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ARE PEOPLE CLAIMING SOCIAL SECURITY BENEFITS LATER?

BY DAN MULDOON AND RICHARD W. KOPCKE*

Introduction

Today, the retirement income system — comprising Social Security and employer-sponsored pension plans — is contracting. To compensate, people need to work longer to ensure an adequate income over many years throughout retirement. A few additional years in the labor force can make a big difference. 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.

Indeed, people have begun to respond. The long-term trend toward earlier retirement ages came to a halt in the mid-1980s, and labor force participation rates at older ages actually began to increase in the mid-1990s.

The challenge is to reconcile this uptick in work effort with the benefit claiming data published by the Social Security Administration (SSA). These data, which are released annually, show the percent of workers claiming benefits who are age 62, 63, 64, etc. These data suggest that the proportion of older men who claim their Social Security benefits as early as possible has not changed at all over the last 25 years. The problem is that when the size of the group turn-

ing age 62 is increasing, the annual claim data can provide a misleading picture. In order to accurately follow claiming behavior over time, one must look at behavior by cohorts. That is, of the potential claimants turning 62 in a given year, what percent claimed benefits as soon as possible?

This *brief* analyzes trends in claim behavior over time using SSA data for both claim year and cohort distributions. It finds that the cohort data, unlike the claim year data, show that the share of people claiming Social Security retirement benefits when they attain age 62 has been falling since the mid-1990s. This decline in people claiming early benefits found in cohort data is fully consistent with the increase in labor force participation at older ages.

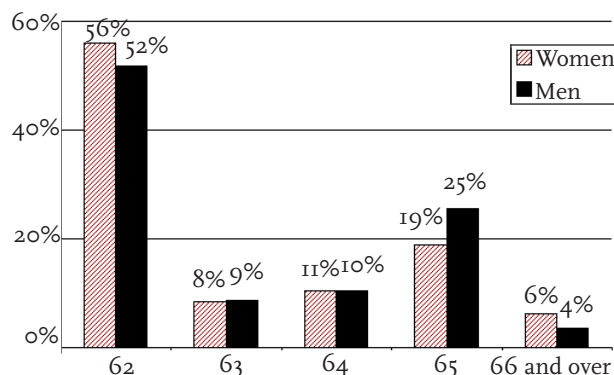
SSA Claim Year Data

According to Table 6.B5 of Social Security's 2007 Annual Statistical Supplement, in 2006, 52 percent of men and 56 percent of women who claimed retired-worker benefits were age 62, after excluding beneficiaries who switched from disability benefits to

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retired-worker benefits at age 65 (see Figure 1). The next most popular claiming age was 65; 19 percent of women and 25 percent of men claimed benefits at age 65. Each of the other age groups individually accounts for a much smaller percentage of initial benefit awards.

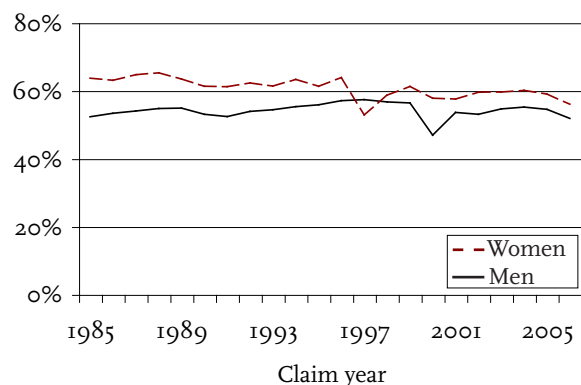
FIGURE 1. DISTRIBUTION OF INITIAL SOCIAL SECURITY RETIRED-WORKER BENEFIT AWARDS, 2006



Source: Authors' calculations from U.S. Social Security Administration (2008a).

Using the same methodology as Figure 1, it is possible to calculate the percentage of retirees claiming benefits at age 62 for any given claim year over time. Figure 2 shows the percentage of retirees claiming retired-worker benefits at age 62 from 1985 to 2006. The proportion of women claiming benefits at age 62 drops from 64 percent in 1985 to 56 percent in 2006.¹ The fraction of men claiming retired-worker benefits at age 62, which changes relatively little over this period, was 52 percent in both 1985 and 2006.²

FIGURE 2. PERCENTAGE OF THOSE CLAIMING INITIAL RETIRED-WORKER BENEFITS WHO WERE AGE 62, 1985-2006



Source: Authors' calculations from U.S. Social Security Administration (2008a).

This way of measuring claiming behavior suggests that most older workers still have a strong preference for claiming Social Security benefits at age 62.³ This finding seems to imply that a large, relatively stable fraction of retirees will claim retired-worker benefits as soon as they become available regardless of the full retirement age.

The “Cohort” Effect

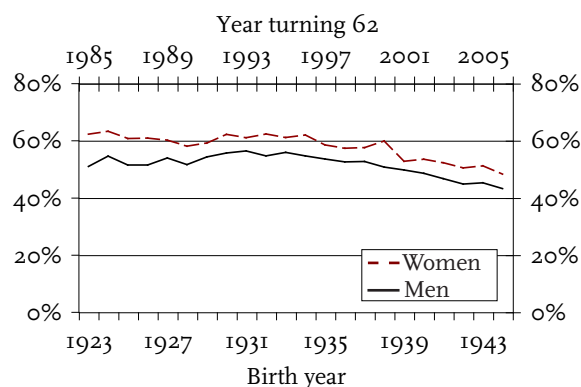
The problem is that SSA's claim year data on the proportion of men and women claiming who are 62 do not accurately reflect actual trends in claiming behavior. In fact, the proportion of people claiming early retirement benefits at age 62 has been falling in recent years more quickly than claim year data suggest.⁴ The SSA published data do not account for these changes because, in any given claim year, the people claiming retired-worker benefits at age 62 are born in a different year from those claiming at ages 63 and older. By mixing people of different ages, these claim year data mask trends in the claiming behavior of people who are the same age.

