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Issue Brief: Social Security claiming age and retirement security

Office for Older Americans



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Introduction

Annually more than 2 million consumers make one of the most important financial decisions of their lives: choosing when to begin collecting Social Security retirement benefits.¹ Yet, many make the decision based on limited or incorrect information.² As a result, many consumers start collecting benefits at the earliest possible claiming age without understanding that by claiming early, they receive a reduction in benefits that can threaten their financial security in retirement.³ This lower benefit amount could be especially problematic in later life when medical and health costs may be at their highest,⁴ and Social Security becomes the primary source of income in retirement.⁵ This brief describes the existing research on this issue and

¹ CFPB analysis of SSA, *Annual Statistical Supplement*, Table 6.B5.1 Number, average age, and percentage distribution, by sex and age at entitlement, 1998–2013 (2015), at <http://www.ssa.gov/policy/docs/statcomps/supplement/2014/6b.html>. (Referred to as “CFPB analysis of SSA’s *Annual Statistical Supplement*”)

² In addition to limited or incorrect information, other factors contributing to a consumer’s decision to collect benefits early may include, among other things, poor health, unemployment, and short life expectancy. More information about the role of these factors can be found at Gov. Accountability Office, *Challenges for Those Claiming Social Security Benefits Early and New Health Coverage Options* (2014), at 54, available at <http://www.gao.gov/assets/670/662727.pdf>.

³ See, e.g., Wei Sun & Anthony Webb, *How Much Do Households Really Lose by Claiming Social Security at Age 62?*, SSRN (2009), at <http://dx.doi.org/10.2139/ssrn.1408729>; see also Courtney Coile, et al., *Delays in Claiming Social Security Benefits*, J. of Pub. Econ. Issue 84 (2002), at <http://economics.mit.edu/files/635>.

⁴ See, e.g., Sudipto Banerjee, *How Does Household Expenditure Change With Age for Older Americans?*, EBRI Issue Brief No. 9 (Sept. 2014), at <http://www.ebri.org/pdf/notespdf/Notes.Sept14.EldExp-Only.pdf>.

⁵ See, e.g., SSA, *Income of the Population 55 or Older, 2012*, Table 9.A1 Relative Importance of Social Security for Beneficiary Aged Units (Apr. 2014), at http://www.ssa.gov/policy/docs/statcomps/income_pop55/2012/sect09.html.

provides a set of recommendations to help consumers plan ahead for this important financial decision.⁶

⁶ The CFPB's Office for Older Americans prepared this issue brief. We relied upon a compilation of Social Security Administration (SSA), US Census Bureau, and other government administrative data, surveys, and reports; peer-reviewed articles; and CFPB analysis.

