Will They Take the Money and Work?

An Empirical Analysis of People's Willingness to Delay Claiming Social Security Benefits for a Lump Sum

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US Social Security in Brief

- ✓ Old-Age, Survivors & Disability Insurance (OASDI)
  - (Here: Social Security only refers to Old-Age Insurance)
- ✓ Benefit level progressive, depending on inflation-indexed monthly earnings averaged over best 35 years
- ✓ Claimable anytime between age 62 and age 70
  - At Full Retirement Age (FRA): Unreduced benefits
  - Prior to FRA: Lifelong benefit reduction (5%-6.67% p.a.)
  - After FRA: Livelong benefit increase (8% p.a.)
- ✓ When to claim Social Security benefits is for many households a crucial financial decision

Our question:

- Would people delay claiming Social Security, if they got the benefit boost as an *actuarially fair lump sum* instead of higher annuity?
- If so, how would they adjust their labor supply?

Why?

- Rational to prefer lump sum (LS) over an actuarially fair annuity: if risk averse, uncertain re mortality/ health/ political risk, etc.
- May be healthier to work longer.
- And might help Social Security solvency.

Related Studies

- ✓ Fetherstonhaugh/Ross (1999) survey attractiveness of delayed retirement credit lump sum
  - 75% personally prefer LS over annuity
  - 80% generally consider LS greater incentive for delayed claiming
- ✓ Orszag (2001) discusses design aspects of delayed retirement credit lump sum
  - Central issue: Impact of offering LS before FRA
- ✓ Chai/Maurer/Mitchell/Rogalla (2013) theoretical study delayed retirement credit lump sum in LC PC model
  - Can raise average retirement age by 1.5-2 years

Financial Impact of Delayed Claiming: *Status Quo* vs 2 Lump Sum Alternatives

Example: FRA = 67, Monthly Benefit (at age 62) = $1,500

Claiming Age	*Status Quo*	*Lump Sum*			*Delayed Lump Sum*		
	Annuity	Annuity		Lump Sum	Annuity		Lump Sum
62	1,500	1,500	+	0	1,500	+	0
63	1,607	1,500	+	20,208	1,607	+	0
64	1,714	1,500	+	39,382	1,714	+	0
65	1,857	1,500	+	63,887	1,857	+	0
66	2,000	1,500	+	86,963	2,000	+	0
67	2,143	1,500	+	108,589	2,143	+	0
68	2,314	1,500	+	133,427	2,143	+	28,090
69	2,486	1,500	+	156,480	2,143	+	54,428
70	2,657	1,500	+	177,723	2,143	+	78,988

Authors' calculations.

The RAND American Life Panel (ALP)

- ✓ (Currently) 5,000+ individuals age 18+ participating in frequent online surveys
  - Laptops/Internet access provided to those without → improves representativeness of survey

- ✓ Our Study consists of three blocks of questions on…
  - earnings history (to calculate exp. SoSe benefit)
  - claiming and working choice for three settings
  - demographics, preferences, wealth, beliefs, …

Status Quo (SQ)

