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Insight on the Issues

Making the Earned Income Tax Credit Work for Workers Ages 65 and Older

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- **From its modest start in 1975, the Earned Income Tax Credit (EITC) has developed into one of the largest means-tested antipoverty cash assistance programs, yet because of its restrictive age ceiling, the EITC excludes most workers ages 65 and older.**
- **Expanding EITC eligibility to older workers would be consistent with broader policy goals to improve retirement security and the well-being of low-income workers ages 65 and older and could help grow the domestic workforce.**
- **Removing or increasing the age ceiling for EITC eligibility is administratively feasible and would increase the program's cost by only a small fraction.**

Since its enactment in the 1970s, the Earned Income Tax Credit (EITC) has evolved into a major domestic antipoverty program. In 2016, the latest year reported by the Internal Revenue Service (IRS), 27 million taxpayers claimed $66.7 billion through the EITC—more than $57 billion of that as a cash refund.[1] According to estimates from the Tax Policy Center, almost all of the credit's benefits accrue to workers in the lowest 40th percent of the income distribution.[2]

Over the years, more and more classes of taxpayers have become eligible for the EITC, yet most low-income workers ages 65 and older remain excluded from this backbone income-support program simply by virtue of their age.

This policy is increasingly counterproductive today, as policy makers are looking for ways to improve retirement security and incentivize older workers to remain in the workforce.[3] Removing the EITC's age ceiling would reflect the changing socioeconomic environment and further efforts to improve retirement security. In arriving at that conclusion, this *Insight on the Issues* examines the policy's origins and relevance in today's context.

THE EARNED INCOME TAX CREDIT: THE BASICS

The EITC is a wage subsidy provided as a refundable federal income tax credit. Its amount varies by family composition and earned income. In some cases, the credit may exceed $6,000 per year, although typically it is much lower.[4] To qualify, taxpayers must have earned income, typically either earnings from work or self-employment. Under certain circumstances, disability retirement benefits qualify as earned income.[5] Income that

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does not qualify includes Social Security (including disability benefits), Supplemental Security Income, unemployment insurance, military disability pensions, and veterans benefits, among other forms of income.[6]

The EITC is calculated according to a complex formula that factors in family composition, income, and earnings. For example, in 2018, families with three children could qualify for a credit of up to $6,431 and would lose eligibility at about $55,000 of income, while a single taxpayer without children could qualify for a credit of up to $519 and would lose eligibility at approximately $15,000 of income.[7,8] The EITC has several additional qualification requirements.

FORTY-FIVE YEARS OF GROWTH: A FEDERAL SAFETY NET BACKBONE

The EITC was first enacted in 1975, when lawmakers, targeting burgeoning welfare rolls, tailored eligibility criteria for the new program to be most helpful to welfare recipients and other individuals in similar circumstances.[9] Policy makers viewed the credit as a way to create work incentives while providing relief from the payroll tax burden for this segment of the population.[10]

Policy makers originally envisioned the credit as a modest and temporary program, intended, in part, as an economic stimulus. The EITC's success, however, soon made both sides of the aisle view the credit as an indispensable policy tool. Over the four decades following its enactment, the EITC has not only become a permanent feature of the tax code but also has undergone numerous reforms to broaden its scope and increase its payouts. According to the Congressional Research Service (CRS), "the credit is now one of the federal government's largest antipoverty programs."[11]

The EITC and Childless Workers

From the late 1980s to 2016, the number of EITC beneficiaries grew steadily from about 6 million taxpayers to more than 27 million. Notably, the EITC grew significantly during a period when many other traditional antipoverty spending programs stagnated or declined (see figure 1). Policy changes that expanded the EITC addressed factors as varied as family size and combat pay inclusion, among others.