Social Security is an important source of income for current and future retirees

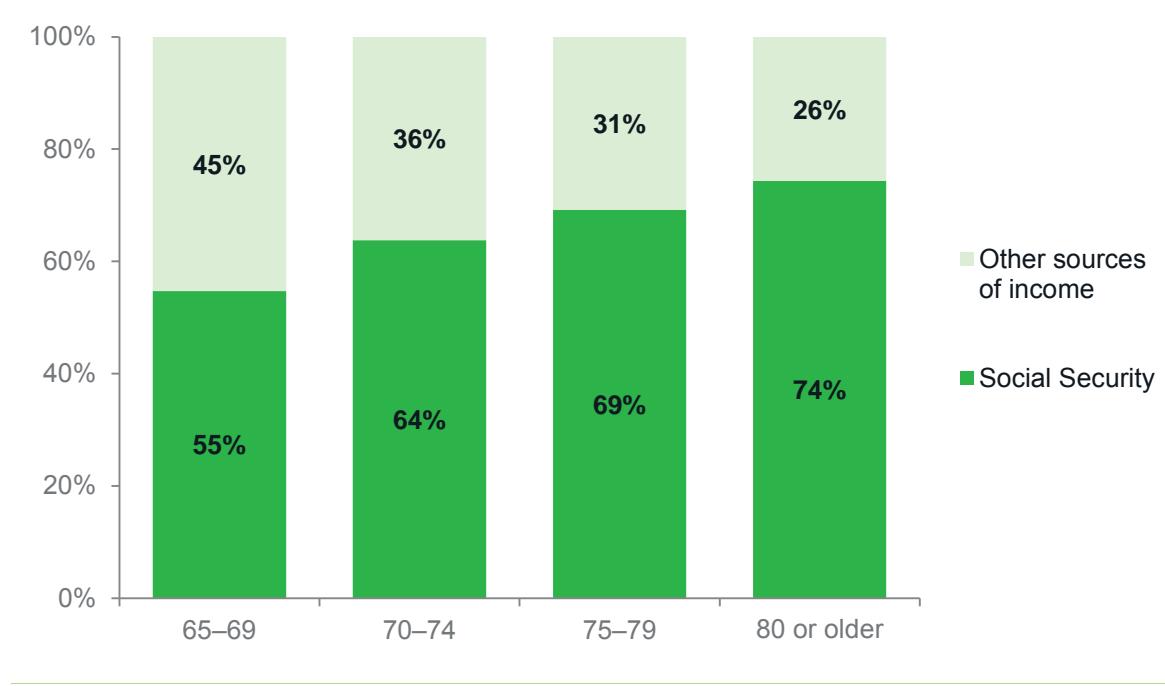
Since the Social Security Act became law 80 years ago, the program has increasingly played a critical role in ensuring retirement security for millions of older Americans. It provides benefits to nearly nine out of ten Americans aged 65 or older.⁷ Approximately two thirds of the nearly 40 million Americans aged 65 and older who receive Social Security benefits depend on it for 50 percent or more of their retirement income.⁸ Social Security is particularly important for the growing number of beneficiaries aged 80 and older for whom it accounts for 70 percent or more of their income.⁹ (FIGURE 1)

⁷ See SSA, *Basic Facts* (Apr. 2014), at <http://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf>.

⁸ CFPB analysis of *Social Security Administration, Income of the Population 55 or Older, 2012*, Table 9.A1 Relative Importance of Social Security for Beneficiary Aged Units (Apr. 2014), at http://www.ssa.gov/policy/docs/statcomps/income_pop55/2012/sect09.html.

⁹ *Id.*

FIGURE 1: AVERAGE SHARE OF INCOME FROM SOCIAL SECURITY AND OTHER SOURCES BY AGE¹⁰



¹⁰ *Id.*

Millions of Americans are likely to face financial insecurity in their retirement years

On average, Americans reaching age 65 will live to about age 85.¹¹ Consequently, consumers today will likely need sufficient income and savings to cover 20 years or more in retirement. In addition, retirement years may be more expensive than retirees expect as many will incur increased health and housing expenses in their later years,¹² and many carry mortgages and other debts into retirement.¹³

According to recent studies, many consumers at and near retirement are unprepared to meet these challenges.¹⁴ For example, four in ten late boomers (currently ages 51-59) are reaching

¹¹ See SSA, *Calculators: Life Expectancy* (2015), available at <http://www.ssa.gov/planners/lifeexpectancy.html>.

