

Evaluating Lump Sum Incentives for Delayed Social Security Claiming



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Most Americans Claim Social Security Early

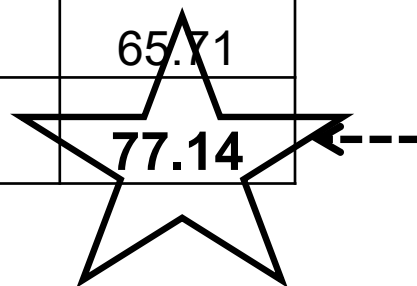
<i>Claim Age</i>	<i>% Men</i>	<i>% Women</i>
62	42	48
63	7	8
64	7	8
65-66	34	27
67-70	9	10

And 90% claim before their Full Retirement Age (so experience benefit cut for the rest of their lives).

Yet Claiming Later Boosts Lifetime Social Security Benefits

Current rules (NRA = 67)

Claiming Age	Benefit as % of PIA	% Boost with 1 year delay	% Boost with N year delay
62	70		
63	75	7.14	7.14
64	80	6.67	14.29
65	86.67	8.34	23.81
66	93.33	7.70	33.33
67	100	7.15	42.86
68	108	8	54.29
69	116	7.41	65.71
70	124	6.90	77.14



Our previous work:

Maurer/Mitchell/Rogalla/Schimetschek (MMRS 2017 JRI):

- Would people delay claiming Social Security if they got the benefit boost as a lump sum instead of higher annuity?

Yes, ~ half a year.

- Method: Online experimental module in RAND's American Life Panel (ALP; N~2,500).
- Today: Report DYNASIM simulations of LS reform + behavioral changes.
 - ✓ Outcomes: system solvency, income and assets of the 62+.
 - ✓ Distributional results as well.

