

# TRENDS IN SOCIAL SECURITY CLAIMING

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## Introduction

With lower Social Security replacement rates, vanishing traditional pensions, and longer lifespans, many people will need to work longer to ensure a secure retirement. Working longer directly increases current income; it avoids the actuarial reduction in Social Security benefits; it allows people to contribute more to their 401(k) plans; and it shortens the period of retirement. The good news is that people have begun to respond; the average retirement age has increased by about two years over the last 25 years.

The challenge is to reconcile this increase in work effort with the benefit claiming data published by the Social Security Administration (SSA). These data, which are released annually, show, *of all workers claiming benefits in a given year*, the percentage who are age 62, 63, 64, etc. These data suggest that the proportion of older men who claim benefits as early as possible did not change at all over the 1985-2005 period and has only begun to decline in the last decade. This pattern is not consistent with the rise in the average retirement age. The problem is that when the size of the group turning age 62 is increasing, as it has over the last two decades, the data will show that 62-year-old claimants make up a larger portion of total new claimants in a given year even if a smaller percentage of 62-year-old workers claim immediately. To accurately follow claiming behavior over time, one must

look at cohort data. Such data show, *of the potential claimants turning 62 in a given year*, the percentage who claim benefits as soon as possible. This brief presents cohort patterns based on unpublished SSA data on people eligible to claim retired-worker benefits by birth year.

The discussion proceeds as follows. The first section describes the claim-year data published annually by SSA. The second section shows the change in the number of people turning 62 and discusses the impact of this “cohort effect” on claiming patterns. The third section presents claiming age by cohort. The final section concludes that the cohort (or birth-year) data, unlike the claim-year data, show that the share of people claiming Social Security retired-worker benefits when they attain age 62 has been falling since the mid-1990s. This decline in people claiming early benefits is fully consistent with the increase in the average retirement age.

## Data by Claim Year

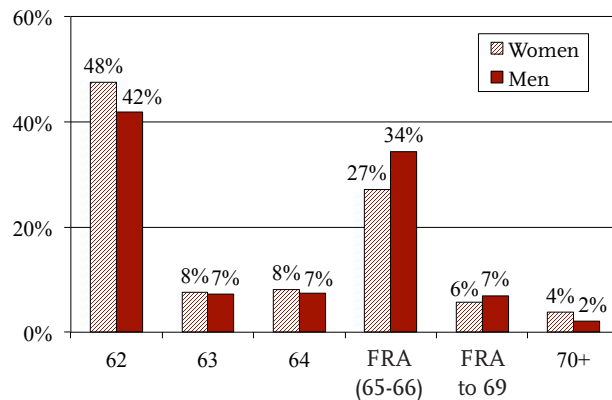
According to Social Security’s *Annual Statistical Supplement*, 48 percent of women and 42 percent of men who claimed retired-worker benefits in 2013 were age 62, after excluding beneficiaries who switched from disability benefits to retired-worker benefits at age 66

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(see Figure 1). The next most popular claiming age was the Full Retirement Age (FRA), which was 65 until 2003 and gradually increased to 66 for workers turning 65 in 2008. Twenty-seven percent of women and 34 percent of men claimed benefits at the FRA.<sup>1</sup> The other age groups individually account for a much smaller percentage of initial benefit awards.

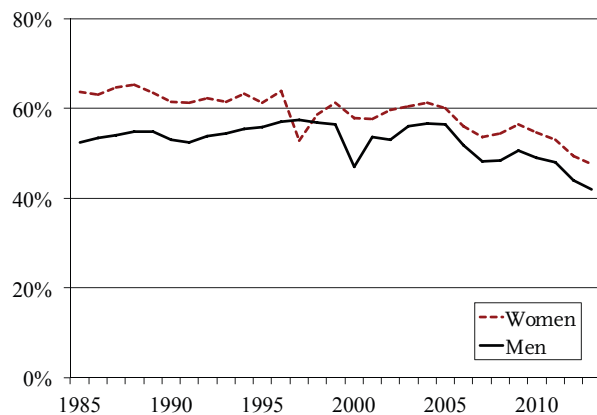
FIGURE 1. AGE DISTRIBUTION OF INDIVIDUALS CLAIMING RETIRED-WORKER BENEFITS, 2013



Source: Authors' calculations from U.S. Social Security Administration (2015a).

