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Executive Summary

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CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE

UNUSUAL SOCIAL SECURITY CLAIMING STRATEGIES: COSTS AND DISTRIBUTIONAL EFFECTS

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When to claim Social Security is one of the most important decisions Americans make when approaching retirement, as the claiming age can have a significant impact on lifetime benefits and overall retirement security. The dependable stream of income provided by Social Security is particularly valuable at a time when financial market turmoil has underscored the uncertainty associated with 401(k) plans. In this climate, more and more people may closely consider the best way to utilize Social Security.

Recently, several unconventional claiming strategies have come to light that have the potential to pay higher lifetime benefits to some individuals and increase Social Security's costs. The number of households adopting these strategies could increase for several reasons: increased publicity, the need to maximize retirement resources, the growing number of older Americans in general and of two-earner couples in particular, and the recent advent of an actuarially fair delayed retirement credit. At the same time, however, the Social Security program faces a long-term financing challenge, so any claiming strategies that could increase costs to the system should be carefully evaluated to ensure that they serve a compelling policy objective.

The first strategy, "Free Loan" is open to all individuals who are Social Security eligible. The strategy allows an individual to claim benefits at a given age and later repay the full nominal amount of the benefits received and file again, obtaining an increased benefit from the "delayed" filing. The claimant has the advantage of a "no interest" loan from Social Security during the interim period. To estimate the cost of this approach, we use earnings data from the *Health and Retirement Study* (HRS) and the actual number of 70 year-olds from the 2006 Census. Our assumption is that individuals will initially claim at 62 and reclaim at 70. Also, because individuals must live long enough to recoup the benefits they pay back and be wealthy enough to invest rather than consume their benefits, we take life expectancy and financial assets into account. We calculate that the annual cost could range from $5.5 billion to $11.0 billion, with the gains likely to be concentrated among households in the upper portion of the wealth distribution. Moreover, future costs could be greater because: 1) the rise in the full retirement age will reduce the amount that individuals using the "Free Loan" strategy would need to pay back; and 2) the shift to 401(k) plans will result in more liquid assets, which will likely increase the number of people who could take advantage of the strategy.

The second strategy, "Claim and Suspend," was born out of the Senior Citizens Freedom to Work Act of 2000. The primary goal of the law was to encourage individuals to continue working at older ages by eliminating the annual retirement earnings test after an individual reached the Full Retirement Age (FRA). The "Claim and Suspend" strategy came about as a byproduct of this law. "Claim and Suspend" can be used by individuals or couples. The strategy allows individuals to voluntarily suspend their benefits and accrue delayed retirement credits once they have reached the FRA. For single individuals, this strategy can be thought of as a continuation of the earnings test – people forgo benefits today for higher benefits later. For couples, this strategy lets the worker claim benefits and immediately suspend, allowing his spouse to claim spousal benefits, while he continues to delay his benefits and earn delayed retirement credits. Using the HRS, we estimate the annual cost of this strategy to be less than a billion dollars. And this strategy has a clear policy rationale of providing work incentives.

The third strategy, "Claim Now, Claim More Later," makes use of the spousal benefit and thus is only available to married couples. The strategy involves a married individual claiming a spousal benefit while delaying claiming his own retired worker benefit in order to build up delayed retirement credits. The application of deemed filing ends when an individual reaches the FRA, giving married individuals the right to choose between receiving their own worker benefit and a spousal benefit. Using the HRS, we estimate that "Claim Now, Claim More Later" has an annual cost of about $9.7 billion. The main beneficiaries of this strategy are two-earner couples, with a significant portion of the benefits going to those in the upper portion of the wealth distribution.

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