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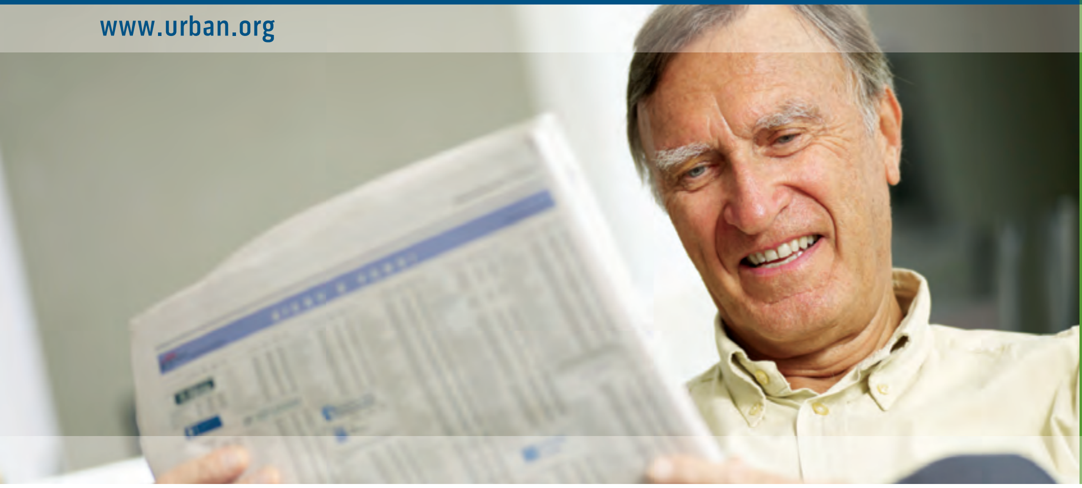

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- The share of eligible workers taking up Social Security retirement benefits grew in 2009 as unemployment soared, but the increase was temporary.
- The percentage of workers collecting early benefits at age 62 has fallen sharply over the past decade.
- Many workers claim benefits in the very month they qualify for full benefits.

How Did the Great Recession Affect Social Security Claiming?

Richard W. Johnson, Karen E. Smith, and Owen Haaga

The timing workers choose for claiming their Social Security retirement benefits significantly affects their retirement income. The longer workers wait to collect retirement benefits, the more they receive each month, as benefits rise for those who delay to offset the lower number of checks they can expect to receive. Benefits generally increase even more for those who continue working while waiting for Social Security, because payments are tied to lifetime earnings.

Workers can also save part of their additional earnings in 401(k) plans, individual retirement accounts, or other savings vehicles. And savings don't have to last as long when people work longer and shorten the retirement period. One study finds that, on average, older adults raise their future retirement incomes 9 percent for each additional year of work (Butrica, Smith, and Steuerle 2006).

Despite the financial advantages of delaying receipt of Social Security retirement benefits, many Americans collect as soon as possible, especially during periods of high unemployment. Social Security retirement benefits provide an important safety net for older people who can't find jobs (Johnson and Feng 2013). Those with health problems preventing them from working can turn to Social Security Disability Insurance (DI) benefits, an option that becomes even more appealing when jobs are scarce (Autor and Duggan 2003). Others with health problems that aren't serious enough to qualify them for disability benefits often collect early Social Security retirement benefits (Johnson and Mermin 2009).

This brief examines how the Great Recession affected Social Security retirement claiming. Although the recession officially lasted only from December 2007 to June 2009, unemployment peaked in October 2009 and remained high through at least the first half of 2013. We compare the number of Social Security awards and the likelihood that eligible Americans claimed benefits

> Half of women and more than half of men now wait until after age 62 to claim their retirement benefits; a quarter of men claim at age 66 or later.

before and after the recession began. We also show how the age at which men and women began collecting retirement benefits shifted over the past quarter-century. Results are based mostly on administrative earnings and benefit records linked to respondents in the US Census Bureau's Survey of Income and Program Participation.