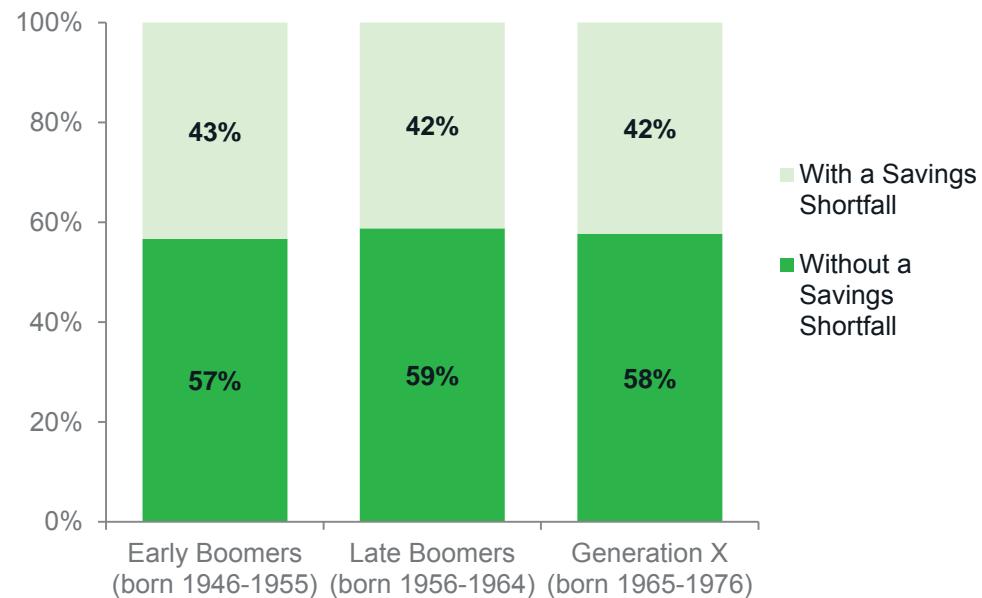
¹² See, e.g., Sudipto Banerjee, *How Does Household Expenditure Change With Age for Older Americans?*, EBRI Issue Brief No. 9 (Sept. 2014), at http://www.ebri.org/pdf/notespdf/Notes_Sept14_EldExp-Only.pdf.

¹³ See CFPB, *Snapshot of older consumers and mortgage debt* (May 2014), at http://files.consumerfinance.gov/f/201405_cfpb_snapshot_older-consumers-mortgage-debt.pdf.

¹⁴ See Jack VanDerhei, *What Causes EBRI Retirement Readiness Ratings to Vary: Results from the 2014 Retirement Security Projection Model*, EBRI Issue Brief, No. 396 (Feb. 2014), at 5, available at http://www.ebri.org/pdf/briefspdf/EBRI_IB_396_Feb14_RRRs2.pdf. (Referred to as “VanDerhei, *What Causes EBRI Retirement Readiness Ratings to Vary*”); see also, Alicia Munnell, et al., *NRRI update shows half still falling short*, December 2014, CRR Issue Brief 14 (Dec. 2014), at http://crr.bc.edu/wp-content/uploads/2014/12/IB_14-20-508.pdf.

retirement with limited or no savings and are projected to face a savings shortfall.¹⁵ (FIGURE 2) Furthermore, with the decline in coverage from traditional defined-benefit pension plans that pay a regular monthly payment, Social Security is the only guaranteed monthly income for an estimated 69 percent of older consumers.¹⁶

FIGURE 2: PERCENT OF CONSUMERS WITH PROJECTED RETIREMENT SHORTFALLS BY COHORT¹⁷



¹⁵ See Vanderhei, *What Causes EBRI Retirement Readiness Ratings to Vary*, *supra*. The retirement savings shortfall is a measure of the probability that households headed by a consumer 65 and older will run short of money in retirement. This probability is generated from a model that simulates retirees' future expected sources of income and assets to cover regular expenses and uninsured medical costs for the duration of their retirement.

¹⁶ CFPB analysis of Census Bureau, *Current Population Survey, 2015 Annual Social and Economic Supplement*, Table PINC-08. Source of Income in 2014—People 15 Years Old and Over, by Income of Specified Type in 2014, Age, Race, Hispanic Origin, and Sex (2015), at http://www.census.gov/hhes/www/cpstables/032015/perinc/pinc08_000.htm.

¹⁷ See Vanderhei, *What Causes EBRI Retirement Readiness Ratings to Vary*, *supra* at 5. Percentages may not sum up to 100 percent due to rounding.