One such policy change came in 1993 when taxpayers without dependent children first became eligible for the EITC. The amount of their credit, however, was small, and income eligibility rules were much more restrictive than those for taxpayers with dependent children. Today, more than 25 years later, the rules for childless taxpayers are still the same, even though policy makers have since expanded credit eligibility for other classes of taxpayers. IRS data indicate that in 2016, only $2 billion of the total $66.7 billion of the EITC went to about 7 million childless taxpayers.[12]

An Effective Policy Tool

Research shows that the EITC works. In recent years, the EITC, along with the child tax credit, was second only to Social Security in lifting people out of poverty.[13] Further, multiple studies have consistently demonstrated that the EITC encourages labor force participation.[14]

Another emerging body of research has found that the EITC has positive health effects on beneficiaries. For example, a recent study found that "higher minimum wages and EITCs significantly reduce non-drug suicides,"[15] while other recent findings indicate that the EITC is "helping bring poor families out of poverty, with spillover effects on health."[16] Much of the research documents the effects on mothers and children, possibly because these groups are better represented both in terms of their numbers and in the size of the credit they receive. It does not necessarily mean, however, that childless beneficiaries do not experience the positive effects, but rather that these effects may be more difficult to register under the existing EITC structure.

LOW-INCOME WORKERS 65 AND OLDER: STILL LEFT OUT

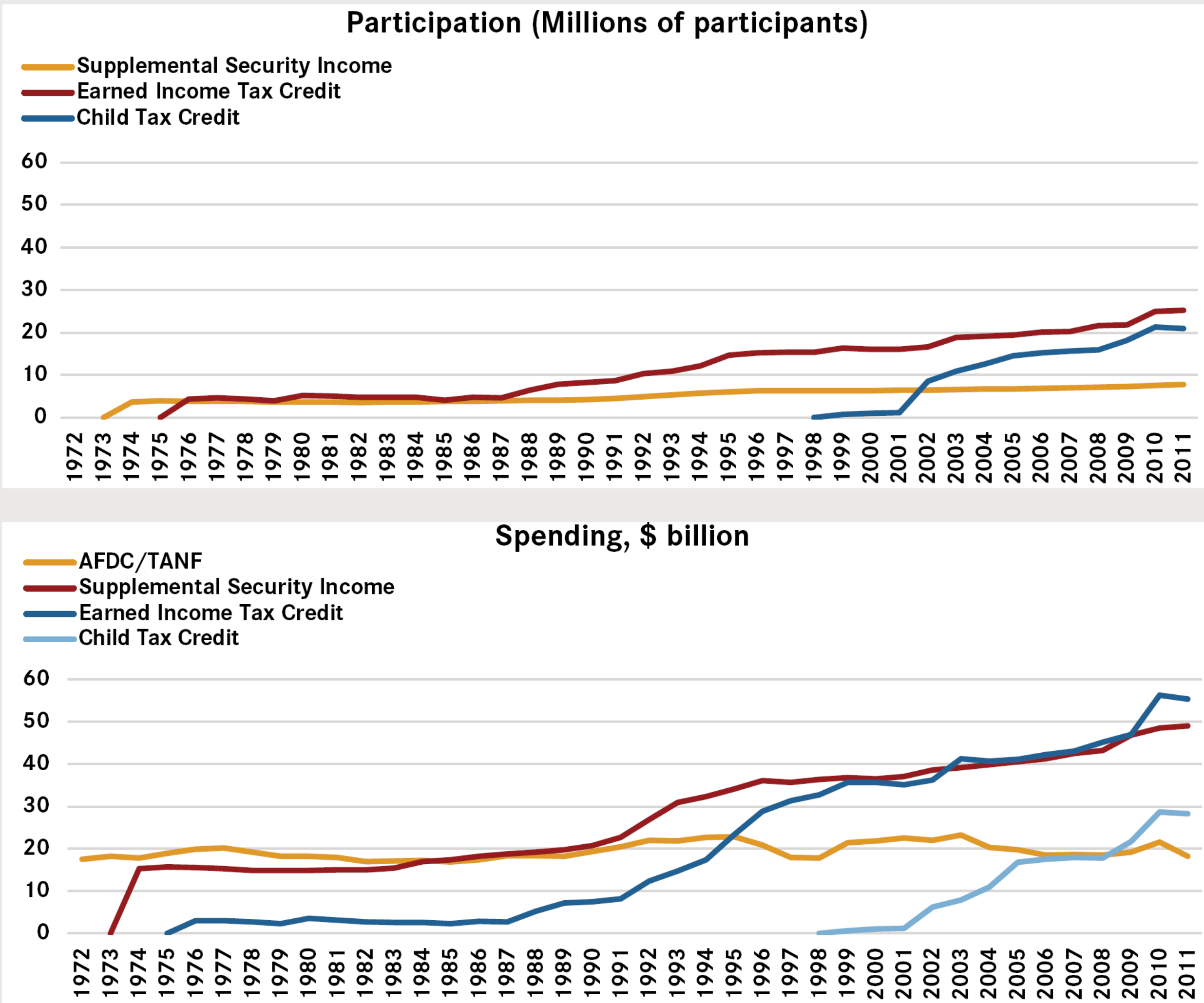
Today's policy environment looks very different from the one in place when the credit was enacted.