Figure 2 shows the percentage of retirees claiming retired-worker benefits at age 62 from 1985-2013. The proportion of women claiming benefits at age 62 hovers around 60 percent until 2005 and then drops gradually to 48 percent by 2013.<sup>2</sup> The fraction of men claiming retired-worker benefits at age 62 hovers

FIGURE 2. PERCENTAGE OF INDIVIDUALS CLAIMING RETIRED-WORKER BENEFITS AT AGE 62, 1985-2013



Source: Authors' calculations from U.S. Social Security Administration (2015a).

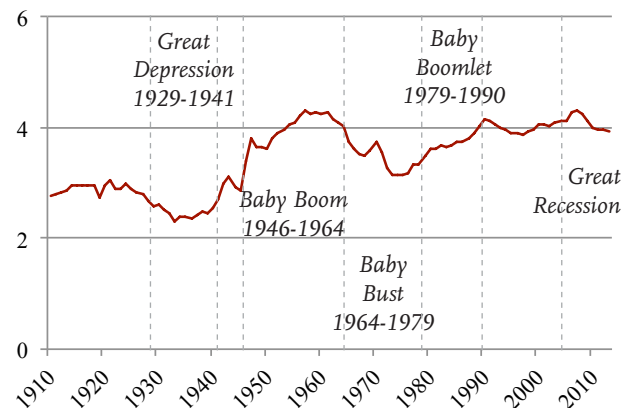
around 55 percent, and then drops gradually to 42 percent by 2013.<sup>3</sup> This way of measuring claiming behavior suggests little movement during the years 1990-2005, a period during which the average retirement age was rising.

## The “Cohort” Effect

The problem with the SSA claim-year data is that the number of eligible participants turning 62 began to increase around 1997. The increase is significant, with the annual number of men turning 62 rising from 829,000 in 1997 to around 1.4 million in 2013.

For readers who are surprised, like we were, that the increase in numbers began before the retirement of the baby boomers, we include Figure 3. As the Figure shows, births declined sharply from the 1920s through the trough of the Great Depression, and then started to increase in 1935. This reversal shows up 62 years later with the number of people eligible for benefits beginning to rise in 1997. This increase in the number of participants turning 62 – or “cohort effect” – distorts the trend in claiming patterns.

FIGURE 3. BIRTHS IN MILLIONS, 1910-2013



Source: Centers for Disease Control and Prevention, National Center for Health Statistics (2015).

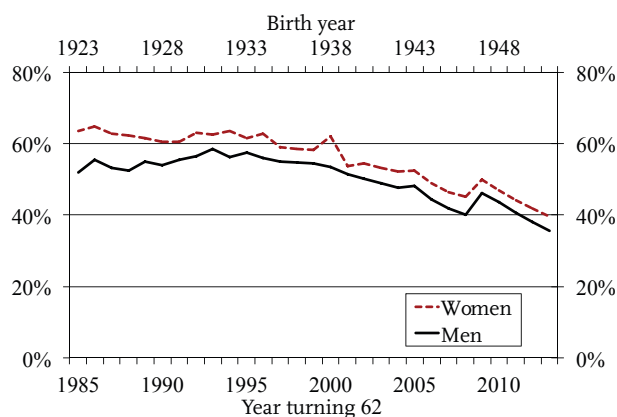
The intuition behind the cohort effect is somewhat complicated, so an example might help. Suppose that beneficiaries can only claim at age 62 or 63 and that 55 percent of all people born in any given year will claim at age 62 and the other 45 percent will claim the following year when they turn 63. If the number of people who attain ages 62 and 63 remains constant from one year to the next, then the SSA published data on claim year and the cohort data will

tell the same story. If the number of people attaining age 62 grows by 10 percent in a given year, then the SSA published data will show that 57 percent of people who claim benefits each year are 62 ( $.5735 = (1.1 \cdot .55) / (1.1 \cdot .55 + 1.0 \cdot .45)$ ), and that 43 percent are 63. In this case, the SSA published data will exceed the unchanged claiming rate for each cohort.