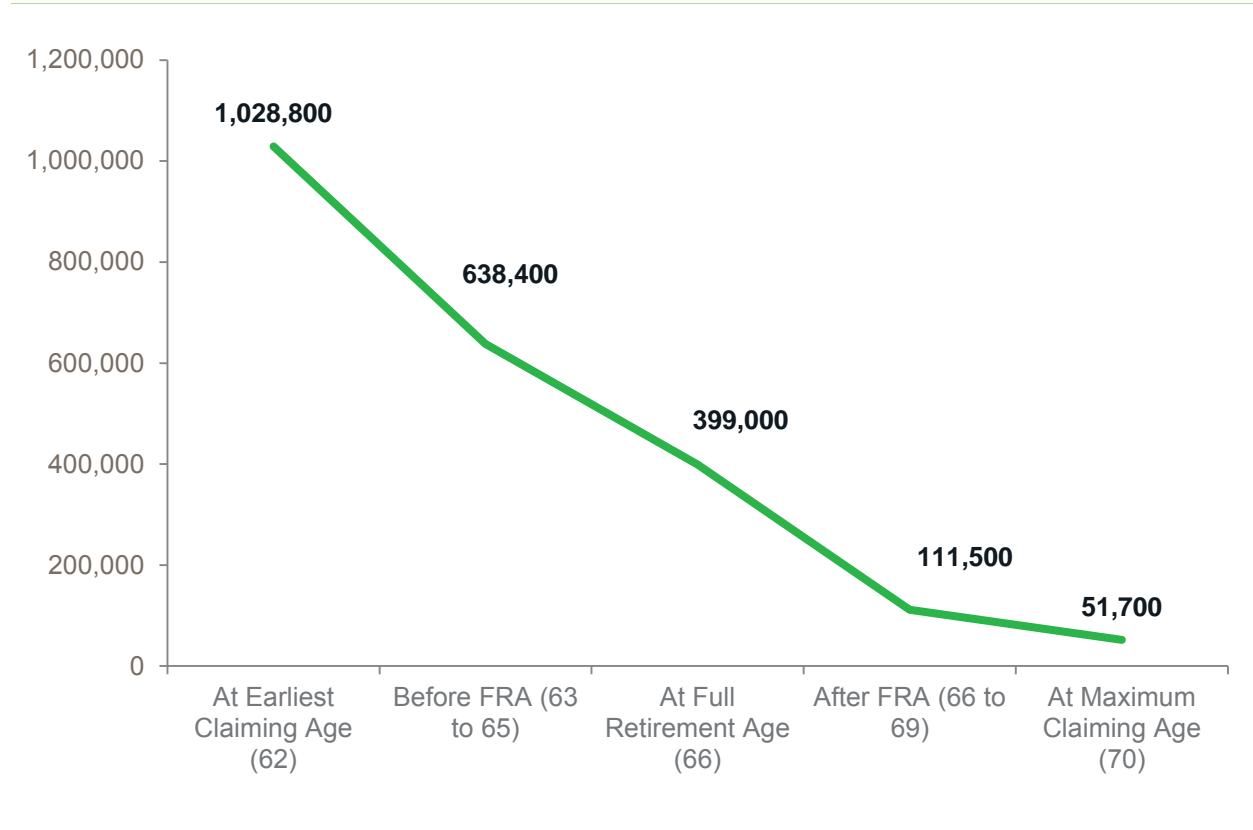
Many retirees choose to take a substantial reduction in benefits by claiming early

Notwithstanding that millions of Americans rely on Social Security benefits for a large portion of their retirement income, many retirees choose to take a substantial reduction in monthly benefits by starting to collect before their *full retirement age* (FRA), with many collecting at the *earliest eligibility age* (EEA) of 62.¹⁸ For example, in 2013, 1.7 million (or 75 percent) consumers claimed their Social Security benefits before their *full retirement age*, and 1 million (or 46 percent) claimed at their *earliest eligibility age*.¹⁹ (FIGURE 3)

¹⁸ Survivors retirement benefits can be claimed as early as age 60. See SSA, *Survivors Planner: If you are the worker's widow or widower* (2015), at <http://www.socialsecurity.gov/planners/survivors/lfyou2.html>.

¹⁹ See CFPB analysis of SSA's *Annual Statistical Supplement*, *supra*. An alternative analysis that focused on claiming patterns by individuals born in the same year found that nearly 40 percent of consumers that reached age 62 in 2013 claimed their benefits at their *earliest eligibility age*. See Alicia Munnell & Anqi Chen, *Trends in Social Security Claiming*, CRR Issue Brief 15 (May 2015), at 3, available at http://crr.bc.edu/wp-content/uploads/2015/05/IB_15-8.pdf.