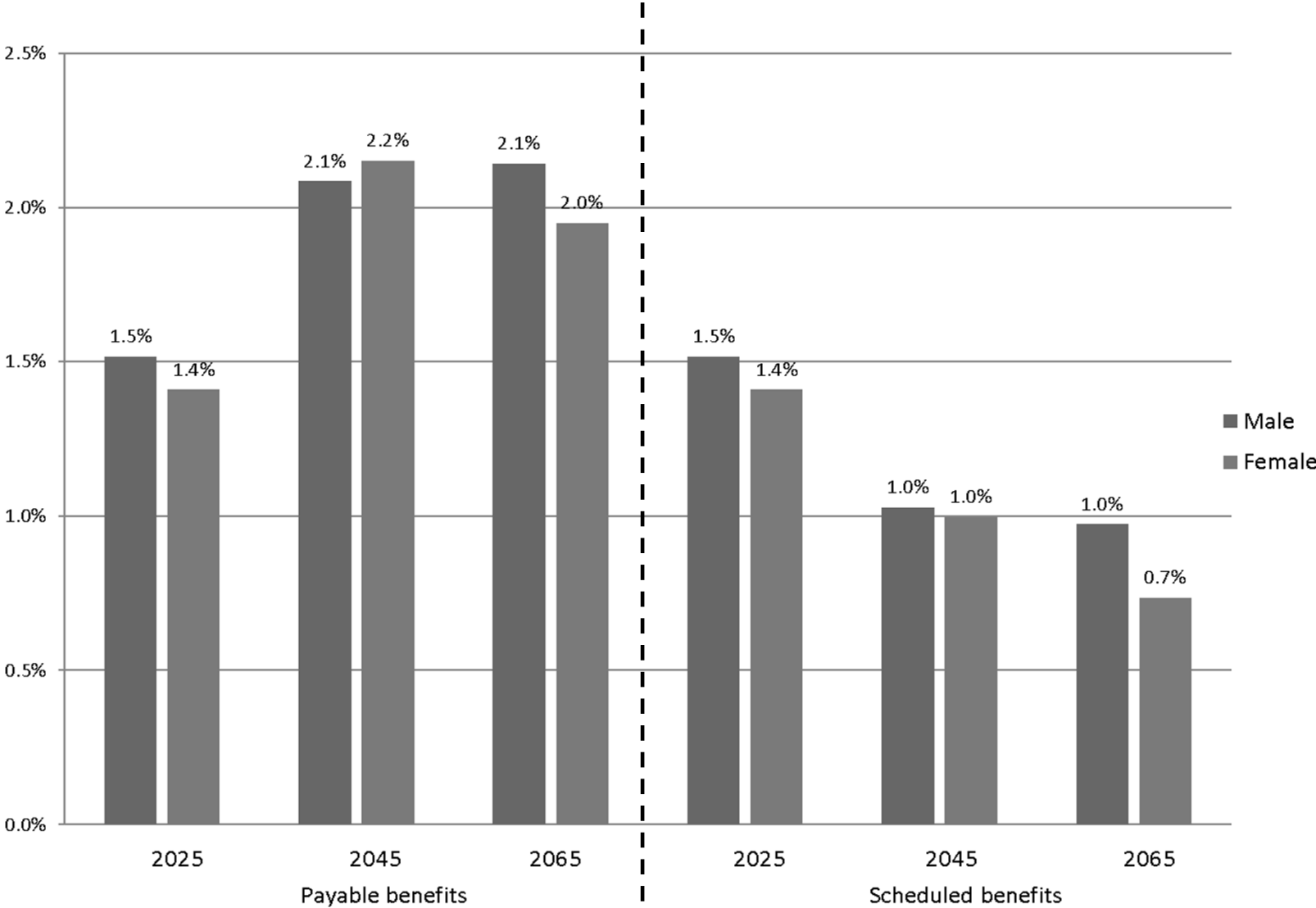


Financial Impact of Delayed Claiming: *Status Quo* vs Lump Sum Reform

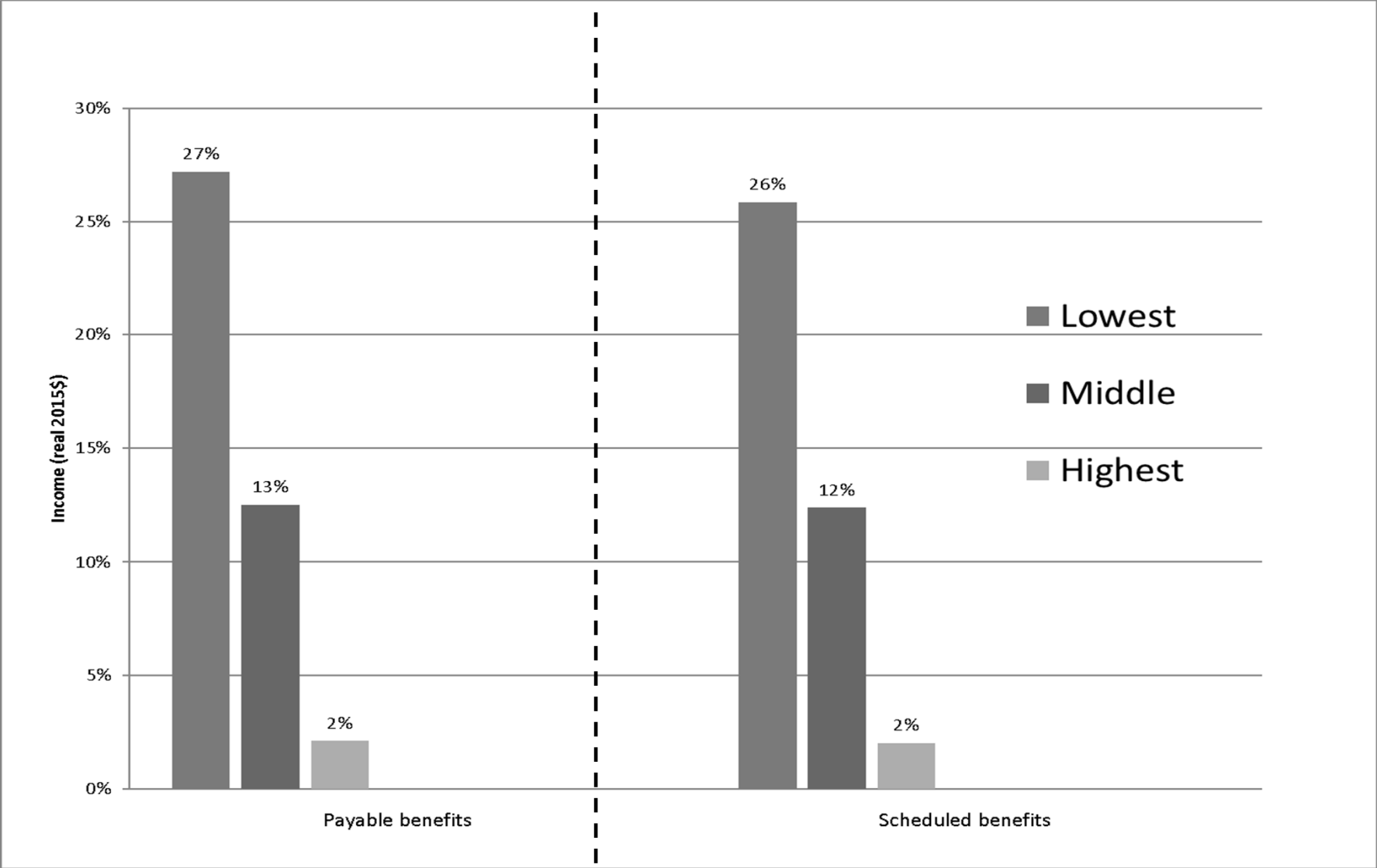
Example: FRA = 67, Monthly Benefit (at age 62) = \$1,500

Claiming Age	<i>Status Quo</i> Annuity
62	1,500
63	1,607
64	1,714
65	1,857
66	2,000
67	2,143
68	2,314
69	2,486
70	2,657

