

Older Peoples' Willingness to Delay Social Security Claiming



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Full Retirement Age by Cohort

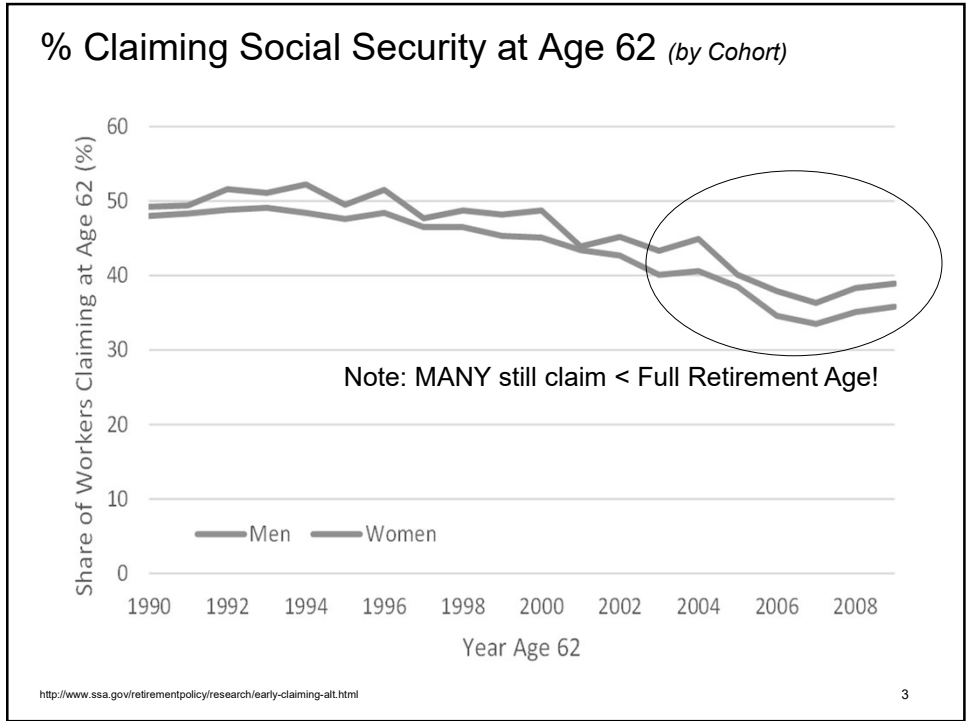
Year of Birth	Full Retirement Age	% Benefit Cut (Age 62)
1937 or earlier	65	20
1943-1954	66	25
1955	66 + 2 mos	25.8
1956	66 + 4 mos	26.7
1957	66 + 6 mos	27.5
1958	66 + 8 mos	28.3
1959	66 + 10 mos	29.2
1960 and later	67	30

Source: <http://www.ssa.gov/retire2/retirechart.htm> , <http://www.ssa.gov/retire2/agereduction.htm>

→ FRA rising, benefit cuts for early retirement increase!

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Later Claiming Boosts Lifetime Social Security Annuity

Current rules (NRA = 66)

Claiming Age	Benefit as % of PIA	% Boost with 1 year delay	% Boost with N year delay
62	75		
63	80	6.67	6.67
64	86.67	8.34	15.56
65	93.33	7.70	24.44
66	100	7.15	33.33
67	108	8	44.00
68	116	7.41	54.67
69	124	6.90	65.33
70	132	6.45	76.00

Authors' calculations.

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Our question:

- How much would people delay claiming Social Security if benefit boost came as an *actuarially fair lump sum* instead of higher annuity?
 - ✓ Would they need more or less?
- What about if they had to work more to get the lump sum?

Why of interest?

- May be healthier to work longer.
- Could help Social Security solvency.



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Related Studies (*selected*)



- Studies on optimal claiming of Social Security Benefits:
Shoven/Slavov 2012, 2014; Coile et al. 2002
- Many studies on how Social Security shapes labor supply:
Gruber/Wise 1999; Feldstein/Leibman 2002; Gustman/Steinmeier 2005,2015; Laitner/Silverman 2012
- Some ask how Social Security shapes investments, annuitization, work hours/retirement in portfolio choice models:
Kotlikoff/Viceira 2008, Chai/Horneff/Maurer/Mitchell 2011; Hubener et al. 2016
- Our own theory/empirical work looked at Social Security lump sums in population at large:
Chai et al. 2013; Maurer et al. 2016, 2017.

→ This study examines older adults (51-70 closest to claiming) using a 2016 HRS module (N = 889).

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HRS Module: Status Quo *(no extra work)*

Assume you're age 62 and single. You're thinking about when to claim your Social Security benefit.

- If you claim it at age 62, you will receive \$1,000 per month for life.

Now imagine you have a choice: either you can receive that \$1,000 monthly benefit from age 62 for life, or you can delay receiving the benefit until age 66.

- If you delay, assume that *you have enough savings to live on* without working from age 62 to age 66, and on average, the government will neither lose nor make money as a result.
- In exchange for delaying your Social Security benefit until age 66, you will receive a monthly benefit of \$1,330 per month from age 66 for life. Would you be willing to delay receiving your benefit until age 66?