The EITC at Time of Enactment

Since its enactment, the EITC has had limited eligibility based on age. Policy documents from the time of the EITC's development and implementation

FIGURE 1

Growth of the Earned Income Tax Credit Relative to Other Major Antipoverty Programs by Number of Beneficiaries and Spending



Source: Congressional Budget Office (CBO), Growth in Means-Tested Programs and Tax Credits for Low-Income Households, *Data Underlying Figures, Figure 4, "Growth in Selected Means-Tested Programs and Tax Credits That Provide Cash Assistance, 1972 to 2011" (February 2013), https://www.cbo.gov/publication/43934.*

Note: AFDC/TANF stands for Aid to Families with Dependent Children program/and its successor, Temporary Assistance for Needy Families. TANF provides cash and other forms of assistance to some families with little or no income. Comprehensive data on participation and spending per participant are not available for TANF.

provide few clues on the rationale behind this age restriction. Most aspects of the EITC are well documented in both the official congressional publications and independent research; however, no formal explanations can be found for the age restriction.

It might be possible to deduce the train of policy makers' thoughts from a 1975 Senate report, which noted that the Senate Committee "does not agree with the House that the earned income credit should be available to all individuals who have earned income regardless of their marital status or family requirements. For example, the House bill grants the credit to students and retired individuals, who often have low amounts of earned income because they work part time or for short periods of time and may receive most of their support from family relatives or through Social Security or private pension plans."[17] This suggests that lawmakers at the time may have introduced the age restriction, as a proxy for retirement status, out of concern about retirees with sufficient other resources receiving a credit intended for the working poor.

Regardless of the specifics, policy makers did not initially envision the credit as a relevant policy tool to address the problems of low-income Americans ages 65 and older. That perspective possibly stemmed from the belief that the retirement landscape at the time, its safety net programs, and labor market realities provided sufficient support to older Americans.[18]

The EITC in Today's Environment

That 1975 policy choice has never been modified. Today, low-income workers ages 65 and older without qualifying children are still ineligible to receive the EITC. Because the number of individuals in this age group with young children is very small, in effect, this policy virtually excludes low-income workers ages 65 and older from participating in one of the country's largest safety net programs. Table 1 presents the beneficiary statistics by age and family grouping for 2013, the most recent year for which data available.

As table 1 shows, taxpayers ages 65 and older qualified for the credit much less frequently than did the overall population. Among the three groups exclusively consisting of taxpayers ages 65 and older, less than 252,000 claimed the EITC. The total credit received by them, $711 million, was slightly more than 1 percent of the total credit ($68 billion).

While overall nearly a fifth (19.6 percent) of returns claimed the EITC, less than 1 percent of taxpayers in the two most common filing statuses—single and married filing jointly—with both taxpayers ages 65 and older did so.