FIGURE 3: NUMBER OF SOCIAL SECURITY CLAIMS SUBMITTED IN 2013 BY AGE²⁰



Monthly Social Security payments vary significantly depending on the age at which someone chooses to start collecting benefits.²¹ (FIGURE 4) Consumers receive full benefits if they start collecting at their *full retirement age* (FRA), which ranges from 66 to 67 depending on the individual's year of birth.²² Consumers, however, can choose to collect benefits before or after their *full retirement age*, from age 62 to age 70. Consumers could see at least a 25 percent

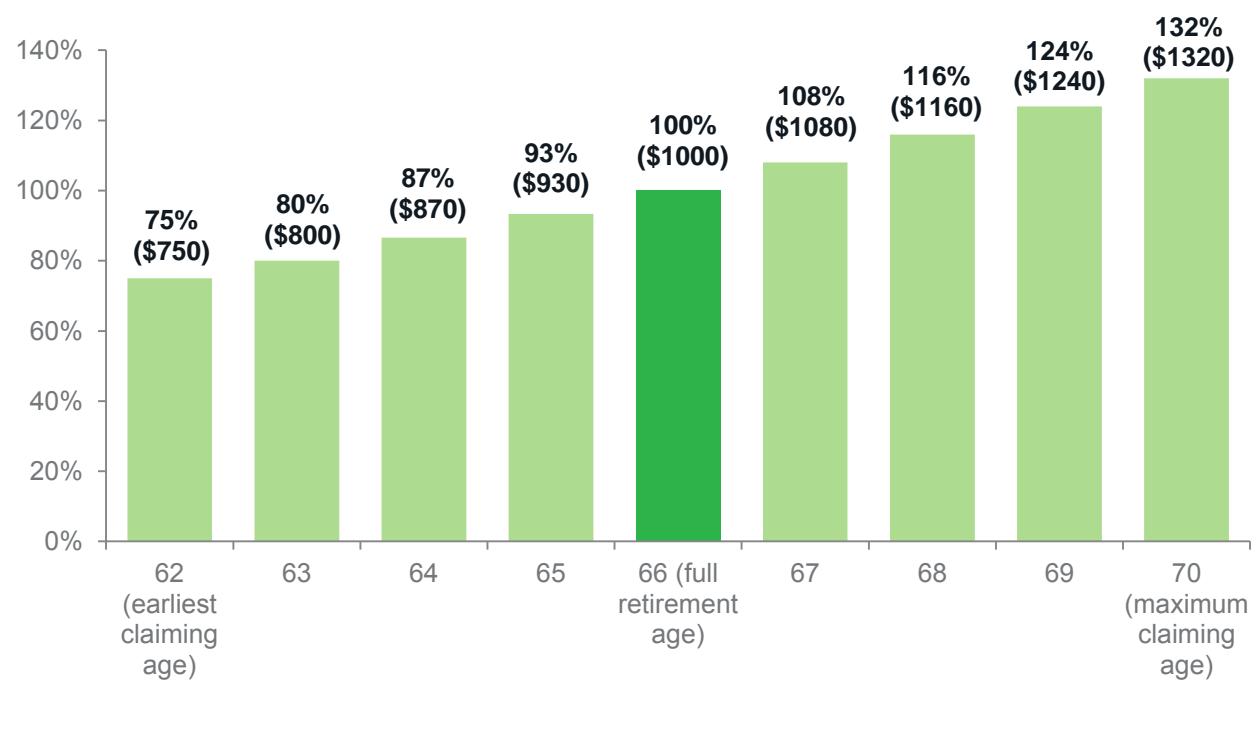
²⁰ See CFPB analysis of SSA's *Annual Statistical Supplement*, *supra*.

²¹ The formula that SSA uses to calculate benefits is designed to be "actuarially fair," which means that a person who lives to the average age will receive the same total amount of benefits regardless of whether they claim early (and receive smaller checks for a longer period of time) or late (and receive larger checks for a smaller period of time).