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Lump Sum Alternative *(actuarially fair, no work)*

- Now suppose that in exchange for delaying your Social Security benefit until age 66, you will receive a monthly benefit of \$1,000 per month from age 66 for life, plus a lump sum of \$60,000 paid at age 66. Would you be willing to delay receiving your benefit to age 66?
- Answer Yes → how about less?
- Answer No → how about more?

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HRS Module: Status Quo *(with work)*

Assume you're age 62 and single. You're thinking about when to claim your Social Security benefit.

- If you claim it at age 62, you will receive \$1,000 per month for life.

Now imagine you have a choice: either you can receive that \$1,000 monthly benefit from age 62 for life, or you can delay receiving the benefit until age 66.

- If you delay, assume that *you must work at least half time*:
- In exchange for delaying your Social Security benefit until age 66, you will receive a monthly benefit of \$1,330 per month from age 66 for life. Would you be willing to delay receiving your benefit and work half time until age 66?

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Lump Sum Alternative *(with work)*

- Now suppose that in exchange for delaying your Social Security benefit until age 66 and working at least half time, you will then receive a monthly benefit of \$1,000 per month from age 66 for life, plus a lump sum of \$60,000 paid at age 66. Would you be willing to delay receiving your benefit and work half time until age 66?
- Answer Yes → how about less?
- Answer No → how about more?

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What We Find (*no work*):



- Frequencies:
 - People willing to delay claiming under act. fair LS = 70% vs Status Quo (SQ) = 50% ($\Delta = +20$ pps or $\Delta = +41\%$)
 - Diffs among subgroups (sex, age, edu., health,)
 - Diffs NS by sex, race, education, poor health, cog, # kids
 - Willing to delay under SQ more likely to delay under LS

- Dollar Amounts:
 - People willing to delay for av. \$60.4K (~ actuarially fair)
 - 70% “yes” delay for av ~ \$53K
 - Diffs among subgroups
 - Diffs Sign.: Higher income and education wanted higher LS
 - People already willing to delay under SQ wanted lower LS

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What We Find: (*with half time work*)



- Frequencies:
 - People willing to delay under act. fair LS = 56% vs SQ = 46% ($\Delta = +10$ pps or $\Delta = +22\%$)
 - Diffs among subgroups
 - (less) HS edu. $\Delta = -2\%$ / low Health $\Delta = -22\%$

- Dollar Amounts:
 - Av. lump sum up a bit \$63.7K (vs 60.4K no work)
 - Implies leisure foregone from part-time work until delayed claiming age of 66 about \$3.3K on average.
 - 56% “yes” delay up a lot \$53K (vs. \$53K)
 - Diff among subgroups

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Conclusions:

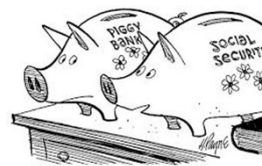
- More older persons would delay claiming (and work longer) for a lifelong benefit plus actuarially fair lump sum payment instead of an increased lifelong benefit
- Also many would take less than actuarially fair lump sums. *(Our JRI paper 87% of LS would produce same claiming age as SQ).*
- So system could save money with lump sums and/or increase longer working lives.



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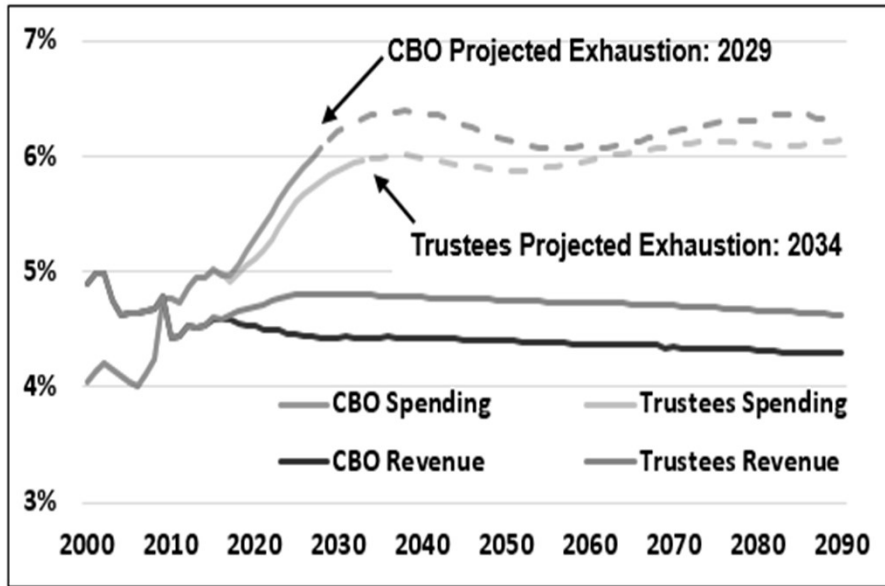
Policy Relevance:

- Longer working lives also raise Social Security payroll tax revenue & enhance system solvency.
- Could be a 'politically viable' way to reform Social Security.
- Reforms necessary, because ...



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...Social Security's Facing Big Trouble!



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Thank you!

■ For more information:

Wharton's Pension Research Council:

■ <http://www.pensionresearchcouncil.org/>

Books and working papers:

■ <http://www.pensionresearchcouncil.org/publications/books.php>



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