Tellingly, the share of married EITC beneficiaries rises from less than 1 percent when both spouses are age 65 or older to more than 10 percent when only one spouse is under age 65. This tenfold

TABLE 1

EITC Recipients by Age and Filing Status, 2013

(all figures are estimates based on samples—money amounts are in thousands of dollars)

Filing status	Total Number of Returns	EITC Number of Returns	EITC Share of Total Returns	EITC Amount
All filers	**147,341,399**	**28,824,267**	**19.6%**	**68,093,421**
Single filers ages 65 and older	10,425,643	29,995	0.3%	92,533
All married filers, both spouses ages 65 and older	8,648,442	55,538	0.6%	153,003
All married filers, only one spouse age 65 and older	3,929,942	398,345	10.1%	466,221
All other 65 and older (head of household, married filing separately, widowed, spouse not filing)	945,452	166,397	17.6%	465,909
All 65 and older returns, at least one spouse age 65 and older	23,949,479	650,275	2.7%	1,177,666
All 65 and older returns, all filers ages 65 and older	20,019,537	251,930	1.3%	711,445

Source: AARP's Public Policy Institute calculations based on the data in Statistics of Income, IRS — Tax Year 2013 Individual Complete Report, December 2015.

increase hints at the restrictive effects of the age limitation—the presence of a younger spouse on the return makes the couple eligible.

Taxpayers ages 65 and older who receive the EITC likely do so because they are in somewhat unusual circumstances. Dependent grandchildren, for example, may qualify grandparents for the EITC. This may be why the share of EITC recipients in the "All other 65 and older" tax returns filing status in table 1 (17.6 percent) is closest to the share among "All filers" (19.6 percent). Head-of-household returns, such as grandparents with dependent grandchildren, probably account for the much higher usage rate for the "All other 65 and older" group.

DIFFERENT ERA, DIFFERENT SOCIOECONOMIC ENVIRONMENT

All policies reflect the time in which they were enacted, and the EITC is no exception. Although the EITC's age restriction reflects the socioeconomic and policy environment of the 1970s, today's environment is drastically different—particularly in terms of factors affecting the financial security of the 65 and older population. Such trends further underscore the need to bring the EITC into the 21st century.

