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Future Beneficiary Expectations of the Returns to Delayed Social Security Benefit Claiming and Choice Behavior

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Delaying claim of Social Security benefits

- **Choice of initial claiming age for Social Security retirement benefits is analogous to the decision to purchase annuities**

- **A 62 y.o. retiree can implicitly purchase 7% more in SS payments by the expenditure of one year of SS benefits.**
  - **If claim immediately, monthly benefit is 75% of PIA**
  - **If delay claiming for one year, the monthly benefit will be 80% of the PIA.**

- **Previous work has found low rates of delayed claiming (Coile et al., 2002, and Hurd et al., 2004)**

Sample Statement Page 2

Your Estimated Benefits

***Retirement**

You have earned enough credits to qualify for benefits. At your current earnings rate, if you stop working and start receiving benefits…

At age 62, your payment would be about.....	$ 975 a month
If you continue working until…	
your full retirement age (67 years), your payment would be about.....	$ 1,412 a month
age 70, your payment would be about.....	$ 1,761 a month

***Disability**

You have earned enough credits to qualify for benefits. If you became disabled right now, Your payment would be about.....	$ 1,293 a month

***Family**

If you get retirement or disability benefits, your spouse and children also may qualify for benefits.

***Survivors**

You have earned enough credits for your family to receive survivors benefits. If you die this year, certain members of your family **may** qualify for the following benefits.

Your child.....	$1,008 a month
Your spouse who is caring for your child.....	$1,008 a month
Your spouse, if benefits start at full retirement age.....	$1,344 a month
Total family benefits cannot be more than.....	$2,473 a month

Your spouse or minor child may be eligible for a special one-time death benefit of $255.

Medicare

You have enough credits to qualify for Medicare at age 65. Even if you do not retire at age 65, be sure to contact Social Security three months before your 65th birthday to enroll in Medicare.

***Your estimated benefits are based on current law. Congress has made changes to the law in the past and can do so at any time. The law governing benefit amounts may change because, by 2041, the payroll taxes collected will be enough to pay only about 75 percent of scheduled benefits.**

We based your benefit estimates on these facts:

Your date of birth.....	July 5, 1966
Your estimated taxable earnings per year after 2006.....	$38,626
Your Social Security number (only the last four digits are shown to help prevent identity theft).....	XXX-XX-1234

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Firefox File Edit View History Bookmarks Tools Window Help
Break-even age: helps to answer "when to retire"
http://www.ssa.gov/OACT/quickcalc/when2retire.html
Break-even age: helps to ans... Social Security Online - Your So...

Social Security Online

Benefit Calculators

Break-Even Age

Updated October 24, 2005

Introduction

At your break-even age, the accumulated value of higher benefits (from postponing retirement) will start to exceed the accumulated value of lower benefits (from choosing early retirement). To use this form, you will need benefit estimates, in today's dollars, for each age at which you may wish to retire. An excellent source for such estimates is your Social Security Statement.

Enter your information

Replace the example values with the numbers you want to use.

Enter the *earlier* retirement age: 62 years and 1 month(s)
Enter the corresponding monthly benefit amount: $ 900

Enter the *later* retirement age: 65 years and 10 month(s)
Enter the corresponding monthly benefit amount: $ 1251

Compute

Estimated break-even age

Your estimated break-even age is .
If you expect to live beyond this age, it would be to your advantage to delay your retirement.

Note: interest is not considered in the calculation.

If the calculation did not work for you, make sure Javascript is enabled for your browser.

Done

- What do Americans believe about the returns to delayed claiming?
- How do the benefit rules impact retirement behavior?
- We designed a module of survey questions that elicits expectations of retirement and claiming behavior and of the returns to delayed claiming.
- The module is being administered to members of American Life Panel (ALP)

American Life Panel

- **RAND American Life Panel (ALP) is an Internet panel of over 1000 respondents age 18 and over**
  - **recruited from among individuals age 18 and older who respond to the monthly University of Michigan Survey of Consumers.**
  - **Respondents in the panel either use their own computer to log on to the Internet or use a Web TV**

- **For this survey module on Social Security claiming, we restrict the sample to respondents who are:**
  - **younger than 60 years of age**
  - **do not currently receive any income from Social Security payments**
  - **perceive a positive probability of receiving Social Security benefits in the future.**

Measuring willingness to delay claiming

Suppose you *[never work full time/ stop working full time at age t_R* / work full time for as long as you can, throughout your 60's and beyond],* and you have not yet begun to collect Social Security benefits as you are about to turn age t_C*

Suppose you must choose between starting to collect your benefits when you turn age t_C* or when you turn age t_C* + 1.

t_C* is age at which R expects to begin claiming Social Security benefits.