## Data by Birth Year

The way to get at the underlying trend in claiming behavior is to determine the percentage of all individuals born in a given year who claim retired-worker benefits at each age.<sup>4</sup> This calculation is possible because SSA provided unpublished data on the number of people eligible for retired-worker benefits by birth year.<sup>5</sup> The task is then to allocate cohort totals among claiming ages based on SSA's published data. For example, the unpublished data show that 863,753 men born in 1923 turned 62 and became eligible for benefits in 1985.<sup>6</sup> The published data show 448,630 men claimed benefits at 62 in 1985, all of whom by definition must be 1923-cohort men. Similarly, the published data show that 82,900 men claimed benefits at 63 in 1986, 110,580 claimed at 64 in 1987, etc., so the published data allow one to follow the claiming activity of the 1923 birth cohort over time. When the process is complete, it is possible to calculate the percentage of each cohort claiming at each age. Figure 4 shows the percentage of men and women in each cohort who claimed retired-worker benefits at age 62.

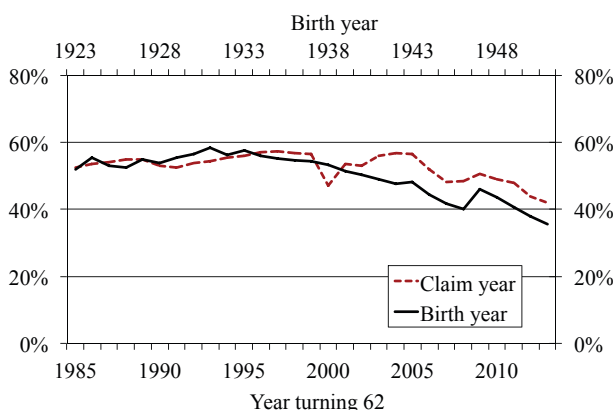
FIGURE 4. PERCENTAGE OF INSURED INDIVIDUALS TURNING 62 WHO CLAIMED AT 62, BY BIRTH YEAR



Source: Authors' calculations from U.S. Social Security Administration (2015a and 2015b).

As evident in Figure 5, which compares the percentage of men claiming at 62 on a claim-year and cohort (or birth-year) basis, the two approaches provide very similar results until 1997; afterward the two series start to diverge. The cohort data show a much greater decline over the 29-year period than the claim-age data published annually.

FIGURE 5. PERCENTAGE OF MALE CLAIMANTS CLAIMING AT 62 (CLAIM YEAR) AND PERCENTAGE OF INSURED MALES TURNING 62 WHO CLAIMED AT 62 (BIRTH YEAR)



Source: Authors' calculations from U.S. Social Security Administration (2015a and 2015b).

Table 1 below tells the same story in numbers. As shown above, the claim-year data and birth-year data are virtually identical through 1996. Since that time, the claim-year data understate the decline in early

TABLE 1. PERCENTAGE CLAIMING AT 62 BY CLAIM YEAR AND BIRTH YEAR, 1985, 1996, AND 2013

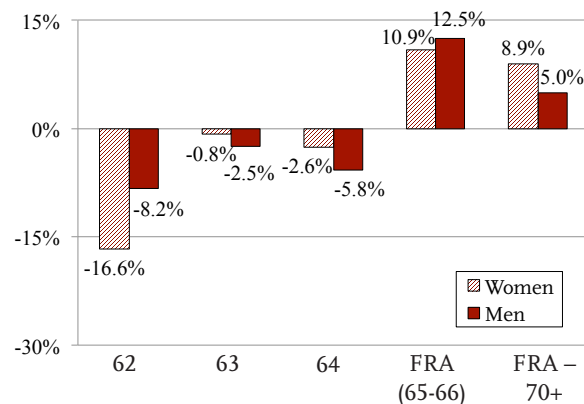
| Year                                      | Men        |            | Women      |            |
|---|------------|------------|------------|------------|
|   | Claim year | Birth year | Claim year | Birth year |
| 1985                                      | 52.4 %     | 51.9 %     | 63.7 %     | 63.6 %     |
| 1996                                      | 57.1       | 56.0       | 63.9       | 62.8       |
| 2013                                      | 41.9       | 35.6       | 47.5       | 39.5       |
| Percentage-point change in claiming at 62 |            |            |            |            |
| 1985-1996                                 | 4.7        | 4.1        | 0.2        | -0.8       |
| 1996-2013                                 | -15.2      | -20.5      | -16.4      | -23.2      |

