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Older Peoples' Willingness to Delay Social Security Claiming

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At present, Social Security benefits are provided as a lifelong benefit stream beginning as early as age 62, or they can be delayed to later ages up to age 70. Under current rules, the system neither makes nor loses money for those who delay, as the benefit increment earned by waiting is more or less actuarially fair. Nevertheless, most Americans claim benefits and stop working around age 62. To test whether early claiming is the result of people underweighting the economic value of lifetime benefit streams, we explored whether making the benefit increment due to delayed claiming payable as a lump sum instead of a benefit stream might serve as an incentive to drive later claiming and longer work lives.

METHODS

Our study developed and fielded an experimental module for the 2014 Health and Retirement Study (HRS) to measure older persons' willingness to voluntarily defer claiming of Social Security benefits, and potentially to work longer, as a function of incentives to delay claiming their benefits. We focus on a nationally representative sample of people age 50-70 for whom claiming decisions are of the utmost financial importance, and we investigate whether and which individuals might be willing to delay claiming Social Security benefits in exchange for different compensation options.

The module contained two sets of questions. A first set examined whether HRS respondents would be willing to receive their delayed retirement benefit from Social Security as a lump sum instead of a lifetime benefit stream, without their needing to work longer. In a second setting, we also explored leisure preferences by asking whether respondents who had to work longer would exchange delayed benefits for a lump sum. In both settings, the compensation for delay (and work, in the second case) was framed either as a lump sum or a lifelong

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payment stream. Accordingly, the goals of the experiment were to measure the respondent's willingness to trade a decrease in his annuity benefit stream for a delayed lump sum (i) if no extra work were required in the interim; and (ii) if at least half-time work were required. In what follows, we describe our results and examine how respondents answered these questions, controlling on important social and demographic factors including age, education, marital status, work history, risk aversion, and anticipated longevity, with the latter variables taken from the Core HRS.

FINDINGS

When we tabulate the frequency of respondents indicating they would delay claiming under the Lump Sum versus the Status Quo scenarios, we find that, overall, close to half — 49.9 percent — of the respondents agreed that they would delay claiming if no work requirement were in place under the status quo, and only slightly fewer, 46 percent, with a work requirement.

Using regression analysis, we show that many older Americans would be willing to delay claiming their Social Security benefits if they were offered an actuarially fair lump sum to do so. We also asked respondents to tell us how large a lump sum they would need with and without a work requirement. When no work is required, the average amount needed to induce delayed claiming is about \$60,400, while when part-time work is required, the average was \$66,700.

POLICY SIGNIFICANCE

We have shown that many older Americans would be willing to delay claiming their Social Security benefits if they were offered a lump sum to do so. This would have a positive effect on their retirement security, in that their Social Security income stream would rise each year of delay. Indeed, benefits claimed at age 70 are more than 75 percent higher than at age 62. Moreover, many people would be willing to delay claiming for much less than an actuarially fair value.

This is important since evidence indicates that working longer may well be associated with better mental and physical health. Accordingly, methods that would prompt people to voluntarily delay claiming Social Security benefits in exchange for lump sums — and possibly work longer — could benefit society and the older individuals as well.

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