WORKING PAPER
Executive Summary

FEBRUARY 2012, WP 2012-5

CENTER *for* RETIREMENT RESEARCH *at* BOSTON COLLEGE

SOCIAL SECURITY CLAIMING: TRENDS AND BUSINESS CYCLE EFFECTS

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The timing of Social Security claims has important implications for older Americans and for the system itself. Retirees may begin collecting benefits as early as age 62, but early claimants receive lower monthly benefits for the rest of their lives. This offset is designed to be actuarially fair overall, but groups with lower-than-average life expectancy gain by claiming early, while the system loses. Moreover, most older adults can benefit financially by delaying claiming and continuing to work because their earnings during those months will generally exceed what they would have received in retirement benefits. They also can save part of their additional earnings for retirement, and they will receive higher monthly Social Security benefits when they eventually retire. Those additional earnings generate income and payroll tax revenues, helping finance Social Security and other services.

Social Security claiming is usually tied to work decisions, since the retirement earnings test prevents workers who earn more than a certain amount from receiving much Social Security before the full retirement age (FRA), and many people cannot afford to stop working until they collect Social Security. The business cycle likely affects claiming decisions. Layoffs may lead some workers who cannot find employment to claim Social Security earlier than they planned, reducing their future retirement incomes. High unemployment rates may especially promote early claiming among workers with limited education, who are most likely to lose their jobs during economic downturns.

This study examines the characteristics of early claimants and how they have changed over time. It also explores the determinants of Social Security claiming and shows how it responds to the business cycle. An updated study of claiming behavior seems warranted in light of ongoing changes to the retirement landscape and the high unemployment that persists in the aftermath of the Great Recession. Data come from Survey of Income and Program Participation (SIPP) files from 1984 to 2009 linked to administrative records on earnings and benefits. The sample is restricted to respondents with 40 quarters of covered employment who did not claim benefits before age 62.

Results indicate that early claiming increased from the mid-1980s to the mid-1990s, and then fell over the next decade as the FRA rose, Social Security's delayed retirement credit became more generous, and employer-sponsored retiree health plans and traditional pension plans eroded.

- For men, the share claiming at 62 increased from 49.5 to 55.3 percent between the 1920-24 and 1930-34 birth cohorts, and then fell to 46.4 percent for the 1940-44 cohort. The share claiming at age 65 or older shrank to 21.5 percent for the 1930-34 cohort, and then grew rapidly to 37.1 percent for the 1940-44 cohort.

- For women, the portion claiming at 62 held fairly steady at about 57 percent for the 1920-24, 1925-29, and 1930-34 cohorts. It then declined to 49 percent for the 1940-44 cohort. The share claiming at 65 or older grew steadily over time, from 20.0 percent for the 1920-24 cohort to 33.8 percent for the 1940-44 cohort.

- Well-educated men and women are much less likely to claim early than those with less education. Among men in the 1940-44 cohort, for example, those with only a high school diploma were about three-fifths more likely to claim retirement benefits at age 62 than those with more than a bachelor's degree. Men with more than a bachelor's degree were about three-fourths more likely to wait at least until age 65 to claim than those with only a high school diploma, and nearly twice as likely as those who did not complete high school.

- The recent trend toward delayed claiming has not been confined to well-educated adults. Within every educational group for both men and women, the share claiming at age 62 has declined over the past 10 years and the share claiming at age 65 or later has increased.

- People in better health generally claim later than those in worse health, although health-related differences in claiming are not as striking as education-related differences. The share claiming at age 62 fell sharply over the past 10 years for those in excellent, very good, and good health, but it barely declined at all for those in fair or poor health.

The study also estimates probit models of the probability of claiming Social Security benefits at age 62 or later. The equations can be interpreted as discrete-time hazard models of benefit claiming because the data are arranged in person-month format, the sample is restricted to those eligible for benefits (40 or more covered quarters), and respondents are dropped from the sample once they have taken up benefits (and thus are no longer at risk of claiming). Separate models are estimated for men and women who attended college and for those with no more than a high school diploma. The dependent variable equals one if the respondent claims in the next month, zero otherwise. The model includes controls for the state-level unemployment rate, the natural log of lifetime earnings, health status, year of birth, demographics (marital status, race, and age), and the increase in monthly benefits that would result from delaying take-up one month.

Results indicate that men with no more a high school education are significantly more likely to claim Social Security retirement benefits when unemployment is relatively high than when it is lower. A 1 percentage point increase in the state unemployment rate is associated with a 0.4 percentage point increase in the likelihood each month that men who never attended college claim benefits, a relative increase of 6 percent. This estimate implies that the Great Recession – which boosted unemployment rates among men age 55 to 61 with no more than a high school diploma by about 7 percentage points between 2007 and 2010 – increased claiming for men with limited education by about 2.8 percentage points, or 40 percent. Claiming behavior among women and well-educated men is not significantly correlated with the state unemployment rate. Unemployment's large effect on claiming for less-educated men is consistent with their disproportionately high rates of job loss during economic downturns.

  The research reported herein was performed pursuant to a grant from the U.S. Social Security Administration (SSA) funded as part of the Retirement Research Consortium (RRC). The opinions and conclusions expressed are solely those of the authors and do not represent the views of SSA, any agency of the federal government, the RRC, the Urban Institute, or Boston College.

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