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# WHO CLAIMED SOCIAL SECURITY EARLY DUE TO THE GREAT RECESSION?

BY MATTHEW S. RUTLEDGE, NORMA B. COE, AND KENDREW WONG\*

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## Introduction

Between 2007 and 2009, the percent of 62 year olds claiming Social Security benefits reversed a decade-long decline and increased sharply before reverting back to trend. This phenomenon raises two questions: 1) who was induced to claim early?; and 2) how much monthly retirement income have they lost as a result? To address these questions, this *brief*, which reflects findings from a recent paper, uses individual-level data from the *Health and Retirement Study* (HRS).

The discussion proceeds as follows. The first section presents trends in early Social Security claiming over the past two decades. The second section, focusing on the period before the economic crisis, explores whether the type of people who claim at age 62 tends to vary with economic conditions. The third section tests how sensitive the claiming decision was to the surge in unemployment during the Great Recession. The fourth section assesses how much money these early claimers lost.

The conclusion is that the Great Recession induced more than 5 percent of the eligible population to claim their benefits at age 62, and this impact was similar for individuals across the income spectrum. These early claimers ended up with monthly benefits that were 5 percent less than they would have had if their claiming plans had not been disrupted.

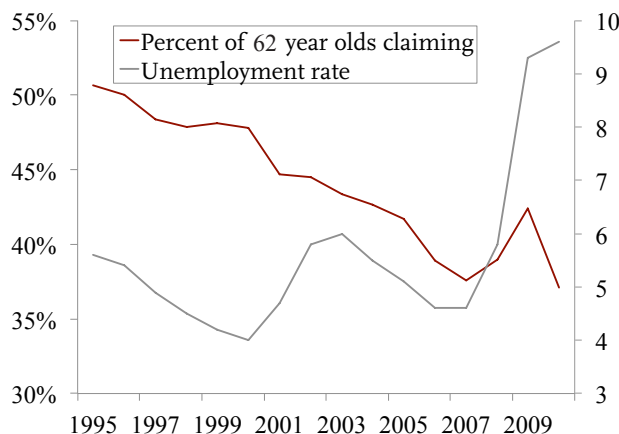
## Trends in Social Security Claiming Ages

Figure 1 (on the next page) compares the percent of 62 year olds claiming Social Security to the unemployment rate. The take-up rate decreased from 50.7 percent in 1995 to 37.6 percent in 2007, the eve of the economic crisis. Reasons for this long-term trend include decreasing defined benefit pension coverage, increases in educational attainment and life expectancy, declines in retiree health insurance coverage, and the decline in the physical nature of jobs.<sup>1</sup>

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FIGURE 1. PERCENTAGE OF 62 YEAR OLDS CLAIMING SOCIAL SECURITY AND THE UNEMPLOYMENT RATE, 1995-2010



Sources: Bosworth and Burtless (2010); and U.S. Census Bureau, *Current Population Survey* (1995-2010).

The Great Recession produced a temporary reversal of the trend, as the take-up rate jumped from 37.6 percent in 2007 to 42.4 percent in 2009. The surge in early claiming during the Great Recession is not surprising; several previous studies have linked high unemployment rates and late-career job loss to earlier retirement.<sup>2</sup> In such an environment, Social Security may provide an important safety net for displaced older workers by providing access to income when it is most needed. Interestingly, the spike in claiming in 2009 does *not* continue through 2010 even though the unemployment rate remained high over the same period.<sup>3</sup>

Claiming benefits early is not costless. It leads to permanently reduced monthly retirement benefits – for the rest of the beneficiary’s life and for the surviving spouse’s life. The question is whether the increase in claiming came from the poor and vulnerable or the well off and well prepared.

## Who Claimed Early Before the Great Recession?

The analysis begins by examining how variations the unemployment rate affected the characteristics of age-62 claimers before the Great Recession.<sup>4</sup> The results of this exercise are then used to predict who was likely to claim early due to the Great Recession and how much they lost.

