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Americans' Willingness to Voluntarily Delay Retirement

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Requiring workers to delay retirement by raising Social Security retirement ages is an unpopular policy, as demonstrated by protests around the world in the last decade. Our recent research examines an alternative approach to encourage, but not require, delayed claiming by providing an incentive to do so. Specifically, we investigate whether replacing the Social Security's current annuitized delayed retirement credit with a lump sum payment could induce workers to voluntarily defer claiming of their Social Security benefits, and possibly to work more.

Under today's Social Security rules, the *Status Quo*, an eligible individual is permitted to claim his retirement benefits as early as age 62 or as late as age 70. His monthly benefit payment depends on his lifetime earnings history and claiming age. That is, his benefits are reduced if he claims prior to his Full Retirement Age (FRA), or incremented if he delays claiming beyond the FRA. As an example, for a worker born in 1960 or later, deferring claiming benefit from age 62 to the FRA of 67 will entitle him to an increase of monthly benefits of around 43 percent. Claiming at age 70 would result in 77 percent higher monthly benefits for life. Despite such rewards for delayed claiming, Americans' average claiming age is around the age of 63.5, resulting in much lower benefit payments than people could receive for further delays.

Our previous theoretical work used a life-cycle portfolio choice and labor supply model* to show that rational consumers would optimally delay claiming their benefits if given a chance to receive their delayed retirement credits as a lump sum payment. In our new research, we test this hypothesis by empirically evaluating who and how much people might defer claiming for a lump sum in lieu of a higher monthly payment for life. To this

* Chai, J., R. Maurer, O. S. Mitchell, and R. Rogalla. (2013). "Exchanging Delayed Social Security Benefits for Lump Sums: Could This Incentivize Longer Work Careers?" NBER Working Paper No. 19032.

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end, we designed and implemented a survey module for RAND's American Life Panel (ALP) and used it to assess how people might actually respond to having access to the actuarial present value of the benefit increases resulting from longer work lives.

We begin by computing for each respondent (based on his past earnings) how much his anticipated monthly Social Security benefits would be if he were to claim at each age from 62 to 70, which are, respectively, the earliest and the latest claiming ages under the *Status Quo* rules. Given this information, we then asked each individual to indicate his expected claiming age (i.e., the *Status Quo* claiming age). Next we presented the respondent with two alternative scenarios, and we again asked him to report his expected claiming ages under each option. In one case, he was told to assume that he would receive lifelong monthly income in the amount of his age-62 Social Security benefit from his claiming date on, irrespective of when he actually claimed. This benefit would be paired with a lump sum payable as of his claiming date (i.e., the *Lump Sum* claiming age), where the amount is equal to the actuarial present value of his delayed retirement credit under the current system. In the other case, he was told to assume that his monthly benefit would be adjusted upward for delayed claiming until he attained his FRA as under the *status quo*. For claiming ages later than that, his monthly benefit would be fixed at the FRA level, and he would receive a lump sum payable as of his claiming date (i.e., the *Delayed Lump Sum* claiming age) equal to the present value of the delayed retirement credit after the Full Retirement Age. Moreover, in each scenario we asked the respondent to record how much additional work he would engage in, depending on the specific scenario.

Our results demonstrate that people would voluntarily work longer if offered an actuarially fair lump sum instead of the delayed retirement extra benefit under the current Social Security rules. The measured delays in claiming average about half a year if the lump sum were to be paid on claiming post age 62, and by about two-thirds of a year if the lump sum were only paid to those claiming later than their FRA. Individuals most responsive to these incentives proved to be those who would have claimed earliest under the *Status Quo*. We also found that people would voluntarily work about one-quarter of the delay in claiming time in the *Lump Sum* scenario, whereas they would work almost half of the additional time in the *Delayed Lump Sum* scenario. Our results are robust to controls for factors such as respondents' wealth, health, trust in the system, and indebtedness. We also showed that those who are more financially literate and who mistrust Social Security's resilience are likely to delay claiming more; the indebted would also delay claiming to obtain the lump sums.

Our findings will interest policymakers seeking ways of reforming Social Security without raising costs or cutting benefits, while enhancing the incentives to delay retirement. This is because we confirm that people would voluntarily claim later, and extend their work effort, due to the lump sum options examined here. In other words, some workers would pay Social Security payroll taxes longer, which would help the system's finances. Moreover, incentivizing longer work lives may well be associated with better mental and physical health at older ages, so a lump sum option is worthy of serious policy attention.

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