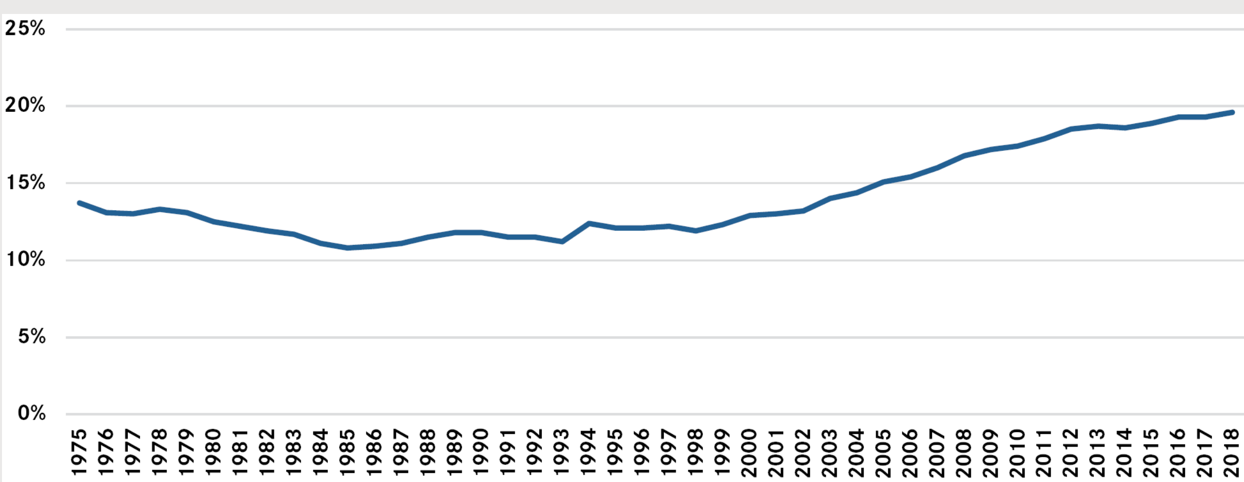
Demographic Shifts

Since 1975, the 65 and older population in the United States has grown considerably, and demographers expect this trend to continue for decades. The US Census estimates that the share of the 65 and older population will reach over 20 percent in 2030, an increase from 13 percent in 2010 and less than 10 percent in 1970.[19] Thus, without policy changes, an increasing share of the US population will be unable to access this key domestic program.

Growing Labor Force Participation Rates among the 65 and Older Population

The composition of the US labor force has also changed significantly since the 1970s. Notably, the labor force participation rate (LFPR) of those ages 65 and older has grown substantially. The LFPR is the share of the population that is either employed or actively seeking work. In 1975, the LFPR of the 65 and older age segment was only 13.7 percent; by 2018, it had grown by over 43 percent, reaching 19.6 percent (figure 2). Unlike the LFPR of those ages 16 to 24 and 25 to 54, which declined in the aftermath of the Great Recession, the LFPR of older workers held steady and even increased slightly during this same period. Because comparatively younger age cohorts as a share of the population

FIGURE 2
Labor Force Participation Rates of Those Ages 65 and Older, 1975–2018



Source: US Census Bureau, Current Population Survey, 1975–2018.

will decline, the Bureau of Labor Statistics also projects that the 65 and older age group will significantly increase as a proportion of the workforce between 2018 and 2028, with the fastest-growing age demographic in the workforce being those ages 65 and older.[20]

Today, financial drivers are among the strongest incentives for individuals to continue working after age 65. AARP found that nearly half of people ages 65 and older who were currently working or looking for work were doing so for financial reasons.[21] Many low-income workers ages 65 and older remain employed to maintain basic living standards. These findings concerning today's dynamics are in stark contrast to the kind of thinking found in the *1975 Senate Report*, which argued that older individuals with low amounts of earned income should not need the credit because they receive most of their support from relatives, Social Security, or private pension plans.[22]

Declining Access to Defined-Benefit Retirement Savings

The EITC's age restriction is out of step with today's retirement financing paradigm, which has shifted significantly over the past four decades. Since the mid-1980s, access to defined-benefit pensions has dwindled considerably. According to the Employee Benefit Research Institute, the percentage of private-sector workers with only defined-benefit retirement plans decreased from 28 percent in 1979, the earliest year for which consistent series are available, to 2 percent in 2017, and the percentage with both defined-benefit and defined-contribution plans went from 10 percent in 1979 to 9 percent in 2017.[23] Today many employees do not have workplace access to any type of retirement plan at all. Meanwhile, increases in longevity without a commensurate increase in working lives mean that individuals must accumulate more savings to finance more years in retirement.

Rising Costs of Living

Rising costs of living, such as increased housing costs[24] and inherently unpredictable and much-increased medical expenses,[25] have also made it more difficult to save enough for and manage living costs in retirement. The Great Recession set many people back in their long-term savings goals, even though incomes have since recovered.[26] Working longer can improve retirement security—and offset rising living costs in retirement—by increasing current income, decreasing the number of years that must be financed from savings, and allowing more years to save.

Changes in the "Milestone" Retirement Age

The EITC age restriction does not reflect today's prevailing retirement age. The Social Security full retirement age, which was 65 in the mid-1970s, is now phasing up to 67.