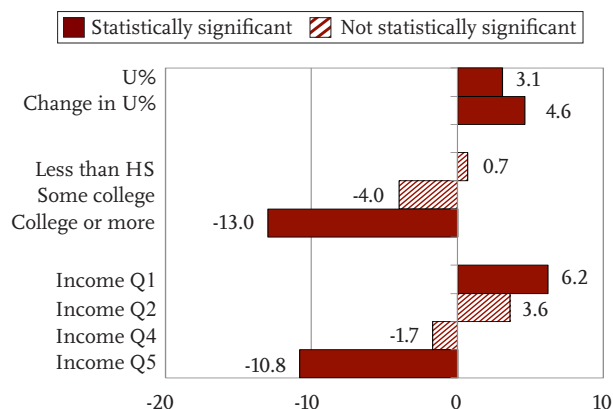
The primary data source used is the *Health and Retirement Study* (HRS), a nationally representative survey of older households.<sup>5</sup> The sample is comprised of respondents between ages 62 and 70 during 1998-2008. This sample is matched to the restricted Summary Earnings File, made available by the Social Security Administration (SSA), which allows for the calculation of the Social Security benefits for each individual.<sup>6</sup>

The dependent variable is the self-reported age at which the individual begins receiving Social Security retirement benefits.<sup>7</sup> The key independent variable is the unemployment rate; other independent variables include a variety of demographic, income, and job characteristics.<sup>8</sup> The analysis focuses on three points in the business cycle: the late-1990s expansion, the recession of the early 2000s, and the recovery of the mid-2000s.

The results show that early claimers during the recovery period are more likely to be in poor health, less likely to be working full-time, and less likely to have a defined benefit pension plan. At the same time, they are more educated than individuals who claimed early during other points in the business cycle. Early claimers during the 2001-2003 recession tend to have lower income, less wealth, and lower education levels, and they are less likely to be married compared to early claimers during the recovery. These simple characteristics suggest that those hardest hit by recessions are most likely to use Social Security as an income-insurance policy.

The next step is to estimate the probability that a 62-year-old claims Social Security benefits given the national unemployment rate (U%) and his individual characteristics. Figure 2 presents selected

FIGURE 2. IMPACT OF SELECTED FACTORS ON PROBABILITY OF CLAIMING BENEFITS AT AGE 62



Source: Rutledge and Coe (2012).

results.<sup>9</sup> Even after controlling for other factors, a higher unemployment rate has a significant impact. A 1-percentage-point increase in the unemployment rate before the respondent turns 62 is associated with a 3.1-percentage-point increase in the probability of claiming right at age 62. Further, an individual is more likely to claim early if the unemployment rate has risen over the past year.

Most of the other estimated effects are in the expected direction. For example, college graduates and those with higher incomes are less likely to claim early.

## Who Claimed Early Due to the Great Recession?

The results from the above analysis are then used to predict at what age individuals with particular characteristics will claim retirement benefits, and how the decision would have been affected by the Great Recession. The analysis includes three alternative scenarios: Great Recession, Minor Recession, and No Recession. The Great Recession scenario uses the actual unemployment rates from 2008 through 2011. The Minor Recession scenario assumes a recession with the same shape as the mild 2001-2003 recession. The No Recession scenario fixes the lagged unemployment rate at 4.9 percent, the average rate between February and April 2008 (the last months before the seasonally adjusted rate began to increase).<sup>10</sup>

The results of this exercise suggest that, compared to a mild recession, the Great Recession would have produced a 5.6-percentage-point increase in the number of early claimers, as represented by the average difference in the red and gray lines in Figure 3. Strikingly, the impact of the unemployment rate on the probability of claiming at age 62 is relatively uni-

FIGURE 3. PREDICTED PROBABILITY OF CLAIMING AT AGE 62 BY HOUSEHOLD INCOME, GREAT RECESSION VS. MINOR RECESSION



Source: Rutledge and Coe (2012).

form across socioeconomic groups – all points in the income distribution experience a roughly equivalent increase in the probability of claiming early between the Great Recession and Minor Recession scenarios.

## How Much Did Early Claimers Lose?

The simulations provide the basis for calculating both how much earlier people claimed and the corresponding decline in their monthly Social Security benefits and replacement rate. Table 1 presents the results for the “Great Recession-Induced Early Claimers” – those who are projected to claim benefits at age 62 in the Great Recession but not in the Minor Recession.