Social Security retirement claiming grew in 2009 as unemployment soared, but the increase was temporary and relatively modest. The longer-term trend toward later retirement resumed in 2010. The share of retirees collecting Social Security at age 62 has fallen 12 percentage points over the past decade. Fully half of women and more than half of men now wait until after age 62 to claim their retirement benefits. The recent increase in Social Security's full retirement age (FRA) has prompted many retirees to wait at least until they turn 66 years old to begin collecting benefits; a quarter of men now claim at that age or later.

How Does Social Security Work?

Monthly retirement benefits paid by Social Security generally depend on lifetime earnings and the timing of benefit take-up. Workers qualify for benefits once they have accumulated 40 quarters of employment in Social Security–covered jobs. They are credited with a quarter of coverage once they earn a certain amount (set at $1,160 in 2013), and they may earn up to four quarters per year. Benefits are based on a worker's top 35 earning years (up to a specified ceiling that generally increases each year with earnings growth) and use a progressive formula that favors those with low lifetime earnings.

Retired workers may begin collecting benefits at any time after they turn 62 years old. However, they receive more each month if they wait to claim their benefits. Those who begin collecting at the FRA (now age 66) receive their full benefits, whereas those who claim at age 62 receive only 75 percent as much. Benefits rise an additional 8 percent each year retirees wait past the FRA, up to age 70. These adjustments are designed to keep lifetime benefits about equal regardless of when people begin collecting. Monthly benefits do not increase beyond age 70, so virtually everyone claims by that age.

Instead of collecting Social Security based on their own work histories, some people collect on their current, former, or deceased spouses' earnings records. Those who claim on their spouses' records at their own FRA receive 50 percent of their spouses' full benefit if their spouses are alive and 100 percent of the spouses' full benefit if their spouses are deceased. As with retired worker benefits, spouse and survivor benefits are reduced for those who claim early. Widows and widowers may begin collecting when they turn 60 years old. Workers who raised their monthly retirement benefits by delaying claiming beyond the FRA can pass those higher benefits onto their surviving spouses after they die.

Social Security also provides disability benefits to insured adults with physical or mental impairments that prevent them from working. Workers are insured only if they have worked in Social Security–covered jobs long enough—about 10 years for most adults, but fewer years for younger workers—and recently enough—with earnings received in about 5 of the last 10 years. About four-fifths (79 percent) of adults age 25 to 59 were insured by DI in 2011.[1] The benefit formula incorporates fewer than 35 years of earnings for relatively young disabled beneficiaries.