Further, several other trends have diminished the importance of age 65 as the standard retirement age. In the 1970s, age 65 was the typical eligibility age for receiving full benefits from employer pension plans. Today, fewer workers have access to pensions. As a result, the significance of 65 as the "standard" retirement age used by most pension plans has declined accordingly.[27]

Negative Spillover on the Take-Home Earnings of Low-Wage Workers Ages 65 and Older

Research finds that low-income workers excluded from the EITC are worse off than they would have been in the absence of the credit. The EITC suppresses *pretax wages* of all low-income workers, but those who receive the credit more than recoup this loss. In contrast, ineligible low-income workers, such as those ages 65 and older, miss out on receiving the EITC, *and* they experience a negative effect on their take-home pay due to the EITC's wage-suppressing effect.[28]

While this second strike is less obvious, it is still impactful. The theory is that EITC draws low-income workers into the active labor pool and increases labor supply, thereby depressing equilibrium market wages for all low-wage workers, both eligible and ineligible for the EITC. The EITC-ineligible workers, therefore, must absorb the unmitigated impact of these market forces through reductions in their earnings. Not only do they not receive the EITC, but they also work for wages that are depressed relative to what they would have earned in the EITC's absence.[29] Older workers ineligible for the EITC, therefore, automatically miss out on the EITC's counterbalancing attributes.[30]

The Increasing Prominence of the EITC among Antipoverty Programs

By the vagaries of history, policy makers' 1975 age-restrictive approach to their innovative yet relatively modest idea ended up applying to one of the largest permanent domestic social programs. While excluding some taxpayers from a temporary or fledgling federal program might be warranted, the present-day EITC is neither. The decision to exclude a whole (and growing) segment of the population from what has become a central feature of domestic social policy requires commensurate deliberation and reconsideration.

The relative significance of the EITC versus many other antipoverty programs has reversed since the mid-1970s. Since then, the credit has transformed from a niche program into the virtual backbone of federal financial support for the working poor. Meanwhile, many federal antipoverty programs in existence half a century ago stagnated, shrank, or even disappeared altogether.

A 21ST CENTURY REFRESH: REMOVING THE EITC'S AGE RESTRICTION

Today's dramatically different environment warrants a thoughtful reconsideration of the EITC's age restriction. Changes in socioeconomic circumstances, combined with policy and other developments through the decades, have led to a vastly different environment compared with that of the mid-1970s when policy makers first crafted the EITC's age restriction policy. Many such changes have direct implications for those ages 65 and older. Further, it is difficult to judge to what extent the 1970s logic on age restriction applies today because policy makers at the time provided limited explanation of their rationale.

Today, the 65-and-older population often remains employed out of financial necessity, not by choice. Policy makers, meanwhile, are looking for ways to improve retirement security and reduce pressure on the national retirement system. In the years ahead, the US economy may benefit if more workers at and beyond traditional retirement age offset declines in labor force participation rates among younger cohorts. In this environment, continuing to limit access to the EITC only to low-income workers under age 65 makes little sense. At a minimum, this limitation should be consistent with Social Security's rising full retirement age.

According to some estimates, increasing the childless EITC eligibility age to 67 through 2020 and to age 68 thereafter would cost only about $100 million per year—a mere fraction of a percent of the EITC's current cost. Doing so would benefit an estimated 344,000 taxpayers, 75 percent of whom are in the bottom two income quintiles.[31] Technical implementation is feasible, largely using existing tools and without increasing the complexity of tax filing or administrative burdens and costs.[32]

Making this change could help remove disincentives to work and encourage some older workers with little or no retirement savings to delay claiming Social Security, thus increasing their monthly benefits when they eventually do claim. Similarly, delayed or reduced withdrawals from private retirement accounts, if available, could also contribute to greater financial security as the population ages.

In recent years, various legislative and policy proposals have addressed the issue of expanding the EITC for childless workers.[33] Most of these proposals, however, do not alter the older workers' age restriction. Those proposals are missing an opportunity to deploy a well-established and effective policy tool to help older workers. Policy makers should make removing the age restriction for older workers an indispensable part of the EITC refresh in the 21st century.

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