Statement before the Senate Special Committee on Aging
On "Maximizing Your Social Security Benefits: What You Need to Know"

Social Security Claiming Decisions: What Does the Research Show?

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Thank you Chairman Collins, Ranking Member McCaskill, and members of the Committee for the opportunity to speak to you today about Social Security claiming decisions. My name is Sita Slavov. I am a professor at the Schar School of Policy and Government at George Mason University and a visiting scholar at the American Enterprise Institute. I have been doing research on Social Security and retirement policy for 14 years.

Social Security benefits can be claimed at any age between 62 and 70, with higher monthly benefits paid for later claims. Individuals who delay Social Security forgo current benefits in exchange for higher inflation-indexed benefits for the remainder of their lives. While delaying Social Security does involve a tradeoff – sacrificing benefits today in exchange for higher benefits in the future – that tradeoff appears to be a favorable one for many people. In recent work co-authored with Professor John Shoven of Stanford University, I have shown that delaying Social Security benefits increases the expected present value of lifetime benefits for a large set of individuals (Shoven and Slavov 2014a,b).[1] Primary earners gain the most from delaying benefits as they pass on higher benefits to their surviving spouses. These higher survivor benefits can reduce poverty among older widows (Sass, Sun, and Webb 2013). However, even single women and men can realize modest gains. Delay also provides additional insurance value that goes beyond the increase in expected monetary benefits. That is because having higher inflation-indexed benefits for life insures people against outliving their savings (Sun and Webb 2009).

The gains from delaying Social Security have increased significantly over the past 15 years as a result of three factors: improved life expectancy, Social Security rule changes, and historically low interest rates. Improved life expectancy increases the gains from delay because the higher monthly benefits earned through delay are paid over a longer period. The main rule change that has increased the gains from delay is the increase in the delayed retirement credit. Low real interest rates increase the gains from delay because they increase the present discounted value of the additional Social Security income from delay; in other words, they reduce the opportunity cost of forgoing current Social Security income. While the gains from delay can vary greatly depending on individual circumstances and life expectancy, my calculations suggest that under today's real interest rates, typical couples can gain more than $80,000 over their lifetimes by optimizing claiming versus claiming at age 62.[2] Single men can gain more

[1] Our research in this area has been supported by grants from the Social Security Administration, the Sloan Foundation, and the National Institute on Aging. Other studies that document gains for important subsets of individuals include Meyer and Reichenstein (2010); Munnell and Soto (2005); Sass, Sun, and Webb (2007, 2013); Coile et al. (2002); and Mahaney and Carlson (2007).
[2] These calculations are based on the methodology in Shoven and Slavov (2014b). They assume a couple in which the husband is 62 and the wife is 60 in 2016. The husband is assumed to have a primary insurance amount (PIA) of $1,600, and the wife's PIA varies between 0 percent and 90 percent of the husband's PIA. Today's real interest rate is defined as the 20-year Treasury Inflation Protected Security (TIPS) yield as of 9/8/2016, which was 0.43 percent (see https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyield). The simulations in our published papers showed that the "file and suspend" and "restricted application" provisions – which have now been eliminated – significantly increased the gains from delay for couples. However, they also showed that the average couple comes out ahead by delaying even without these provisions. The gains from delay presented in this paragraph do not rely on these provisions.

than $35,000, and single women can gain more than $55,000.[3] If interest rates were at their historical average, the lifetime gains would be smaller but still more than $25,000 for couples, more than $3,500 for single men, and more than $10,000 for single women. And as I mentioned earlier, the insurance value of the increased Social Security annuity goes beyond this simple monetary calculation.

In deciding when to claim Social Security, it is important to consider the optimal use of other retirement assets. In recent unpublished work (Bronshtein et al. 2016), my co-authors and I have shown that a subset of individuals – those who claim Social Security early and either use their retirement savings to purchase retail annuities or take an annuity payout from a defined benefit pension when a lump sum is offered – could actually have higher income in every year of their life by choosing a different strategy. The alternative strategy involves delaying Social Security and using their retirement savings or defined benefit lump sum to pay for their living expenses during the delay period. That is, these individuals do not face a tradeoff between receiving income now versus later, and therefore gain from delaying regardless of their life expectancy.