The concept is somewhat complicated, but 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 year to year, then the SSA published data and the cohort data will show that 55 percent of people who claim benefits each year are 62, and that 45 percent are 63. If the number of people attaining age 62 grows by 10 percent each year, then the SSA published data will show that 57 percent of people who claim benefits each year are 62 ($.5735 = (1.1 \times .55) / (1.1 \times .55 + 1.0 \times .45)$), and that 43 percent are 63. In this case, the SSA published data will exceed the unchanged claiming rate for each cohort.

To isolate the behavior of 62 year-olds more clearly, we analyze the claiming behavior of cohorts of eligible beneficiaries born between 1923 and 1944 (who turned 62 between 1985 and 2006). Because SSA's 2007 *Annual Statistical Supplement* only provides data on claim years through 2006 and does not provide projections, it is impossible to construct complete cohorts for those born after 1936. Instead, we use unpublished data from Social Security to construct cohorts of eligible beneficiaries for each birth year.⁵

Figure 3 shows the percentage of men and women in each cohort who claim retired-worker benefits at age 62. The trends in Figure 3 are very similar to those in Figure 2 through 1997 (corresponding to the cohort born in 1935); afterward the two series start to diverge.⁶

FIGURE 3. PERCENTAGE OF THOSE CLAIMING INITIAL RETIRED-WORKER BENEFITS AT AGE 62, COHORTS BORN BETWEEN 1923 AND 1944



Note: 1985 corresponds to the cohort born in 1923, which would have turned 62 in 1985.

Source: Authors' calculations from U.S. Social Security Administration (2008a and 2008b).

Since 1997, the cohort analysis shows that the proportion of eligible workers claiming retired-worker benefits at age 62 drops significantly for both men and women. Of those who turned 62 in 1985, 62 percent of women and 51 percent of men claimed benefits as soon as they became available.⁷ But for those who turned 62 in 2006, the comparable figures were only 48 percent of women and 43 percent of men. These trends differ significantly from those using claim year data, which show little change over the same 22-year period.

Our cohort analysis suggests that the steady growth of cohorts since 1995 has introduced a bias between the SSA published data and cohort data. At first, this bias was negligible, but the steady growth in cohorts approaching retirement, which will continue as more baby boomers reach retirement age, has caused the analysis based on claim year data to deviate from that based on birth cohorts.

Conclusion

As the retirement income system contracts, now more than ever, it is necessary to measure Social Security beneficiaries' claiming behavior accurately. In the past, both claim year and cohort analysis provided reasonable estimates of the proportion of beneficiaries who claim retired-worker benefits at any given age because the birth cohorts approaching retirement were all relatively the same size and the patterns within cohorts remained relatively static.

Recently, however, growing cohorts and changes between cohorts have caused claim year analysis to overestimate the proportion of retirees claiming benefits at 62 and to mask changes in claiming behavior that are evident in cohort analysis.

Additionally, with the baby boom generation approaching retirement age (the oldest baby boomers have already begun turning 62), it is likely that the differences between claim year data and cohort data will be amplified in coming years because cohorts reaching retirement age will be growing faster in the near future. In time, as the growth of cohorts and the claiming behavior of people approaching retirement stabilize, the two measures of claiming rates should converge as they have in the past. For now, it seems that cohort data consistently provide the most accurate analysis of claiming behavior among Social Security beneficiaries.

The good news is that more people are claiming retired-worker benefits at later ages, and this is consistent with increased labor force participation at older ages. Nevertheless, in 2006, 46 percent of insured workers still claimed Social Security benefits as soon as they became eligible.⁸

Endnotes

1 The line for women dips in 1997, because Social Security examined the earnings and benefits 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, 2008c).

2 For men, the drop in 2000 was caused by the elimination of the retirement earnings test between ages 65 (which was the full retirement age 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, 2008c).

3 Also, trends for the percentage of people claiming benefits at ages greater than 62 have remained relatively stable except in 1997 for women and in 2000 for men. See U.S. Social Security Administration (2008a).

4 See Gendell (2008) for a study which provides data supporting the notion that fewer people are claiming at age 62.

5 U.S. Social Security Administration (2008b). These unpublished data on initial benefit awards and eligibility status were obtained from SSA's Chelsea Thomas and Richard Tucker.

6 In Figure 3, the dip for women occurs for those born in 1927 because women born in 1927 turned 70 in 1997, the year in which a large number of retired-worker benefit awards were given to women over 65 who had previously received widow's benefits. Additionally, because of data limitations leading us to group those 70 and older together, these factors lead to the dip in women claiming at age 62 in 1989 as opposed to 1997. For men born after 1931, the elimination of the retirement earnings test between the full retirement age (65 in 2000 when the legislation was passed) and 69 is a contributing factor to the downward trend.

7 For men, the peak level — 56 percent — was reached in 1993.

8 Authors' calculations from U.S. Social Security Administration (2008a and 2008b).

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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 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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