TABLE 1. SIMULATED SOCIAL SECURITY BENEFITS AND CLAIMING AGES FOR “GREAT RECESSION-INDUCED EARLY CLAIMERS” UNDER THREE ECONOMIC SCENARIOS

Simulated result	Economic assumption		
	Great Recession	Minor Recession	No Recession
Average claiming age	62 yrs 8 mos	63 yrs 2 mos	63 yrs 6 mos
Expected monthly Social Security benefit	\$1,141	\$1,196	\$1,235
Replacement rate	41.3%	43.0%	44.4%

Note: Great Recession-Induced Early Claimers are those who are predicted to claim Social Security benefits at age 62 under the Great Recession scenario and not under the Minor Recession scenario.

Source: Rutledge and Coe (2012).

The estimates suggest that the Great Recession Claimers received benefits about 6 months earlier than if there had been a minor recession and about 10 months earlier than if there had been no recession. As a result of the change in timing, monthly benefits were \$56 per month or 4.6 percent less than in the Minor Recession scenario. Compared to the No Recession scenario, monthly benefits were \$94 per month, or 7.6 percent less.

Social Security monthly benefits fell for two reasons: 1) the actuarial reduction for early claiming, which is intended to equalize lifetime benefits across claiming ages; and 2) the foregone earnings that would have increased the base used to calculate benefits. Replacement rates – or the ratio of Social Security benefits to lifetime income – fell by roughly 2 percentage points, from 43.0 percent in the Minor Recession scenario to 41.3 percent under Great Recession unemployment rates, and by more than 3 percentage points from the No Recession scenario.

## Conclusion

High unemployment during the Great Recession is projected to have increased the probability of claiming Social Security benefits early, relative to a less severe recession, by 5.6 percentage points. Strikingly, this increase was nearly uniform across socioeconomic groups. These results suggest that many older individuals – not just those in vulnerable groups or with lower life expectancy – use Social Security as income insurance during downturns. The simulations indicate that, compared to a less severe recession, individuals moved up their claiming age by about 6 months, which reduced their monthly benefits by about 5 percent.

## Endnotes

1 Munnell and Libby (2007).

2 A few of the most recent studies include: Hallberg (2008); Coile and Levine (2010); Friedberg, Owyang, and Webb (2008); Munnell et al. (2008); Farber (2008); and Haaga and Johnson (2012).

3 Johnson (2012), using Social Security Administration data, finds that the decline in early claiming continued in 2011. This decline during a period of high unemployment may suggest that retirement decisions are not based solely on the current unemployment *level*, but also on where the business cycle is: peak, trough, or recovery.

4 This paper focuses on claiming behavior of 62 year olds for two reasons. First, a large percentage of Social Security beneficiaries claim at this age, creating a natural bunching point from which to estimate changes in behavior. Second, our analysis of the data suggested that most of the change in claiming behavior that occurred as a result of rising unemployment involved the 62-year-old population.

5 For an overview of the HRS, see Juster and Suzman (1995).

6 The analysis excludes individuals who report receiving Social Security Disability Insurance (SSDI), as well as those who report receiving any public disability benefits and also have accumulated enough work experience to qualify for SSDI. SSDI beneficiaries are automatically rolled into retirement benefits at the Full Retirement Age, so their retirement benefit claiming date is predetermined and will not respond to macroeconomic conditions.

7 The HRS is not matched to the SSA's Master Beneficiary Record, so it is necessary to rely on self-reported claiming age. Due to potential reporting error, we define individuals as claiming at age 62 if they report claiming up to 3 months before or 3 months after their 62nd birthday.

8 For more details on the methodology, see Rutledge and Coe (2012).

9 For full regression results, see Rutledge and Coe (2012).

10 Given that the last recession had ended more than six years prior to April 2008 and that the average post-war business cycle lasts just under five years, the Minor Recession counterfactual is more realistic than the No Recession scenario.

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The Center for Retirement Research at Boston College was established in 1998 through a grant from the Social Security Administration. The Center's mission is to produce first-class research and educational tools and forge a strong link between the academic community and decision-makers in the public and private sectors around an issue of critical importance to the nation's future. To achieve this mission, the Center sponsors a wide variety of research projects, transmits new findings to a broad audience, trains new scholars, and broadens access to valuable data sources. Since its inception, the Center has established a reputation as an authoritative source of information on all major aspects of the retirement income debate.

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