²² See SSA, *Retirement Planner: Benefits by Year of Birth* (2015), at <http://www.socialsecurity.gov/planners/retire/agereduction.html>.

permanent reduction in monthly benefits by claiming early; whereas they can get as much as a 32 percent permanent increase (8 percent per year) by claiming after their *full retirement age* - up to age 70.²³

FIGURE 4: SOCIAL SECURITY MONTHLY BENEFIT COMPARISON BY CLAIMING AGE²⁴



²³ See SSA, *Effect of Early or Delayed Retirement on Retirement Benefits* (2015), at http://www.socialsecurity.gov/OACT/ProgData/ar_drc.html.

²⁴ This figure illustrates as an example consumers born between 1943 and 1954 with an expected monthly benefit of \$1,000 at age 66.

Lack of and inaccurate information may hinder many in making an informed claiming decision

Studies have shown that people claiming benefits before their full retirement age have more limited knowledge of Social Security benefits and claiming options when compared with those who claim at their full retirement age or later.²⁵

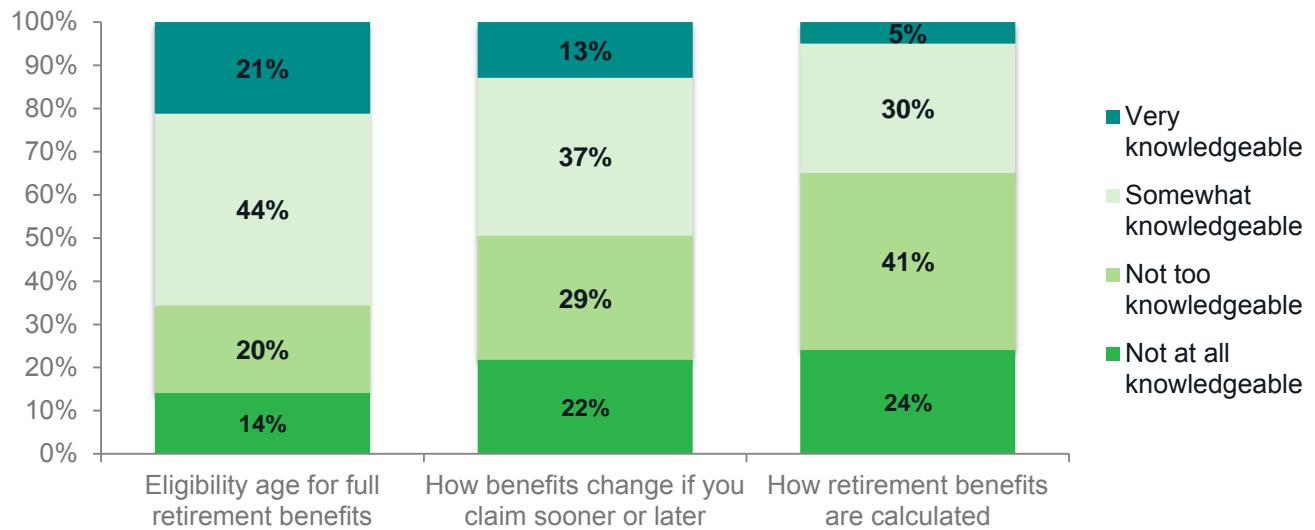
Several recent surveys show that a significant portion of non-retired consumers are confused about and/or lack basic knowledge of Social Security information that may help them make more optimal benefit claiming decisions for their individual situations.²⁶ For example, one study

²⁵ See AARP, *The Impact of Claiming Age on Monthly Social Security Retirement Benefits: How Knowledgeable Are Future Beneficiaries?* (2012), at 45-47, available at <http://assets.aarp.org/rgcenter/general/Impact-of-Claiming-Age-On-Monthly-Social-Security-Retirement-Benefits.pdf>. In addition, other studies show that consumers' preference for claiming early is responsive to the information that they are provided about Social Security, and the way in which it is framed. See, e.g., Melissa Knoll, *Behavioral and Psychological Aspects of the Retirement Decision*, Social Security Bulletin, Vol. 71 No. 4, (2011), at <http://www.ssa.gov/policy/docs/ssb/v71n4/v71n4p15.html>.

