart_run417.html.

⁶⁷ Favreault and Steuerle, *The Implications of Career Lengths for Social Security*.

⁶⁸ For one example of an alternative policy, such as credits for caregiving, see Social Security Caregiver Credit Act of 2019 (H.R. 4126, 117th Congress).

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