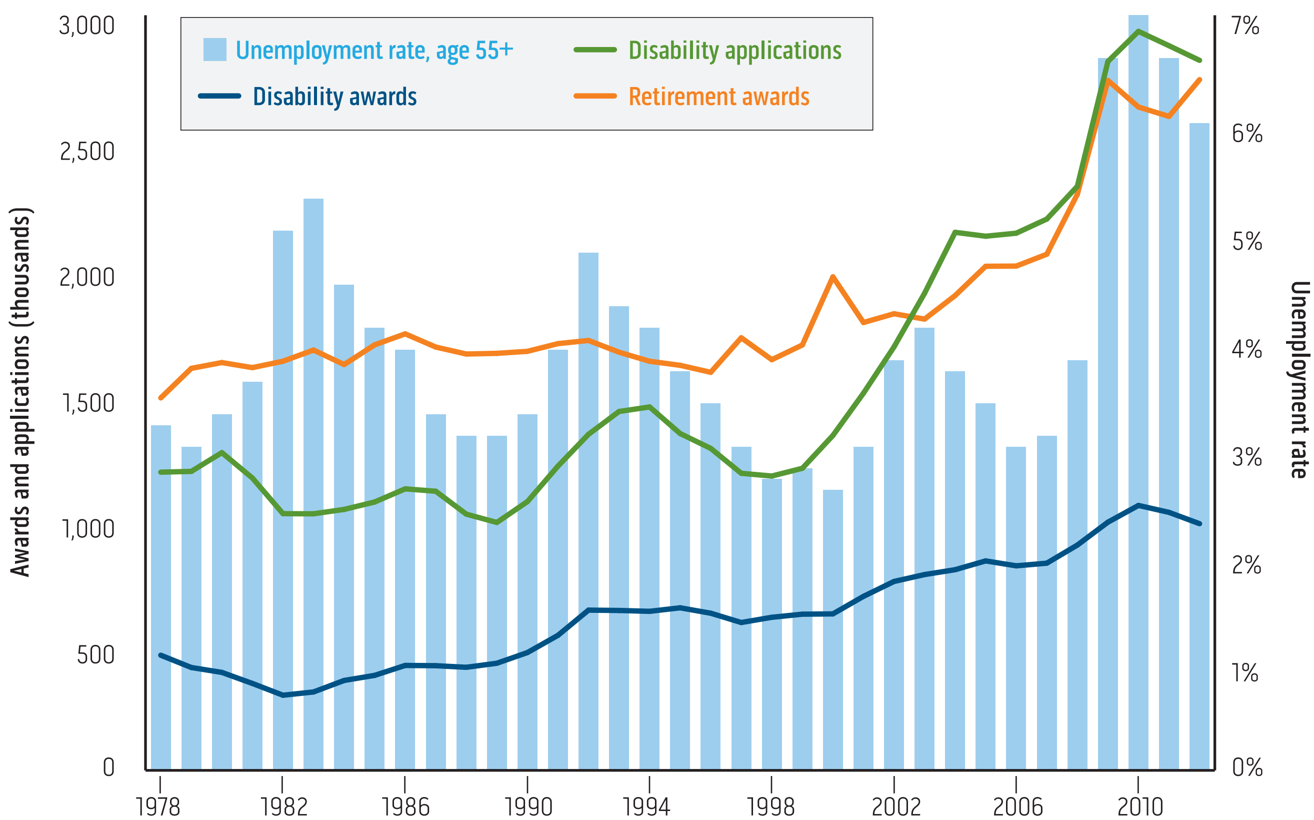
What Influences the Claiming Decision?

Various factors help determine when people begin collecting their Social Security retirement benefits. Claiming is usually tied to work decisions. Social Security reduces retirement benefits for working beneficiaries younger than the FRA by $1 for every $2 earned above a certain threshold retirement (set at $15,120 in 2013), so full-time workers rarely collect early benefits. And many people can't afford to wait to claim their benefits once they've stopped working. It is not surprising, then, that more people have claimed early Social Security benefits when unemployment was high than when jobs were more plentiful (Haaga and Johnson 2012).

Although jobs were scarce during the Great Recession and unemployment remains high, men and women are more likely to work into their sixties now than in the past several decades. Higher educational levels have made older workers more employable, and health improvements and declines in physical job demands have enabled more older workers to remain on the job longer. Additionally, employer-provided retiree health benefits have become much less common over the past two decades, encouraging workers to remain on the job until they reach age 65 and qualify for Medicare so they can avoid expensive nongroup health insurance premiums.[2]

The shift in employer-sponsored retirement plans from traditional pensions that pay benefits based on final salary and years of service to 401(k)-type plans that enable workers to accumulate funds in tax-deferred accounts also promotes longer careers. Traditional plans often penalize work at older ages because participants forfeit a month of pension benefits for every month they work past the age at which they can begin collecting. By contrast, account balances in 401(k) plans can continue to grow indefinitely. Overall wealth holdings affect retirement decisions by influencing how easily people can maintain their living standards once they have stopped working. With more people holding stocks as part of their retirement savings portfolios, changes in equity prices, such

Figure 1. Unemployment Rate for Older Workers and Number of Social Security Retirement Awards, Disability Awards, and Disability Applications, 1978–2012



Source: Authors' calculations using published data from Bureau of Labor Statistics (2013) and Social Security Administration (2012, 2013b, 2013c).

as the 2008 stock market crash, increasingly affect retirement planning.

