

## **Social Security Administration: Benefit Claiming Behavior**

*This project investigates how changes in Social Security program rules affect benefit claiming behavior and labor force activity of older workers by examining the retirement earnings test rule change in 2000 and the gradual increase in the full retirement age.*

### **Lead Agency:**

Social Security Administration

### **Agency Mission:**

To advance the economic security of the Nation's people through compassionate and vigilant leadership in shaping and managing America's Social Security programs

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### **General Description:**

The challenge of an aging population is likely to require changes in policy rules in both Social Security and Medicare going forward, but how people will respond to policy changes is largely unknown. An increasing number of analysts advocate working longer to balance the needs of retirees with the tax burdens placed on younger workers. But, will people choose to work longer and continue to be productive members of society, or will they choose to spend some of the rewards of growing prosperity by retiring at younger ages? Evidence on behavioral responses to policy changes to the Social Security program became available in the last few years when two changes designed to encourage people to delay retirement came into effect.

This multi-year project analyzes responses to two recent changes in rules governing the Social Security program: the retirement earnings test was eliminated in 2000 for people aged 65–69, and the full retirement age (FRA) for people born in 1938 or later is gradually increasing in 2-month increments until reaching age 67. We examine changes in the age at which people claim Social Security retirement benefits in response to those changes. Data come from a 1 percent sample of administrative data from the Social Security Administration (SSA) for 1997 to 2007.

Descriptive and statistical analyses show that the largest effect of eliminating the earnings test in 2000 occurs at age 65. At that age, the proportion of people who claim retirement benefits increases by 4.6 percentage points among men and 2.4 percentage points among women. In addition, eliminating the earnings test significantly increases—by more than 20 percent—the probability that people who have not yet claimed Social Security benefits when they turn the full retirement age will claim those benefits.

Responses to the increase in the full retirement age are quite dramatic and show the power of policy changes. Among people born in 1937, about 18 percent of men and 12 percent of women claimed benefits at age 65, the FRA for that cohort. As the FRA increased by 2 months per year for the 1938, 1939, 1940, and 1941 cohorts, the bulge of people who claimed benefits at the FRA moved out as well. About 16 percent of men and 10 percent of women claimed benefits at age 65 and 8 months, the FRA for the 1941 cohort. People who previously would have claimed benefits at age 65 but waited until their new, higher FRA are most likely responding to both the benefit reduction and the signaling aspect of the Social Security retirement age. Moreover, the response to the gradual increase in the FRA occurs not only among those who are close to the FRA but also among those who are aged 62, 63 or 64.

In the future we plan to examine how the earnings of older workers have changed in response to the rule changes. We also want to explain why the work behavior of high-income older workers moves in the opposite direction from other workers.

***Excellence:***                      What makes this project exceptional?

This project uses unique data and topnotch empirical methods to examine responses to policy changes that affect every American who will receive Social Security retirement benefits. Changes in the full retirement age and the retirement earnings test were made for two reasons: to improve solvency of the Social Security system and to encourage older people to work longer so that their earnings can supplement Social Security benefits. We examine changes in the age at which people claim Social Security retirement benefits as well as long-term and short-term effects on labor supply in response to the two Social Security rule changes. Findings from the project are essential not only for examining the effectiveness of the two rule changes, but also for designing future program rules to further improve solvency of entitlement programs.

The project relies on highly accurate administrative data maintained by SSA. The administrative files include annual earnings for each individual over his/her lifetime, the month and year of birth, month and year of benefit entitlement, and the type of beneficiary status (primary or auxiliary), which are typically not available in survey data. Innovative implementation of a simple regression model paired with historical data reflecting responses to the policy changes produces highly reliable and convincing results, and allows us to estimate the uneven impact of the rule changes across different earnings groups.

***Significance:***                      How is this research relevant to older persons, populations and/or an aging society?

The gradual increase in the full retirement age affects everyone born in 1938 or later who will claim retirement benefits from Social Security. For example, everyone born in 1943

has to wait until age 66 to receive full Social Security benefits. If they choose to claim benefits at age 65, they would receive only about 93 percent of their full benefit for the rest of their life. If they choose to claim their benefits at age 62, they would receive just 75 percent of their full benefit. The reductions affect spousal benefits and widow benefits as well.

The change in the retirement earnings test had widespread effects also. In 2000, approximately 10 million older workers aged 65-69 were affected by the elimination of the retirement earning test.

***Effectiveness:*** What is the impact and/or application of this research to older persons?

Results of the project are essential to understanding likely outcomes following reforms of the earnings test and full retirement age, and designing effective reforms in the future. Outcomes of interest include actual changes in retirement ages, additional hours or years in the labor force, and consequent effects on the economic welfare of older workers.

The retirement earnings test continues to affect those who claim Social Security benefits before they reach the full retirement age. Because early claimants constitute more than 80 percent of all those who ever claim retirement benefits, most individuals are potentially subject to the earnings test for a few years after claiming benefits. More individuals are likely to be affected in the future as the full retirement age gradually rises to 67, increasing the breadth of the age range where the earnings test applies.

***Innovativeness:*** Why is this research exciting or newsworthy?

Unlike other studies, this study uses highly representative and accurate data generated from program administration that covers periods of time both before and after the earnings test and FRA rule changes. Such an extended period can help us understand dynamic responses by older workers, some of whom face substantial constraints on remaining in or reentering the labor force because of deteriorating health and outdated skills.

In addition, most past studies of the earnings test rely on a simple regression with a focus on likely effects on average individuals. Such studies have failed to detect the uneven impact of removing the earnings test across the earnings distribution predicted by the structure of the earnings test. Our innovative implementation of regression techniques allows us to examine the uneven impact of the earnings test removal across the distribution of earnings and consequently identifies strong effects at particular regions of the earnings distribution.