

## **Americans' Willingness to Voluntarily Delay Retirement**

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U.S. policymakers seek ways to restore the Social Security system to solvency, but proposing benefit cuts tends to be quite politically difficult. By contrast, offering a fair lump sum in place of the delayed retirement annuity credit may be more politically attractive. By voluntarily delaying their retirement date due to the lump sum option, workers would also pay payroll taxes for additional years, which could help the system due to additional payroll tax collections. This study builds on our previous theoretical research for the MRRC on life cycle portfolio choice and claiming behavior (Chai et al. 2013). Given a chance to receive their delayed retirement credit as a lump sum payment, we predicted that workers might boost their average retirement ages by 1.5-2 years. The present project is therefore testing these theoretical predictions using a purpose-built module we have devised for the American Life Panel (ALP). Our project evaluates experimentally whether offering people a lump sum for continued work would be likely to successfully encourage deferred retirement.

## **Background and Prior Studies**

When to claim Social Security benefits is a key financial decision for millions of Americans. Under current Social Security rules, workers who delay claiming benefits past the age of 62 receive an increment to their monthly payment when they eventually do claim. Despite the fact that Social Security actuarially adjusts the benefits for such deferral, relatively few people actually delay claiming. Whereas some have offered behavioral explanations (Brown et al. 2013), here we seek reasons consistent with conventional economics. In particular, we posit that people might prefer higher consumption earlier in retirement than later, in which case some workers might be willing to trade a portion of their annuity streams in exchange for a lump-sum amount. In particular, we have showed theoretically that allowing people to receive an actuarially fair lump sum as a payment for delayed retirement rather than as an addition to their lifetime Social Security benefits can induce them to work longer on a voluntary basis. Moreover, from a theoretical perspective, providing a lump sum would not result in wealth transfers to the next generation.

In the real world, however, and despite many theoretical arguments for delaying claiming, a large share of Americans does claim benefits and stop working around age 62.<sup>1</sup> Accordingly, we seek to evaluate

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<sup>1</sup> Several studies have examined claiming patterns under the existing Social Security rules; see Gustman and Steinmeier (2005); Chai et al. (2011, 2012); and Shoven and Slavov (2012). Other authors have taken a behavioral finance perspective to examine whether people might be willing to give up some of their benefit stream in exchange for a lump sum; however they do not link this to continued work; see Brown, Kapteyn, and Mitchell (2013).

empirically how people might respond to having access to the present value of the benefit increases resulting from longer worklives.

## Methodology

We have designed a purpose-built module and fielded it using the American Life Panel (ALP). Managed by the RAND Corporation, the ALP is an excellent survey for our purpose as it is a nationally representative sample of 6,000 households regularly interviewed over the Internet.<sup>2</sup> We have designed, piloted, and implemented our new module to present people with different claiming decision settings, focusing on whether people might be willing to delay claiming in exchange for alternative compensation options. In one setting, we explore discounting preferences by asking respondents if they would be willing to receive their delayed retirement credit as a lifelong benefit versus a lump sum, *without needing to work longer*. In a second setting, we explore leisure preferences by investigating whether respondents *would be willing to work longer* in exchange for delaying benefits. In both cases, the compensation is framed either as a lifelong payment stream or a lump sum, and we will show people different lump sum values for the benefit deferral.

To do this, we first establish for each respondent his expected claiming age and estimated monthly benefits. Following previous work (Brown, Kapteyn, and Mitchell 2013), we take our respondents through a set of earnings history questions and feed these into a benefit calculator provided by SSA.<sup>3</sup> This generates each individual’s “Primary Insurance Amount,” which is what he would receive were he to claim at his normal retirement age. To compute benefits at earlier or later claiming ages, we apply SSA’s actuarial adjustment. In this new work, we also compute each respondent’s actuarially fair lump sum and benefit amounts for his previously-stated claiming age. Subsequently, we randomly assign individuals to different exposures or ways of explaining how benefits would be adjusted if he claimed his benefits later than his initial claim age.<sup>4</sup> This randomization permits us to

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<sup>2</sup> More on the ALP is available on the American Life Panel website at <https://mmicdata.rand.org/alp/>.

<sup>3</sup> See Brown, Kapteyn, and Mitchell (2013).

<sup>4</sup> As an example, a female considering claiming at age 62 could anticipate receiving an additional 6.67% additional income annually for life if she delayed claiming to age 63 (and 76% at age 70), versus a lump sum of 107.86% of her first-year benefit if she delayed to 66 (and 1,007.9% at age 70). A slider we designed for the experiment permits a respondent to change her desired claim age based on her assessment of the attractiveness of the reward for delayed claiming. Illustrative amounts are of the following order of magnitude:

Ret. age	63	64	65	66	70
Life annuity	6.67%	15.56%	24.44%	33.33%	76%
Lump sum	107.9%	245.4%	375.7%	498.5%	1,000.9%

compare the average behavioral changes in expected claiming ages across groups, and to investigate different ways of explaining the benefit to delayed claiming.

Several control variables have been obtained from prior ALP modules. As a final step in our analysis, we compare findings from our experiment with the theoretical predictions from our life cycle model.

## **Findings and Significance**

Our findings will interest policymakers seeking to reform the Social Security system without raising costs or cutting benefits, while enhancing the incentives to delay retirement. Additionally, from a macroeconomic perspective, incentivizing longer worklives may also offer additional economic resources to help cover the costs of population aging (Committee on the Long-Run Macro-Economic Effects of the Aging U.S. Population 2013). Moreover, working longer may well be associated with better mental and physical health (Rohwedder and Willis 2009).

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