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When Should Married Men Claim Social Security Benefits?

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Introduction

Most married men claim Social Security benefits at age 62 or 63, well short of the age that maximizes the expected present value of the average household's benefits. That many married men "leave money on the table" is surprising. It is also problematic. It results in much lower benefits for surviving spouses and the low incomes of elderly widows are a major social problem. If married men delayed claiming Social Security benefits, retirement income security would significantly improve. This *brief* focuses on the potential gains from delayed claiming and the factors that may influence claiming behavior. It then considers possible policy responses.[1]

Gains from Claiming Later

Workers can claim Social Security benefits at any age between 62 and 70. For workers with average life expectancy, the expected present value (EPV) of benefits[2] is much the same from 62 to Social Security's Full Retirement Age (FRA). If a worker delays claiming, the shortened period of benefit receipt is offset by a higher monthly benefit.[3]

The EPV of benefits for married couples is much more complicated due to the special spousal and survivor benefits that Social Security provides. While both are alive, each is entitled to the greater of his or her own earned benefit or a benefit based on the spouse's earnings record, so long as the spouse has already claimed. Upon the death of a spouse, survivors are entitled to the greater of their own earned benefit or their spouse's earned benefit, subject to certain minimums and reductions if claimed before the FRA.[4]

Because most married women have lower lifetime earnings and outlive their husbands, spousal and survivor benefits are almost invariably received by women. The benefit wives receive while their husband is alive — whether their own earned benefit or a spousal benefit — is generally replaced by a survivor benefit upon their husband's death. The EPV of the wife's benefit received while her husband is alive is generally greatest if claimed at 62. The reason is that the increase in the monthly benefit from claiming later is generally too small to offset the reduction in her husband's remaining life expectancy.

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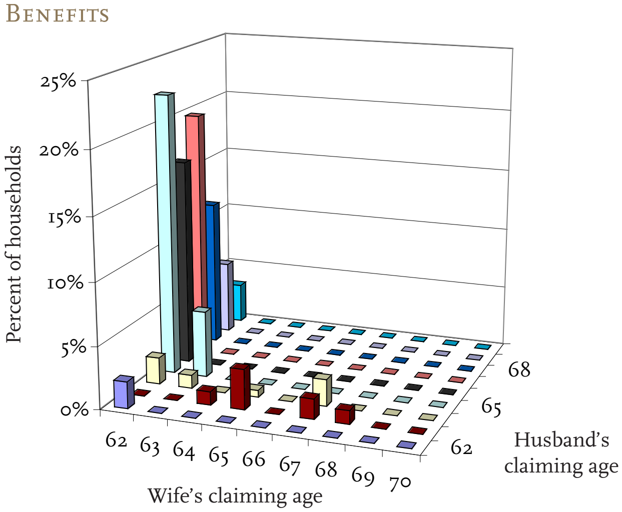
The length of time wives can expect to receive the survivor benefit, by contrast, is independent of the age at which she or her husband claims. But her husband's monthly benefit, which generally becomes her survivor benefit, rises about 7 to 8 percent each year he postpones claiming up to the FRA, and up to that amount thereafter until age 70.[5] Since the resulting rise in the monthly survivor benefit is not offset by a reduction in the duration of benefit receipt, a husband's later claiming age has a large positive effect on the EPV of his wife's survivor benefit.

To study claiming behavior and the potential gains from delaying claiming, we selected a sample of households from the *Health and Retirement Study* (HRS), a nationally representative panel of individuals born between 1931 and 1941 and their spouses. Our sample is households in which both the husband and wife have retired before becoming eligible for Social Security. Households often conflate claiming with the much more complicated retirement decision; they essentially claim when they retire. By narrowing the focus to households that have left the labor force before age 62, 35 percent of the total, the determinants of the claiming decision can be better understood.[6]

Figure 1 presents the distribution of claiming ages that maximize the EPV of Social Security benefits for a sample of households retiring before age 62. Households, on average, maximize the EPV of benefits when the husband claims at 66 and the wife at 62. The maximizing ages show little variance for women but significant variance for men. While 84 percent of households maximize when the wife claims at 62, only 17 percent maximize when the husband claims at 66.