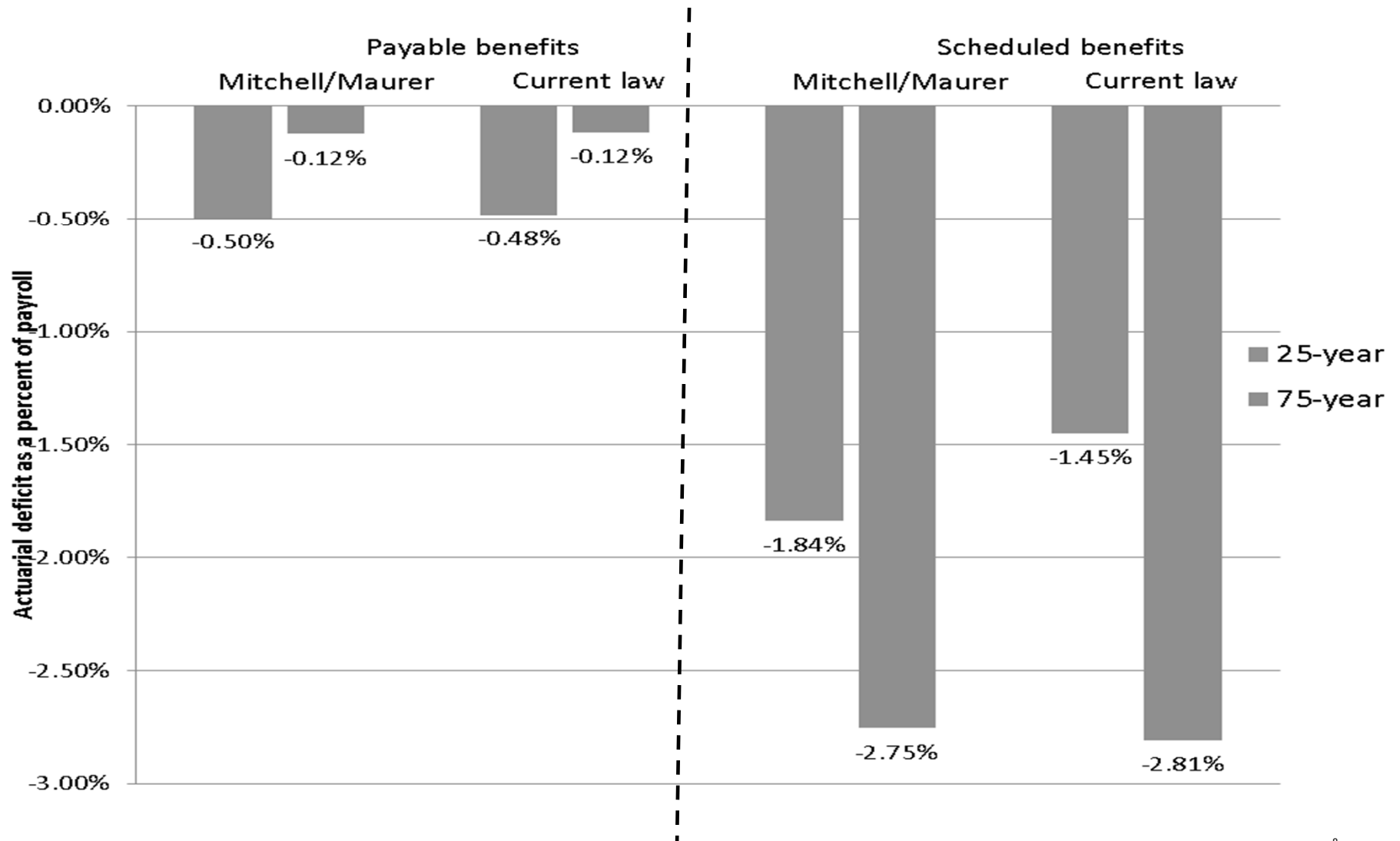
LS Reform: % Change in Av. Cash Income for 62+ by Sex



LS Reform: % Change in Av. Assets for 62+ by Income to 2065



LS Reform: Projected Actuarial Balance for 25 & 75 years



Conclusions:



- LS reform vs payable or scheduled benefits:
 - *Cash income* for 62+ up for men and women.
 - *Poverty rates* similar for LS reform.
 - *Assets* for 62+ up especially for low/middle income.
 - LS reform does not hurt system solvency.

- ➔ LS reform has positive consequences without costing system more money.

Citations

- Chai, Jingjing, Wolfram Horneff, Raimond Maurer, and Olivia S. Mitchell. (2011). “Optimal Portfolio Choice over the Life Cycle with Flexible Work, Endogenous Retirement, and Lifetime Payouts.” *Review of Finance*. 15(4): 875-907.
- Chai, Jingjing, Raimond Maurer, Olivia S. Mitchell, and Ralph Rogalla. (2013). “Exchanging Delayed Social Security Benefits for Lump Sums: Could This Incentivize Longer Work Careers?” NBER WP 19032.
- Maurer, Raymond, Olivia S. Mitchell, Ralph Rogalla, and Tatjana Schimetschek. (2017). “Will They Take the Money and Work? An Empirical Analysis of People’s Willingness to Delay Claiming Social Security Benefits for a Lump Sum.” *Journal of Risk and Insurance*. Available online.