Several changes to Social Security have influenced workers' decisions about when to claim benefits. For example, in 2000, Congress repealed the retirement earnings test, which reduces payments to working beneficiaries, for those past the FRA (although it remains in place for early retirees). As a result, more people in their late sixties are now working and collecting Social Security. Congress also gradually increased the actuarial adjustment for delayed claiming past the FRA. That adjustment, now 8 percent a year (up to age 70) for those born in 1943 or later, was only 3.5 percent for those born in 1925.

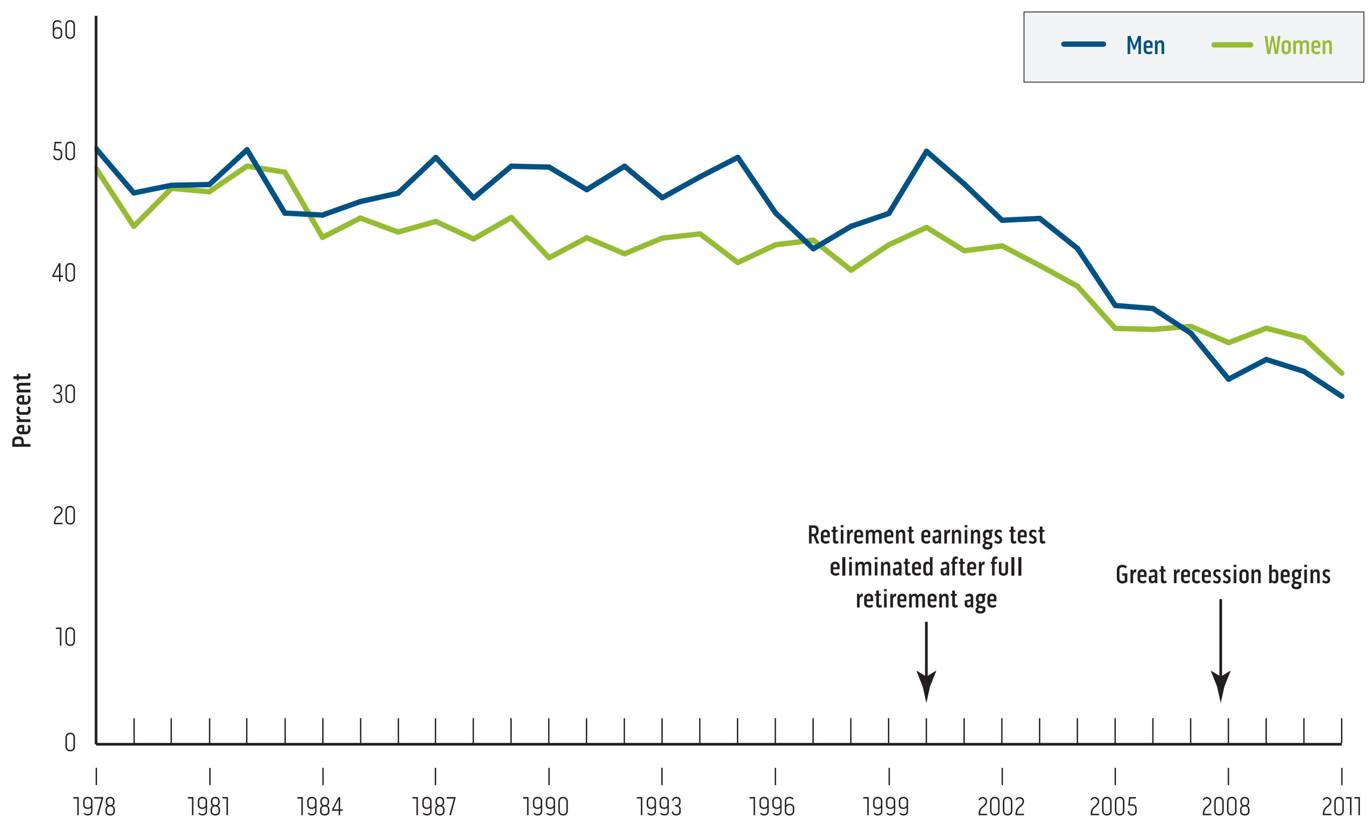
Perhaps the most important change to Social Security was the increase in the FRA, which had been age 65 since the program began. The FRA was raised to 65 years and two months for those born in 1938. It increased another two months for each successive birth cohort until it reached 66 years for those born in 1943. It is scheduled to remain at 66 until it begins increasing two months per year again for those born in 1955 through 1960. Current law sets the FRA at 67 years old for everyone born in 1960 or later. Retirees may still claim Social Security at age 62, but they receive smaller shares of their full retirement benefits. Retirees age 62 receive 80 percent of their full monthly benefit if born in 1937, 75 percent if born in 1943, and 70 percent if born in 1960. These Social Security changes, combined with longer-term trends in education, health, and employer retirement benefits, had larger and more permanent impacts on Social Security retirement claiming than the job losses associated with the Great Recession.