We are interested in your plans for work and retirement when you are in your 60's and beyond. Which of the following statements best describes your plans?

1. I will not be working full time at age 60 or later.
2. I will be working full time at age 60 or later, but I will completely stop working sometime after age 60.
3. I will be working full time at age 60 or later, but I will stop working full time sometime after age 60 and will likely continue working part time.
4. I will work full time for as long as I can, throughout my 60's and beyond.

t_R* is expected retirement age: respondents who report that they will stop working full time are asked for the age at which they expect to stop working full time.

Measuring willingness to delay claiming, cont.

If you choose to start to collect benefits at age t_C*, then you will receive *$b* per month, and this amount will be guaranteed to increase annually based on a "cost-of-living adjustment" in order to keep up with inflation for the remainder of your lifetime.

If instead you choose to wait one year to start collecting benefits at age t_C* + *1*, then you will be guaranteed to receive an additional *$rb* each month [—that is, an extra *$rb* ×*12* each year—] in today's dollars. This amount will be increased annually based on a "cost-of-living adjustment" in order to keep up with inflation for the remainder of your lifetime.

b = 1200, 1800, 2400 depending on expected monthly benefit:

Suppose you *[never work full time/ stop working full time at age t_R* / work full time for as long as you can, throughout your 60's and beyond],* and start collecting Social Security benefits at age ***t_C*,*** about how much would you expect the payments to be in today's dollars.

r = 1/12, 1/8, 1/6, and 5/24

Information treatments

Treatment 1: If you expect to live beyond age t_C*+*(1/r)*, then it would be to your advantage to delay your retirement (Note: interest is not included in this calculation).

Treatment 2: By choosing to wait, you would give up one year of benefits (that is, *b* ×*12* dollars) while you are age t_C*, but you would make up that amount in *1/r* years.

Treatment 3: If you expect to live beyond age t_C*+*(1/r)*, then it would be to your advantage to delay your retirement (Note: interest is not included in this calculation). Moreover, you would continue to receive the extra *rb* ×*12* per year in the event that you live for many years after that.

Treatment 4: By choosing to wait, you would give up one year of benefits (that is, *b* ×*12* dollars) while you are age t_C*, but you would make up that amount in 1/r years. Moreover, you would continue to receive the extra *rb* ×*12* per year in the event that you live for many years after that.

Table 1: Descriptive Statistics

Variable	n	mean
Age (years)	230	49
Gender (=1 if female)	228	0.37
Currently married or living with partner (=1 if yes)	228	0.69
Never married (=1 if yes)	228	0.13
Highest Educational Attainment		
High School or Less (=1 if yes)	228	0.14
Some College	228	0.35
Bachelor's Degree or More	228	0.51
Currently Employed (=1 if yes)	230	0.85
DB pension on current job (=1 if yes)	230	0.30
DC pension on current job (=1 if yes)	230	0.42
Percent chance of living to age 70	230	81
Percent chance of living to age 80	230	67

Table 1: Descriptive Statistics		
Variable	n	mean
Time Preference: Today vs. 1 Year From Now		
(dollar value at which delays payment)		
$100 (=1 if yes)	230	0.03
$105	230	0.09
$110	230	0.20
$115	230	0.10
$120	230	0.12
$125	230	0.10
does not delay	230	0.37
Time Preference: 10 vs. 11 Years From Now		
(dollar value at which delays payment)		
$100 (=1 if yes)	230	0.03
$105	230	0.10
$110	230	0.19
$115	230	0.11
$120	230	0.19
$125	230	0.10
does not delay	230	0.29