Despite the large gains from delay, most people claim Social Security at or before their normal retirement age. Very few delay to age 70. My co-authors and I have explored possible reasons why individuals might claim early despite the gains from delay. To pay for living expenses while delaying benefits, individuals either need to work longer or tap into their retirement savings. Some individuals who do not want to work longer may not have the financial resources to finance the delay. While that explanation might be applicable to some individuals, our research suggests that around a third of those who claim before the normal retirement age have Individual Retirement Account (IRA) assets that would allow them to delay Social Security by two years, and around a quarter have IRA assets that would allow them to delay Social Security by 4 years (Goda et al. 2015). If other retirement assets were taken into account, these fractions would be even higher. It is possible that some individuals claim early because they do not expect to live long enough to make delay worthwhile; indeed, our research and research by others shows there does appear to be a relationship between higher mortality and early claiming (Hurd, Smith, and Zissimopoulos 2004; Glickman and Hermes 2015; Beauchamp and Wagner 2012; Waldron 2002; Goda et al. 2015). But high mortality cannot explain why *most* people do not delay beyond normal retirement age. In a recent survey that my co-authors and I conducted, the most common reasons individuals cited for claiming Social Security early were (1) they needed the money (around a third of respondents) and (2) they had stopped working and assumed that Social Security should be commenced upon stopping work (also around a third of respondents). Around 21 percent thought that they could invest the money and end up ahead, and 16 percent were afraid that Social Security benefits would be cut in the future (Nyce et al. 2015).[4] While this was a pilot survey and the sample was not representative of the population, we think the responses are still informative.[5]

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[3] Single individuals are assumed to be 62 in 2016 and have a PIA of $1,600. Today's real interest rate is defined as the 20-year TIPS yield as of 9/8/2016, which was 0.43 percent (see https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyield).

[4] Other answers were possible but less common. It was possible to give multiple answers, so some individuals may have cited more one reason.

[5] The sample consisted of individuals who receive services from Towers Watson, the benefits consulting firm we collaborated with to conduct the survey.

I hesitate to say that claiming Social Security early is definitely a mistake (although it likely is for some people). Individuals generally know more about their preferences and life circumstances than economists or policy makers do. But given the amount of money that people appear to be leaving on the table, it is worth ensuring that the claiming decision is an informed one. Social Security rules are complex, so there is a strong case to provide individuals with the tools and information they need to make the decision that is right for them.

Along these lines, I have several suggestions. Since I do not know the limits of what the Social Security Administration can do unilaterally, I am presenting these as general suggestions that I feel are worth the attention of policy makers. First, there are a number of online calculators – some free and others paid – that inform individuals of the lifetime resources they would have under different Social Security claiming strategies. Pointing individuals towards these calculators before they make their claiming decisions might be reasonable. Second, it is worth encouraging people to think carefully about different options for using their retirement resources, which for many people include both Social Security and private retirement plans. Specifically, individuals may want to consider drawing down on private retirement saving or taking a lump sum from a defined benefit plan in order to delay Social Security. While that is not the right decision for everyone, people should be aware that it is an option. Third, the term "retirement" (which to most people means stopping work) should not be used to describe claiming a Social Security benefit, as it sometimes is. People should be aware that claiming a benefit need not coincide with retirement and, in particular, that it is possible to stop work and wait a few years before claiming. Finally, for individuals who are afraid that their Social Security benefits will be cut if they do not claim right away, it is worth reassuring the public that any realistic Social Security reform plan is likely to protect the benefits of people close to retirement. And to make this credible, Congress should take up Social Security reform sooner rather than later.

Some studies have also shown that individuals are sensitive to the way in which the Social Security claiming decision is framed. For example, one study has shown that break-even framing – which involves telling individuals how many years they would have to live to make up the money they forgo during the delay period – encourages early claiming. Other factors that affect claiming behavior include the age used as a starting point to describe how benefits are adjusted and whether the benefit adjustment is framed as a loss or a gain (Brown, Kapteyn, and Mitchell 2013). Another study has shown that individuals tend to claim benefits at whatever age is designated as the "normal retirement age," possibly because they view this as a social norm, a recommendation from the government, or a reference point from which to evaluate gains and losses (Behaghel and Blau 2012). While the Social Security Administration no longer uses break-even framing in presenting the tradeoff involved in claiming decisions, it might be worth considering other ways in which the claiming decision could be framed. One suggestion might be to simply start calling 70 the "normal retirement age" and informing people that claiming earlier than this results in lower benefits (without actually changing the benefit payable at any age).

If changes are made to the information that is presented to individuals or the way in which the claiming decision is framed, I hope this will be done in a way that makes it possible to study the effects (for example, by initially choosing a random subset of individuals to be exposed to the new policy). There is still much that we do not understand about people's claiming and retirement decisions, so making changes in a way that makes them easy to evaluate could greatly improve our knowledge in this area and help inform better policy.

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