How Many Claimed Social Security before and after the Great Recession?

Applications for Social Security disability benefits, which closely track the unemployment rate, soared during the Great Recession (figure 1). Between 2008 and 2009 the number of disability applications grew by 496,000 (to 2.8 million), a 21 percent increase. That was the largest relative increase since 1974.[3] Disability applications grew again in 2010, but then declined in 2011 and 2012. The number of adults who were newly awarded disabled worker benefits also increased noticeably between 2007 and 2010, but not as rapidly as applications.

Although disability applications and awards surged during the Great Recession, they have been rising throughout much of the last decade, well before the economy contracted. This increase reflects growth both in the general working-age population and the population insured for Social Security disability benefits, with more women qualifying as they work more. Population aging also swelled the disability rolls, because health problems tend to increase with age. However, disability benefit rates are also increasing within age and sex groups, possibly because the disability program is becoming more appealing to workers with limited education

Figure 2. Age-Adjusted Social Security Take-Up Rates for Men and Women Age 62 and Older, 1978–2011



Source: Authors' estimates from the 1984–2008 Survey of Income and Program Participation panels linked to administrative benefit and earnings records.
Notes: The graph shows the percentage of men and women each year who began collecting Social Security retirement benefits for the first time. Estimates control for the population's changing age distribution by computing take-up rates for single years of age each year and applying them to the age distribution observed in 2011. The estimates are restricted to men and women with 40 or more quarters of Social Security–covered earnings who never received Social Security disability benefits.

as their employment prospects deteriorate. Additionally, beneficiaries are less likely now than before to have their cases reviewed to verify that they are still unable to work, so fewer beneficiaries are being removed from the disability rolls (2011 Technical Panel on Assumptions and Methods 2011).

Most of the evidence that the Great Recession induced many Americans to retire early comes from the surge in the number of adults who began collecting Social Security retirement benefits in 2008 and 2009. Retired worker awards increased 12 percent in 2008 and 20 percent in 2009, when a then-record 2.7 million adults received retirement benefits for the first time. The unemployment rate soared over that period, more than doubling between 2007 and 2009 for workers age 55 or older. However, new retired worker awards fell in 2010 while unemployment continued to grow. Retirement benefit claims declined again in 2011, even though the unemployment rate for workers age 55 or older remained as high as in 2009. The number of retirement benefit awards increased in 2012, but it exceeded the 2009 record by only about 3,000, a trivial difference given that the US population age 62 to 69 grew by 3.7 million between 2009 and 2012. Taken together, these changes in the aggregate number of retirement benefit awards suggest that the Great Recession might have led some older Americans to retire early when the unemployment rate was growing rapidly, but the effects were short-lived.