Table 1: Descriptive Statistics

Variable	n	mean	median	std dev
Retirement Plans				
no full-time work at 60 or later (=1 if yes)	230	0.27		
completely stop working after 60	230	0.13		
likely change to part-time after 60	230	0.29		
full-time work "as long as I can"	230	0.31		
Expected retirement age (years)	136	61.70	662	6.36
Percent chance ever receive Social Security benefits	230	73.17	80	27.34
Source of Social Security Benefits				
own record (=1 if yes)	230	0.67		
spouse's record	230	0.02		
both record	230	0.31		
Expected claiming age (years)	230	66.3	65	3.76
Expected monthly benefits at claiming age ($)	229	1264	1200	722
Expected monthly benefits if delay one year ($)	224	1348	1200	767
Percent chance benefits keep up with inflation	230	29.7	25	26.55
Percent chance benefits cut substantially	230	44.2	50	28.52

Table 2: Percent Chance of Delayed Claiming				
Delayed Claiming Scenario	Sample	n	mean	median
Percent Chance With Return Of 1/12	Full Sample	230	59.1	60
	Treatment 1	47	72.6	80
	Treatment 2	62	40.0	40
	Treatment 3	63	67.6	75
	Treatment 4	58	59.6	60
Percent Chance With Return Of 1/8	Full Sample	211	69.1	75
	Treatment 1	44	80.0	80
	Treatment 2	51	53.2	50
	Treatment 3	62	71.5	75
	Treatment 4	54	72.5	75
Percent Chance With Return Of 1/6	Full Sample	210	75.4	80
	Treatment 1	44	84.2	90
	Treatment 2	50	62.7	65
	Treatment 3	62	75.0	80
	Treatment 4	54	80.3	85
Percent Chance With Return Of 5/24	Full Sample	209	79.0	90
	Treatment 1	44	85.6	99
	Treatment 2	50	70.1	75
	Treatment 3	61	78.2	90
	Treatment 4	54	82.8	90

Expectations of Delayed Claiming Returns and Choices

- **Delayed claiming scenarios we pose tend to be very attractive relative to expected benefits and returns to delayed claiming**
  - **Median expected benefit = lowest value for *b***
  - **High probabilities that real benefits will decline**
  - **Low expected increase in benefits for one-year delay**
    - **Mean=7.5% ($85), median=4.2% ($50)**
    - **One-third report no increase**

- **Expected retirement age t_R^* vs. claiming age t_C^***
  - **For $t_R^* < 62$, 64% report $t_C^* > 62$**
  - **For $t_R^* \geq 62$, 71% report $t_C^* = t_R^*$**

Predictors of Delayed Claiming

Excerpt from Table 4: Best Linear Predictors of Delayed Claiming Expectations

Predictor Variable	Percent Chance of Delayed Claiming with Return r_1=1/12
Expected change in benefits if delay one year (fraction)	-15.501 (16.468)
Percent chance benefits keep up with inflation	0.074 (0.079)
Percent chance benefits cut substantially	0.139 (0.082)
Percent chance of living to age 80	0.253 (0.097)
Requires at least 0%-5% return to delay payment to 11 years from now	12.927 (8.976)
Requires at least 10%-15% return to delay payment to 11 years from now	3.353 (6.031)
Requires at least 20%-25% return to delay payment to 11 years from now	13.763 (5.441)
N	222

Standard error estimates are calculated using STATA software (robust regression option) and are reported in parentheses

More positive assessments of actual future returns should be negatively related to the

Those with lower mortality risk should be more likely to delay

Coefficients on time preference variables should be positive, but declining

Excerpt from Table 4: Best Linear Predictors of Delayed Claiming Expectations

Predictor Variable	Percent Chance of Delayed Claiming with Return r_1=1/12
Information treatment 2	-30.474
	(6.831)
Information treatment 3	-5.993
	(5.913)
Information treatment 4	-14.045
	(6.218)
N	222

Standard error estimates are calculated using STATA software (robust regression option) and are reported in parentheses

Future Directions

- Ongoing data collection will increase sample size
  - Will be able to estimate structural models of labor force participation and benefit claiming decisions
- Use data from other waves of the ALP
  - Access to information on household wealth, financial literacy, other reports of Social Security benefits and claiming age expectations
- Conduct supplemental analysis of HRS data
  - SS benefits and claiming age expectations data
  - Data on realizations as well