²⁶ See, e.g., Joanne Yoong, et al., *What do people know about Social Security?* CESR Working Paper 2015-022 (2015), <https://static.usc.edu/documents/2015-Q22.pdf>. (Referred to as "Yoong, *What do people know about Social Security?*"); see also MassMutual, *MassMutual Research: Survey Shows Concerning Knowledge Deficiency about Social Security Retirement Benefits*, (June 2015), at <https://www.massmutual.com/about-us/news-and-press-releases/press-releases/2015/06/12/10/30/massmutual-research-survey-shows-concerning-knowledge-deficiency>. (Referred to as "MassMutual, *MassMutual Research*"); see also AARP & CFP, *Social Security Planning in 2015 & Beyond: Perspectives of Future Beneficiaries and Financial Planners* (Oct. 2015), at

found that only 21 percent of pre-retirees surveyed knew their *full retirement age*.²⁷ Only 13 percent knew how their benefits would change if they claimed before, at, or after their *full retirement age*.²⁸ Only about five percent of those surveyed said that they knew how their benefits are calculated.²⁹ (FIGURE 5) In addition, an AARP survey found that most pre-retirees lacked knowledge about Social Security spousal and survivor benefits, and the effects that earnings from work will have on their benefits if they claimed them before *full retirement age*.³⁰

FIGURE 5: SELF- REPORTED KNOWLEDGE OF SOCIAL SECURITY AMONG NON-RETIREES³¹



http://www.aarp.org/content/dam/aarp/research/surveys_statistics/econ/2015/fpa-soc-sec-and-beyond-res-econ.pdf. (Referred to as “AARP & CFP, *Social Security Planning in 2015 & Beyond*”); Nationwide Retirement Institute, *Consumer Social Security PR Study* (Jul. 2015), at https://ssc.nwservicecenter.com/media/pdf/NFM-14532AO.pdf?_ga=1.72482835.1063782242.1443126984. (Referred to as “Nationwide, *Consumer Social Security PR Study*”)

²⁷ See Yoong, *What do people know about Social Security?*, *supra*.

²⁸ *Id.*

²⁹ *Id.*

³⁰ See AARP & CFP, *Social Security Planning in 2015 & Beyond*, *supra*.

³¹ See Yoong, *What do people know about Social Security?*, *supra*. Percentages may not sum up to 100 percent due to rounding.

In addition, consumers often do not fully understand the protections afforded by Social Security benefits.³² **Social Security benefits are payable for a beneficiaries' lifetime and adjusted to keep pace with inflation.** For many consumers, Social Security is the only source of retirement income that offers these protections.³³ **These are valuable features that reduce consumers' risk of outliving their money if they live into their later years or experience a longer than planned retirement.** The monetary value of these protections is reduced, however, when a consumer receives benefits early.³⁴

As Americans are living longer, the number of consumers who may need Social Security's protections against longevity risk is increasing. For example, in 2014, half of consumers who claimed at age 62 are expected to live to age 87.³⁵ Accordingly, the need for consumer understanding of Social Security's protections later in life is likewise increasing.³⁶

³² See, e.g., AARP, *Assessing Current and Future Beneficiaries' Knowledge of Social Security Benefits* (Jul. 2011), at 49, available at <http://assets.aarp.org/rgcenter/general/social-security/assessing-knowledge-of-benefits.pdf>. (showing that 20 percent of consumers age 55 to 61 were unaware of that their Social Security benefits were adjusted to keep up with increases in cost of living); see also Nationwide, *Consumer Social Security PR Study, supra* at 17-18 (showing that 34 percent of pre-retirees do not know that benefits are protected against inflation and 46 percent do not think that benefits are guaranteed for the beneficiary's lifetime).

³³ CFPB analysis of Census Bureau, *Current Population Survey, 2015 Annual Social and Economic Supplement*, Table PINC-08 Source of Income in 2014—People 15 Years Old and Over, by Income of Specified Type in 2014, Age, Race, Hispanic Origin, and Sex (2015), at http://www.census.gov/hhes/www/cpstables/032015/perinc/pinc08_000.htm.