Examining changes over time in the proportion—rather than the aggregate number—of older adults claiming Social Security retirement benefits provides a better indicator of the Great Recession's effects because it controls for the shifting size of the underlying population. Figure 2 shows age-adjusted Social Security take-up rates for men and women age 62 or older from 1978 to 2011, the latest year with available data. Estimates are restricted to those with 40 or more quarters of Social Security–covered earnings who never received Social Security disability benefits. Changes in the age distribution complicate comparisons over time, because claiming is especially common at certain ages, such as age 62 and the FRA. To control for these population shifts, we compute take-up rates for single years of age each year and apply them to the age distribution observed in 2011. Consequently, the estimate for 2005, for example, shows the percentage of men and women age 62 or older who would have claimed benefits that year if the population of those who had not yet claimed at the beginning of the year was identical to the 2011 population.

The share of eligible men collecting their first Social Security retirement benefits increased in 2009 as the unemployment rate for older men surged. However, the growth (from 30.1 to 31.7 percent) was modest and didn't last. The take-up rate fell in 2010 and 2011 as men again delayed retirement, resuming the steady decline in men's Social Security claiming that became apparent in 2000. Claiming spiked that year when the retirement earnings test was eliminated for those past the FRA and many older workers began collecting benefits. After 2000, men's take-up rate fell nearly every year, with the only sizeable increase occurring in 2009. The Social Security take-up rate for men fell to 28.7 percent in 2011, the lowest rate since our data began in 1978 and 18 points below the average from 1990 to 1995.

Social Security retirement claiming followed a similar but less dramatic pattern for women. As with men, the take-up rate for women has fallen fairly steadily since 2000, except for an increase in 2009. The 2009 growth was somewhat smaller for women than men (1.2 versus 1.6 points), and the decline in the take-up rate since 2000 was more gradual. Additionally, the 2000 claiming spike was less pronounced for women, because they are less likely than men to work past age 65 and thus to be affected by the partial repeal of the retirement earnings test.

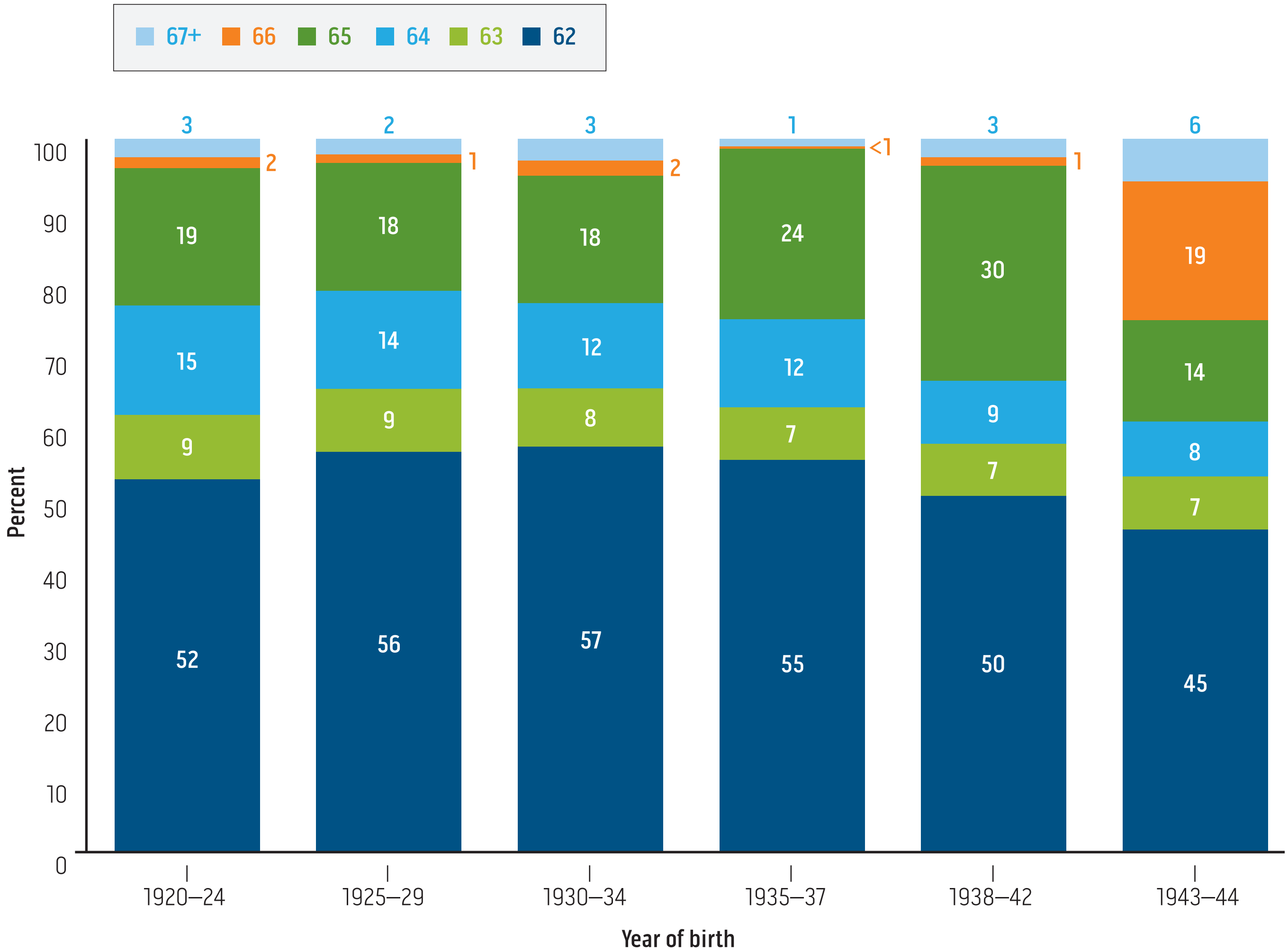
When Did Retirees Claim Benefits before and after the Great Recession?