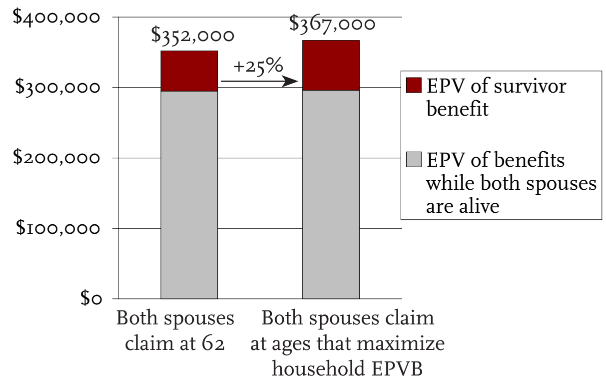
Over 90 percent of husbands in the sample actually claimed at 62, much earlier than the age that maximizes the EPV of household benefits.[7] It turns out that this choice has only a modest effect on the EPV of household benefits. For example, for a husband and wife who both claimed at 62, the median gain in household benefits from delaying until the maximizing age is only 4 percent.[8] However, as shown in Figure 2, this modest change masks a significant difference between the expected value of benefits received while the husband is alive — which is essentially unchanged — and the expected value of the survivor benefit — which rises by 25 percent. As the duration of receipt does not change, this reflects a 25 percent increase in the expected monthly benefit paid to a surviving spouse. Given this finding, the strong preference of men for claiming at 62 suggests that many do not take the survivor benefit into account when making their decision. The possible reasons are explored in the next section.

Figure 1. Combination of Claiming Ages that Maximize the EPV of Household Social Security Benefits



Note: These results are for 187 households in the HRS that retired prior to 62 for which sufficient information is available. Calculations assume a 3 percent rate of interest and population mortality based on each individual's birth year.
Source: Authors' calculations from University of Michigan, *Health and Retirement Study*, 1992-2004.

Figure 2. Amount and Allocation of Social Security Wealth, by Claiming Ages



Source: Authors' calculations from 1992-2004 HRS.

What Might Explain Early Claiming?

A regression analysis was used to examine factors that might influence the claiming behavior of married men. The sample size was just 340 households, so the results must be viewed as tentative.

Two factors that could plausibly explain early claiming by married men are ignorance and a caddish disregard for the well-being of their spouse. The regression controlled for factors identified in earlier studies as influencing claiming behavior; these included expected longevity, wealth, and time preference. The HRS does not provide good measures of time preference, ignorance, and caddishness.[9] The regression thus uses the household's financial planning horizon as an indicator of time preference. As a measure of ignorance (or its opposite, financial awareness), one regression uses three questions in the HRS that loosely measure financial/numerical literacy. A second regression uses educational attainment. The HRS does not attempt to measure caddishness. But it does ask husbands if they prefer to spend free time doing things with their wives, doing things independently, or some of each. A husband who prefers spending time with his wife may be more likely to care for her well-being, so this question serves as a proxy for caddishness. The analysis also uses information in the HRS on household decision-making power, testing whether husbands empowered to make important financial decisions are more likely to claim early.[10]

The regression results show *no* statistically significant relationship between early claiming and factors identified in earlier studies as influencing claiming behavior — household wealth,[11] expected longevity, and planning horizon. These earlier studies, however, identified only small and marginally significant effects. The lack of a statistically significant relationship in our analysis could also reflect our small sample.

The results also produced no evidence to attribute early claiming to caddishness, which is not surprising. Early claiming has essentially no effect on the EPV of benefits while the husband is alive. So caddish husbands have no real financial incentive to claim early. A husband aware of the financial implications would indeed need to be worse than caddish to claim early and expose his wife to a substantial reduction in survivor benefits.

The results do provide evidence that financial awareness has an effect. The regression with educational attainment found a statistically significant relationship between college education and later claiming. Husbands with a college education are 8.5 percent more likely to postpone claiming. A recent study, using questions asked in the 2004 wave of the HRS, reports similar results.[12]

While financial awareness is a plausible explanation for claiming later, ignorance is *not* a plausible explanation for claiming early. Something akin to social convention or mistaken information needs to motivate the general tendency to claim early. Households *aware* that social convention and the "conventional wisdom" lead to sub-optimal outcomes are the ones most likely to pursue a different path.