³⁴ See, e.g., John Shoven & Sita Nataraj Slavov, *When Does It Pay to Delay Social Security? The Impact of Mortality, Interest Rates, and Program Rules*, NBER Working Paper No. 18210 (2012), at <http://www.nber.org/papers/w18210>.

³⁵ See, e.g., James Mahaney & Peter Carlson, *Rethinking Social Security Claiming in a 401(k) World, in Recalibrating Retirement Spending and Saving*, Pension Research Council Working Paper 2007-18 (2008), at 141-167, available at <http://www.pensionresearchcouncil.org/publications/document.php?file=904>.

³⁶ See Melissa Knoll & Anya Olsen, *Incentivizing Delayed Claiming of Social Security Retirement Benefits Before Reaching the Full Retirement Age*, Social Security Bulletin No. 4 (2014), at 28, available at <https://www.ssa.gov/policy/docs/ssb/v74n4/v74n4p21.html>. By 2050, half of consumers who claim at age 62 are expected to live to age 92. See SSA, *Early Eligibility Age Beneficiaries in 2050* (2015), available at <http://www.ssa.gov/retirementpolicy/projections/eea-2050.html>.

Recommendations

More than 10,000 people in the United States turn age 62 every day, and nearly all of these consumers will have to make a decision about whether to take their Social Security benefits today or at a later age.³⁷ However, 44 percent of consumers start considering their retirement decision one year or less before they actually retire.³⁸ Planning ahead and arriving at this critical point with complete and accurate information about their claiming options can better equip consumers to make the decision that is right for them about when to start receiving their Social Security benefits.

Here are five recommendations to help consumers make an informed decision:

- **Know your *full retirement age*.** It varies depending on the year you were born. It is the starting point for SSA's calculations of increases and decreases to your monthly benefits. The *full retirement age* is the age at which you can start working and collecting simultaneously without facing a reduction in benefits.
- **Don't claim early if you don't have to.** Allowing your benefits to grow for even one year makes a difference in your benefits. You'll get an additional 5 to 8 percent in benefits for every year you claim after age 62. A higher monthly benefit could be important when you are older, which is when Social Security may play a more central

³⁷ See SSA, *Never Beneficiaries, Aged 60–89, 2015* (2015), at <http://www.ssa.gov/retirementpolicy/factsheets/never-beneficiaries.html> (showing that only 3 percent of the population ages 60 to 89 never become beneficiaries).

³⁸ See EBRI, *How Long do Workers Consider Retirement Decision*, Fast Facts from EBRI No. 91 (2008), at 1, available at <http://www.ebri.org/pdf/fastfact07162008.pdf>.

role in your retirement income. At that point, your other sources of income and savings may be depleted.

- **Know your numbers.** Be aware of how much money comes in and goes out each month. Start with a simple budget that accounts for your income and expenses. Consider both your actual income and expenses before retirement *and* your expected income and expenses after you retire. This can help you understand how a reduced or increased benefit will affect your ability to meet your needs in retirement. In addition, this kind of budgeting can help you decide if you should reduce your expenses and pay off any debts before retiring.
- **Keep working if you can.** Staying in the workforce – full or part time – for even one or two additional years can earn you an even bigger increase in your Social Security benefit by replacing years with low or no earnings from your earnings record. Working longer also gives you more time to save for retirement.
- **Consider your spouse's long-term needs.** Because surviving spouses receive the higher of the two spouses' benefits, it makes sense for higher earning spouses to claim at their *full retirement age* or after to get the full or highest possible benefit. This can minimize the reduction in income a surviving spouse may experience.

Resources

Planning for Retirement

This interactive tool will show your estimated benefits at different claiming ages and will help you navigate your decision of when to claim your Social Security retirement benefits. Begin planning at consumerfinance.gov/retirement

my Social Security account

my Social Security account will show your actual earnings record and your estimated retirement and survivors benefits. You can also see and verify the estimated Social Security and Medicare taxes you've paid. Open or view your account at socialsecurity.gov/myaccount