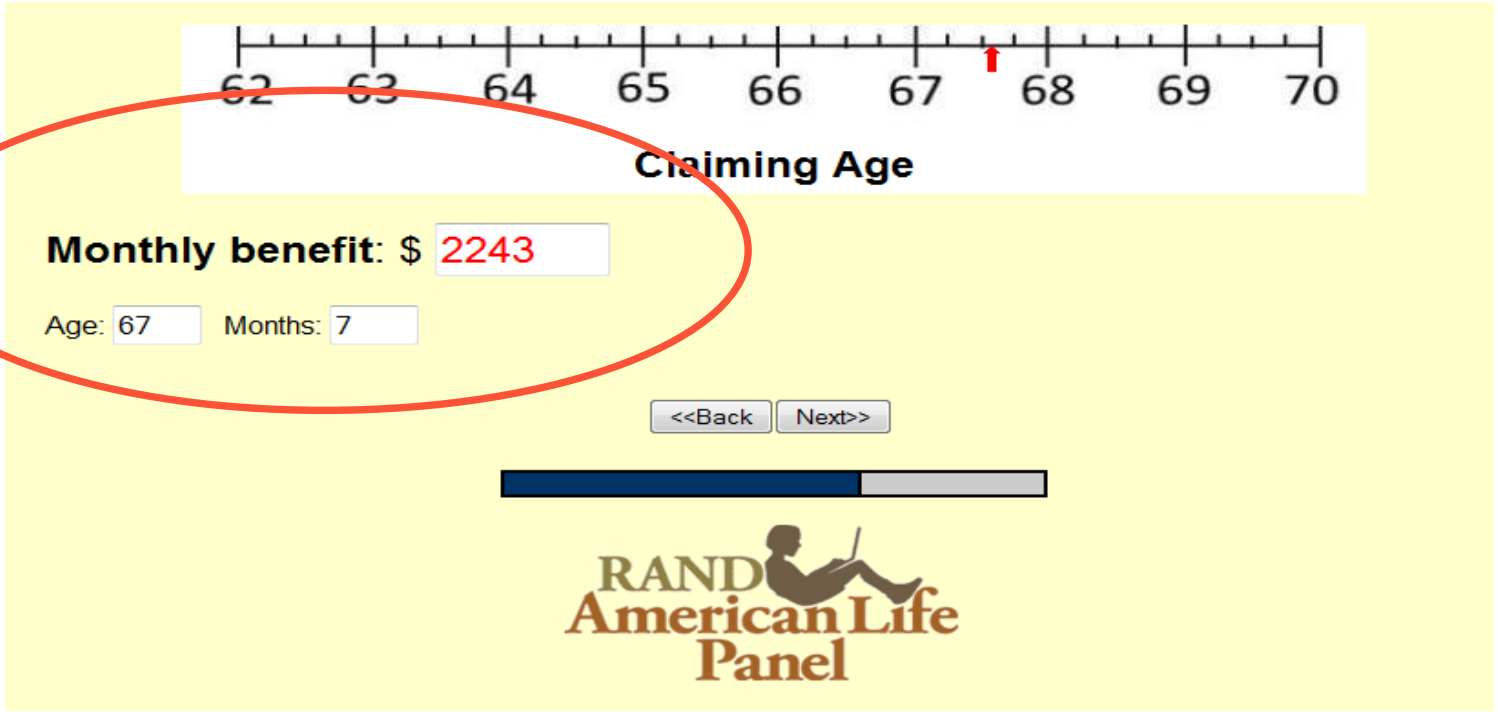
Your choice:

Either

- You can claim your Social Security benefit at age **62** and receive that **$1,500** monthly payment for life.

OR

- You can claim your Social Security benefit at a later age and receive a **higher monthly payment** from that age on for life.



Lump Sum to Any Later Age

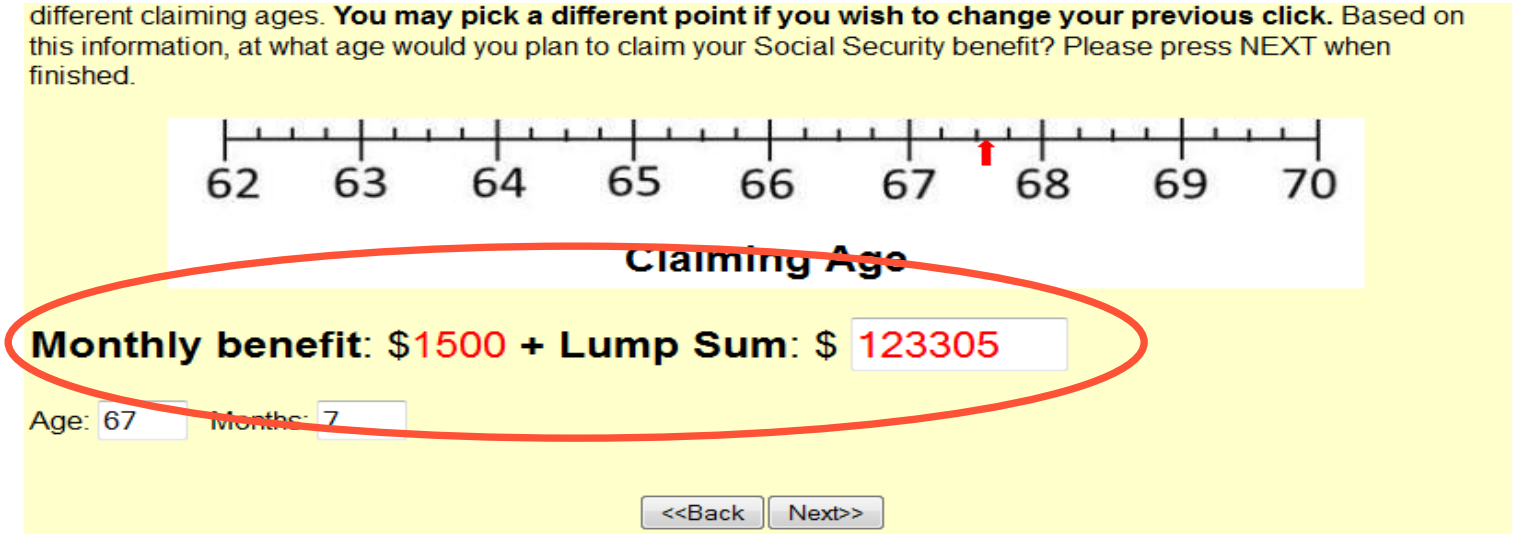
Your choice:

Either

- You can claim your Social Security benefit at age **62** and receive that **$1,500** monthly payment for life.

OR

- You can claim your Social Security benefit at a later age and receive the same monthly payment of **$1,500** from that age on for life, **plus an additional lump sum payable at that later claiming age**.



Delayed Lump Sum post-FRA

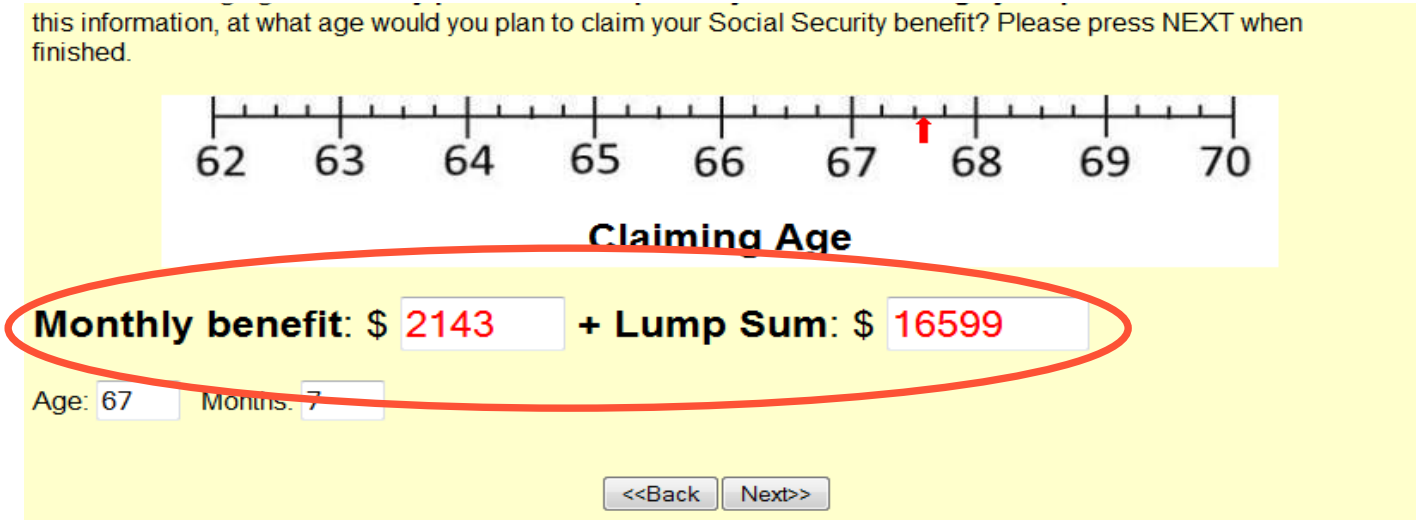
Your choice:

Either

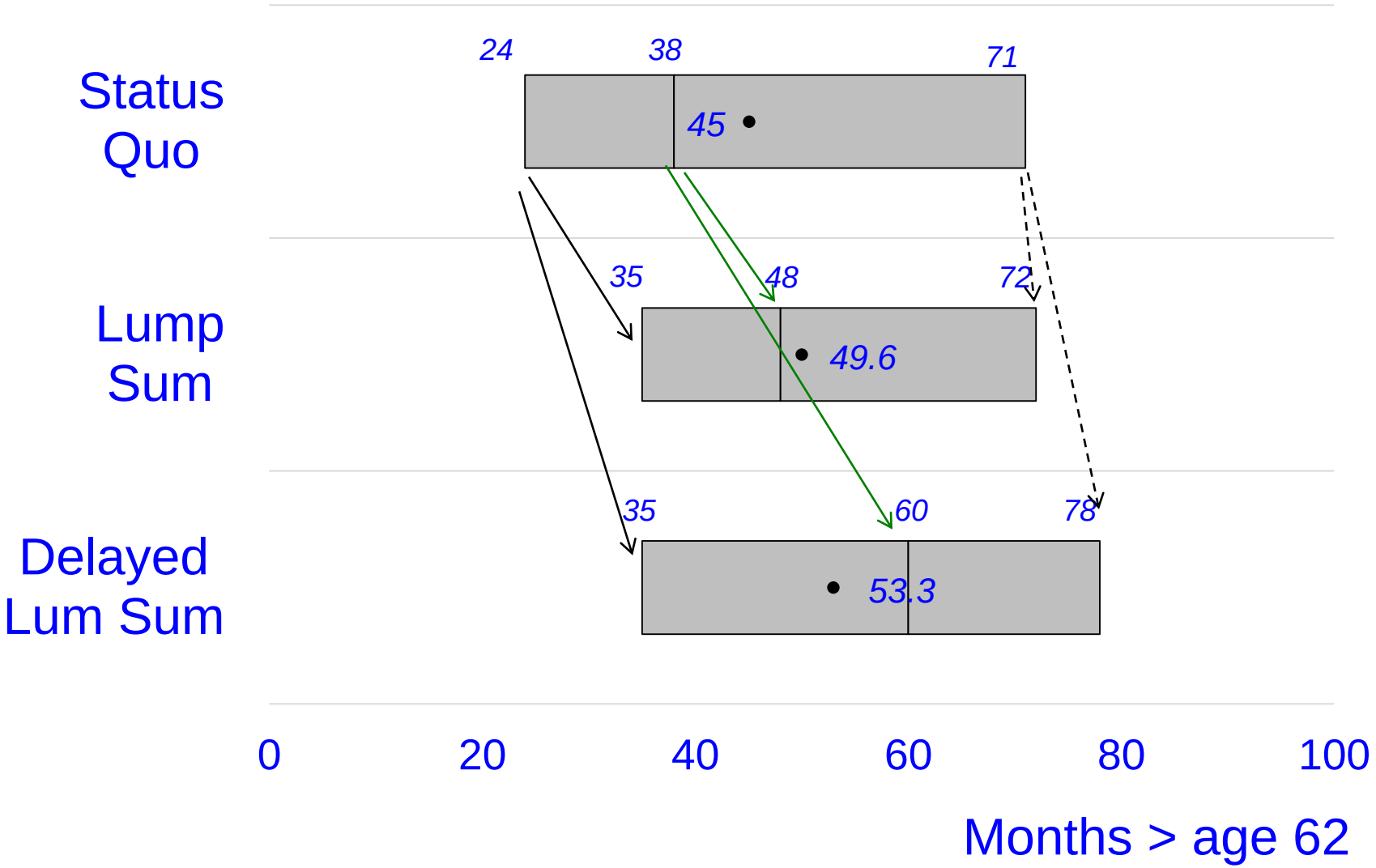
- You can claim your Social Security benefit at age **62** and receive that **$1,500** monthly payment for life.