Policy Implications

Early claiming has been a social convention for a quarter of a century. This convention is largely the result of the decline in the average age of retirement and the strong connection between retiring and claiming when employer defined benefit pensions were the primary source of private retirement income. Employer pensions are annuities designed to provide a supplementary stream of income, atop the retiree's Social Security benefits. Few retirees had the financial assets needed to top up their monthly pensions and postpone claiming for any length of time. So most had to claim when they retired.

With the shift from employer defined benefit pensions to 401(k)s, many more couples can control the drawdown of their private retirement resources. They can access their public and private retirement wealth sequentially rather than simultaneously, separate retiring and claiming, and thereby improve their retirement income security.[13] If greater recognition of these gains induces married men to postpone claiming, an educational campaign to raise awareness would be desirable. Although the evidence on the effectiveness of workplace financial education is mixed at best,[14] it would seem useful for Social Security's annual statements to participants to clearly indicate the impact of delay on the survivor benefit.

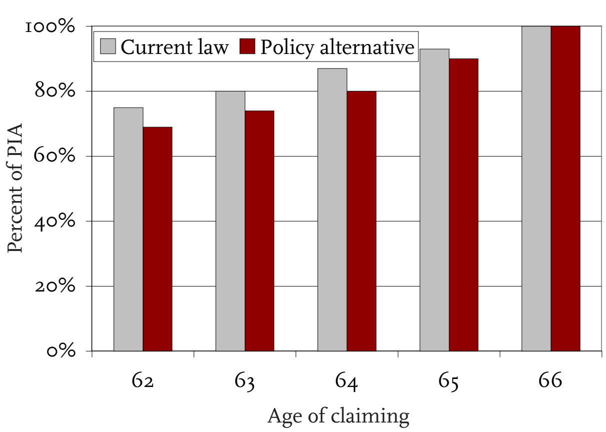
Given the public interest in retirement security and the threat posed by early claiming, policymakers could also consider changes in Social Security's rules, such as:

- Increasing Social Security's Earliest Eligibility Age from 62 to 64, in line with the rise in the FRA. This change would prevent the benefit some survivors will receive from falling due to the rise in the FRA.

- Requiring spousal consent for cases in which the higher-earning spouse claims before the FRA. Such a requirement would tend to establish the FRA as the default claiming age, as only then would higher-earning spouses not need to jump through a hoop to receive their benefits. Defaults have been shown to have a powerful effect on worker behavior in 401(k)s, a somewhat analogous setting. Requiring spousal consent would also provoke a much needed discussion between husband and wife about the consequences of claiming at various ages. And it would alter the balance of power within the household.

- Assure the lower-earning spouse a survivor benefit at least equal to the higher-earning spouse's benefit at the FRA. This policy could be made cost-neutral by reducing the benefits of the higher-earning spouse (or both spouses) who claim before the FRA. Figure 3 gives estimates of the adjusted monthly benefit payable to higher-earning spouses at various claim ages when the FRA is 66.[15] The reductions would be less if the cost of the higher survivor benefit were financed by reducing both spouses' early retirement benefits, or by reducing early retirement benefits payable to all workers, whether married or single.

Figure 3. Benefit of Higher-Earning Spouse as Percent of Full Retirement Benefit, under Current Law and Policy Alternative*



* The Full Retirement Age (FRA) used in this example is 66. Under the policy alternative, individuals who claim early have their benefits reduced in order to preserve the survivor benefit at 100 percent of the individual's Primary Insurance Amount. The estimates assume all survivor benefits are claimed after the survivor attains the FRA.
Source: Authors' calculations.

If married men postponed claiming, Social Security's costs would rise. But the added cost would be small, given the modest increase in the EPV of household benefits. Moreover, later claiming can also be expected to result in later retirements, which would increase government tax receipts.[16] Later claiming thus could strengthen the finances of the federal government as well as the finances of the nation's households.

Conclusion

Raising the age at which married men claim Social Security benefits would significantly improve retirement income security. The improvement is most pronounced in the retirement income security of widows, currently a serious social problem. An analysis of married men who retired prior to becoming eligible for Social Security identified educational attainment, which is correlated with financial awareness, as a major factor in leading to later claiming. Although the prevalence of early claiming by married men produces a caddish outcome, the analysis did not identify caddishness as a causal factor. This suggests that an educational campaign that raises financial awareness could increase claiming ages. The significant public interest in assuring retirement income security suggests that policymakers may also wish to consider changes in the Social Security program that would raise claiming ages. These include raising the EEA, requiring spousal consent for early claiming, and reducing early retirement benefits of higher earning spouses to preserve the survivor benefit at its FRA level.

