

PRELIMINARY

**The Effect of Pension Income on Elderly Earnings:
Evidence from the Social Security Notch and Full Population Data¹**

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Abstract

We estimate the effect of Social Security benefits on earnings by examining the Social Security “Notch,” which cut Old Age and Survivors Insurance (OASI) benefits by around \$500 per year on average for individuals in the 1917 birth cohort relative to the 1916 cohort. This led to sharply different benefits for similar individuals born one day apart. Using Social Security Administration microdata on earnings in the full U.S. population by day of birth, we document a very large, visually clear, and statistically significant increase in elderly earnings when moving from the end of the 1916 cohort to the beginning of the 1917 cohort. The evidence suggests that the effect of OASI benefits on earnings is driven primarily by an income effect, and we are able to rule out more than a modest substitution elasticity. Our results suggest that the slowdown in the growth rate of mean OASI benefits in the mid-1980s can account for a substantial fraction of the sharp increase in the yearly growth of the elderly employment rate around this time.

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