OR

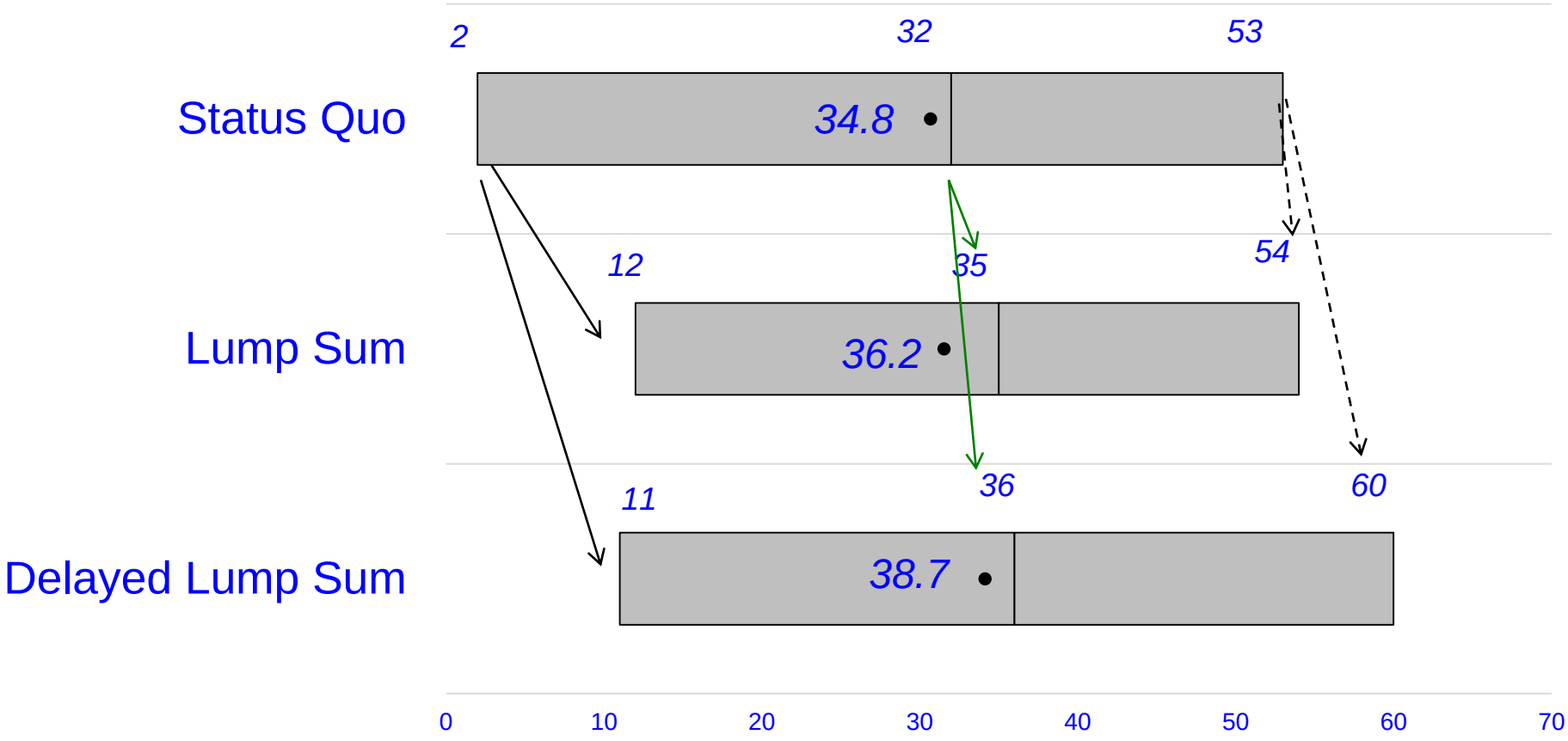
- You can claim your Social Security benefit at a later age and receive a **higher monthly payment** from that age onward for life. This benefit will rise as you delay claiming up to a maximum of $2,143 if you claim at your full retirement age (67 years). However, if you claim your benefit after your full retirement age (67 years), you will receive that monthly payment of **$2,143** for life, **plus an additional lump sum payable at your later claiming age**.



Q25-Q75 Claiming Age Range:
Status Quo vs. 2 Lump Sum Alternatives



Q25-Q75 FT Work Effort Range:
Status Quo vs. 2 Lump Sum Alternatives



Months Fulltime Work > 62

Regression Analysis

Variable	Coefficient LS-SQ	Coefficient DelLS-SQ
Male	-1.646 *	-1.800 **
Age < 62	-1.333	-0.915
Benefit at age 62	0.001	0.001
Good Health	-0.077	-0.020
Financial Literacy	2.794 *	3.790 **
Risk Aversion	1.184 **	1.014 **
Short Term Planner	0.530	2.064
Long Term Planner	1.390	1.823
Optim. LE	7.032 **	6.148 **
High Trust	-2.758 **	-3.158 **
High Debt Payoff	1.879 **	1.687 *
High Spending	0.006	0.650
Risky Investing	-0.304	-0.904
High Expected Return	1.366	-0.260
Wealth 50 - 100 K	1.001	-0.856
Wealth >= 100 K	-0.493	-1.887
Saw LS First	-3.749 **	-2.154 **
Claim Age SQ	-0.306 **	-0.250 **
Constant	18.828 **	18.179 **
R squared	0.19	0.14

Summary & Implications

- ✓ Paying delayed retirement credit as (Delayed) Lump Sum could:
  - Raise median claiming age by up to 22 months.
  - Particularly incentivize early claimants under current system to delay claiming.
  - Boost median months of full-time work by up to 4 months.

- ✓ Longer working lives raise Social Security tax revenue & enhance system solvency.
  - ‘Politically viable’ way to reform Social Security

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