Endnotes

1 For a more detailed description of Social Security's rules, the methodology used in this analysis, and other issues raised in this *brief*, see Sass, Sun and Webb (2007).

2 The EPV of benefits is the present value of the sum of the payments discounted by annual survival probabilities and an interest rate. We follow the Social Security Administration in using a 3 percent real interest rate, which is somewhat above current levels.

3 The increase in monthly benefits has not been sufficient to offset the shortened period of benefit receipt at ages above the FRA, but the adjustment has been rising and will be sufficient for workers born after 1942.

4 The guaranteed minimum spousal benefit that each spouse can claim is based on their spouse's Primary Insurance Amount (PIA) — their earned monthly benefit payable at the FRA. If claimed at or after the FRA, the spousal benefit equals one-half of their spouse's PIA; if claimed before the FRA, the spousal benefit is reduced by a greater percentage than that applied to retired worker benefits. Survivor benefits are based on the deceased spouse's benefit. If claimed on or after the surviving spouse's FRA, the survivor benefit equals the deceased spouse's benefit, subject to a minimum of 82.5 percent of the deceased spouse's PIA; if claimed prior to the surviving spouse's FRA, the survivor benefit is subject to a milder reduction than that applied to retired worker benefits. Survivor benefits can be claimed as early as age 60; if claimed prior to the FRA, the survivor benefit is subject to a minimum of 71.5 percent of the deceased spouse's PIA.

5 For all workers born after 1942, the "delayed retirement credit" for postponing claiming after the FRA is 8 percent annually up to age 70. For workers born in 1942 or earlier, the delayed retirement credit is lower.

6 This approach follows Coile, et al. (2001). Additionally, the households in the sample are those in which: 1) both the husband and wife have matched administrative data that give their earnings histories; 2) neither husband nor wife claimed disability benefit; and 3) the husband had at least the 40 quarters of covered earnings required for benefit eligibility and no quarters of uncovered earnings.

7 Coile et al. (2001) find a similar pattern in earlier cohorts.

8 These relatively small average gains are similar to those reported by Coile, et al. (2001) and Munnell and Soto (2005). There is, nevertheless, considerable heterogeneity in the gains among individual households.

9 The 2004 wave of the HRS asked participants who had not claimed questions that measure their awareness of the effect of claiming ages on monthly benefit amounts. A recent study that used these data to analyze expected claiming ages is discussed below.

10 Coile, et al. (2001) found a statistically significant relationship between early claiming and wealth. Both Coile, et al. (2001) and Hurd, Smith, and Zissimopoulos (2004) found a statistically significant relationship with expected longevity. Gustman and Steinmeier (2002) suggest that time preference is important in claiming decisions. A household's financial planning horizon has been shown to influence savings behavior in a manner similar to time preference (Lusardi and Mitchell, 2006). Educational attainment has been shown to be associated with financial literacy (Warner and Pleeter, 2001; and Lusardi and Mitchell, 2006). The HRS includes a module that measures a household's financial awareness, but few respondents participate.

11 This finding could be due to the fact that we measure household wealth differently. We use non-housing financial wealth while Coile, et al. (2001) also include housing wealth in their measure. Neither study included defined benefit pension claims in their household wealth estimates.

12 Delavande and Willis (2007) found that married men who were aware that later claiming increased monthly benefits, and who expected their wives to be relatively long-lived, reported older expected claiming ages.

13 In addition to the gains outlined in this *brief*, households that postpone claiming might also be able to reduce their tax burden (Mahaney and Carlson, 2006).

14 Lusardi (2005).

15 The estimates presented in Figure 3 assume all survivor benefits are claimed after the survivor attains the FRA. As noted above, survivor benefits claimed after the FRA cannot fall below 82.5 percent of the deceased spouse's PIA; survivor benefits claimed before the FRA cannot fall below 71.5 percent of the deceased spouse's PIA. To the extent that survivor benefits are claimed before the survivor attains the FRA, the required top-up needed to provide a survivor benefit equal to 100 percent of the deceased spouse's PIA, and the reduction in early retirement benefits needed to finance that top-up, would be greater.

16 Butrica, Smith, and Steuerle (2006).

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