Source: Authors' calculations from U.S. Social Security Administration (2014a).

claiming, a decline that is picked up by the cohort data. As predicted by the decline in the average retirement age, the cohort data reveal that the claiming picture has really changed. No longer do the majority of people reaching 62 claim benefits. By 2013, the claiming rate at 62 had declined to 36 percent for men and 40 percent for women.<sup>7</sup>

One final chart underscores the message that overall shifts in cohort claiming behavior – not just claiming at age 62 – have led to a higher average retirement age. Figure 6 shows the change in the percentage of individuals claiming at any given age between the cohort that turned 62 in 1985 and the cohort that turned 62 in 2010.<sup>8</sup> For both women and men, claiming before the FRA has dropped, while claiming at or above the FRA has increased.

FIGURE 6. PERCENTAGE-POINT CHANGE IN CLAIMING BY AGE BETWEEN COHORTS TURNING 62 IN 1985 AND 2010



Source: Authors' calculations from U.S. Social Security Administration (2015a and 2015b).

## Conclusion

In the past, both claim-year and cohort data provided reasonable estimates of the proportion of beneficiaries who claim retired-worker benefits at any given age, because the birth cohorts approaching retirement were similar in size and the patterns between cohorts remained relatively static. Recently, however, growing cohorts and changes among cohorts have caused claim-year analysis to overstate the proportion of retirees claiming benefits at 62, masking the trend away from early claiming evident in cohort data.

The good news is that more people are claiming retired-worker benefits at later ages, and this pattern is consistent with increased labor force participation at older ages and the rise in the average retirement age. Nevertheless, in 2013 more than a third of insured workers still claimed Social Security benefits as soon as they became eligible.<sup>9</sup> The question is whether this decision appropriately reflects the individual and family circumstances of these individuals or whether they are making a mistake.

## Endnotes

1 The FRA increased by 2 months for workers turning 65 in 2003 and continued to rise at this pace each year until reaching 66. As a result of the shift in the FRA, Table 6.B5 in the *Annual Statistical Supplement* reports distributions from age 65 to the FRA and at the FRA. Figure 1 combines these two claiming groups into one group: FRA (65-66).

2 The dip in 1997 occurred because Social Security examined the earnings and benefit records of women and men receiving widow(er)'s benefits to determine if these beneficiaries would be better off receiving retired-worker benefits. This assessment resulted in retired-worker benefit awards for a large number of women over age 65, and particularly over age 70, which caused the one-year decline in the percentage of women claiming benefits at age 62. This explanation was provided through a personal communication (U.S. Social Security Administration, 2008).

3 For men, the drop in 2000 was caused by the elimination of the retirement earnings test between ages 65 (which was the FRA at the time) and 69. The elimination of the test led to a large number of retired-worker benefit awards for men age 65 and older in 2000, which in turn lowered the percentage claiming at age 62. This change was most pronounced in 2000 and the percentage of men claiming benefits at age 62 in 2001 readjusted towards the 1999 level. This explanation was provided through a personal communication (U.S. Social Security Administration, 2008).

4 The approach taken in the analysis follows Muldoon and Kopcke (2008).

5 U.S. Social Security Administration (2015b, 2015c).

6 These data exclude individuals receiving Social Security disability or survivor benefits.

7 A portion of this decline – as much as 13 percent for men and 25 percent for women during the 1985-2013 period – may be due to the rising percentage of individuals receiving Social Security disability benefits.

8 The underlying data used in this calculation – the percentage of individuals in each cohort who claim at each age – do not add to 100 percent primarily because some people die during the period.

9 Authors' calculations from U.S. Social Security Administration (2015a and 2015b).

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