The percentage of men claiming Social Security retirement benefits at age 62, the year they first qualify, has fallen sharply over the past decade (figure 3). Forty-five percent of men born in 1943 and 1944 claimed retirement benefits at age 62, down from 50 percent among those born between 1938 and 1942, and 55 percent among those born between 1935 and 1937. Claiming at age 62 increased during the 1980s and early 1990s, peaking at 57 percent for men born between 1930 and 1934, who turned 62 years old in the early to mid-1990s.

More men are now waiting past age 65 to claim Social Security benefits. Fully 25 percent of men born in 1943 or 1944 claimed at age 66 or later, including 19 percent who claimed at 66 (their FRA). By contrast, only 4 percent of men born between 1938 and 1942 claimed at age 66 or later. Thirty percent of these men, whose FRA ranged from 65 years and 2 months to 65 years and 10 months, began collecting at age 65—more than twice the share of men born in 1943 or 1944 who began collecting at that age.

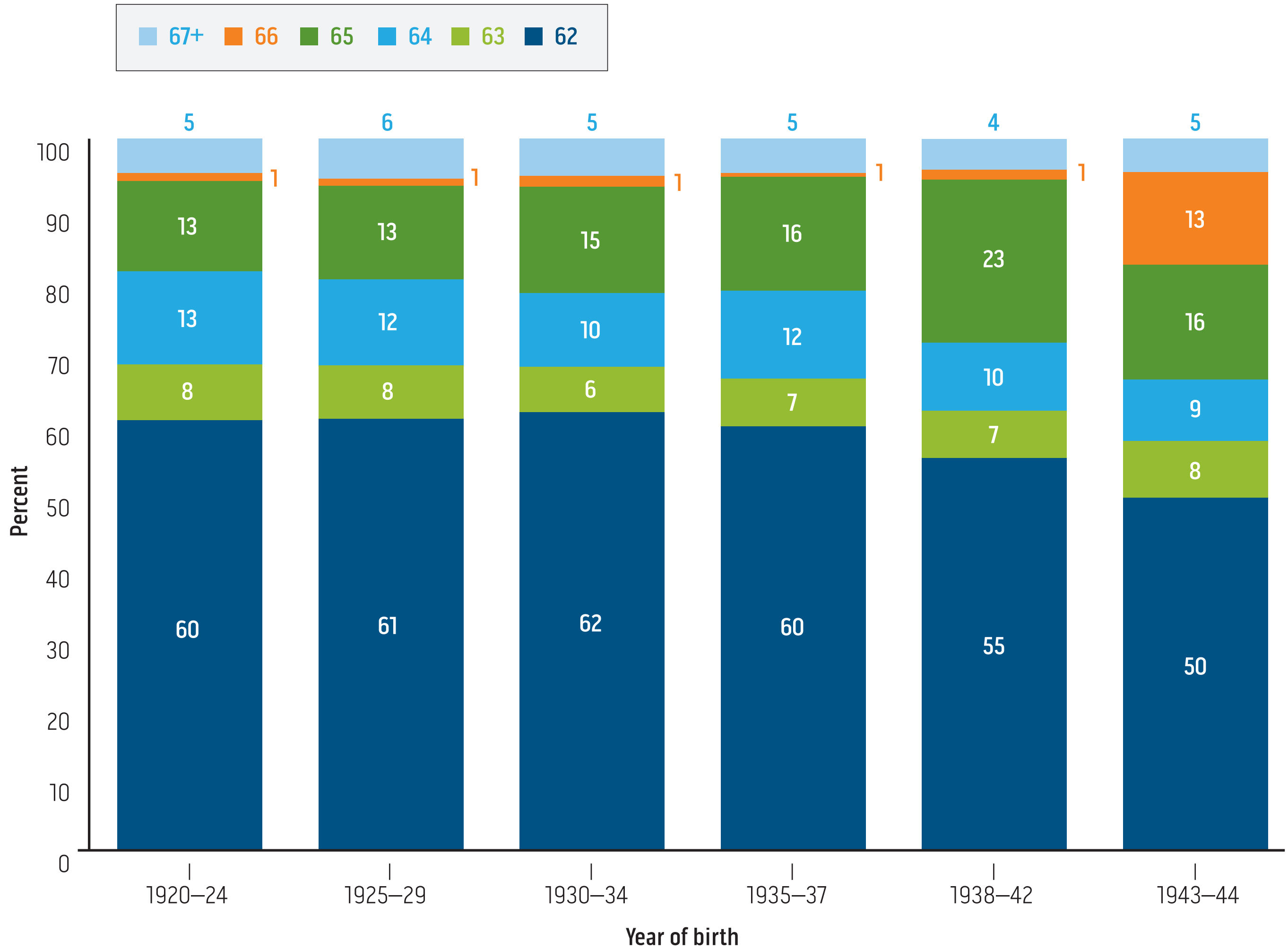
The share of women claiming early Social Security retirement benefits has also fallen over the past decade, although they remain more likely to claim early than men (figure 4). Half of women born in 1943 or 1944 claimed at age 62, compared with three-fifths of those born between 1935 and 1937. Eighteen percent of women born in the later years claimed at age 66 or later, up from 6 percent for those born in the earlier years. As with men, fewer women now begin collecting benefits at age 65 now that the FRA is 66 years.

Figure 3. Distribution of Social Security Claiming Age for Men Who Did Not Claim before Age 62, by Birth Cohort



Source: Authors' estimates from the 1984–2008 panels of the Survey of Income and Program Participation panels linked to administrative benefit and earnings records.
Notes: The sample is restricted to men with 40 or more quarters of Social Security–covered earnings who did not claim benefits before age 62 and never received Social Security disability benefits. Percentages do not always total 100 because of rounding.

Figure 4. Distribution of Social Security Claiming Age for Women Who Did Not Claim before Age 62, by Birth Cohort



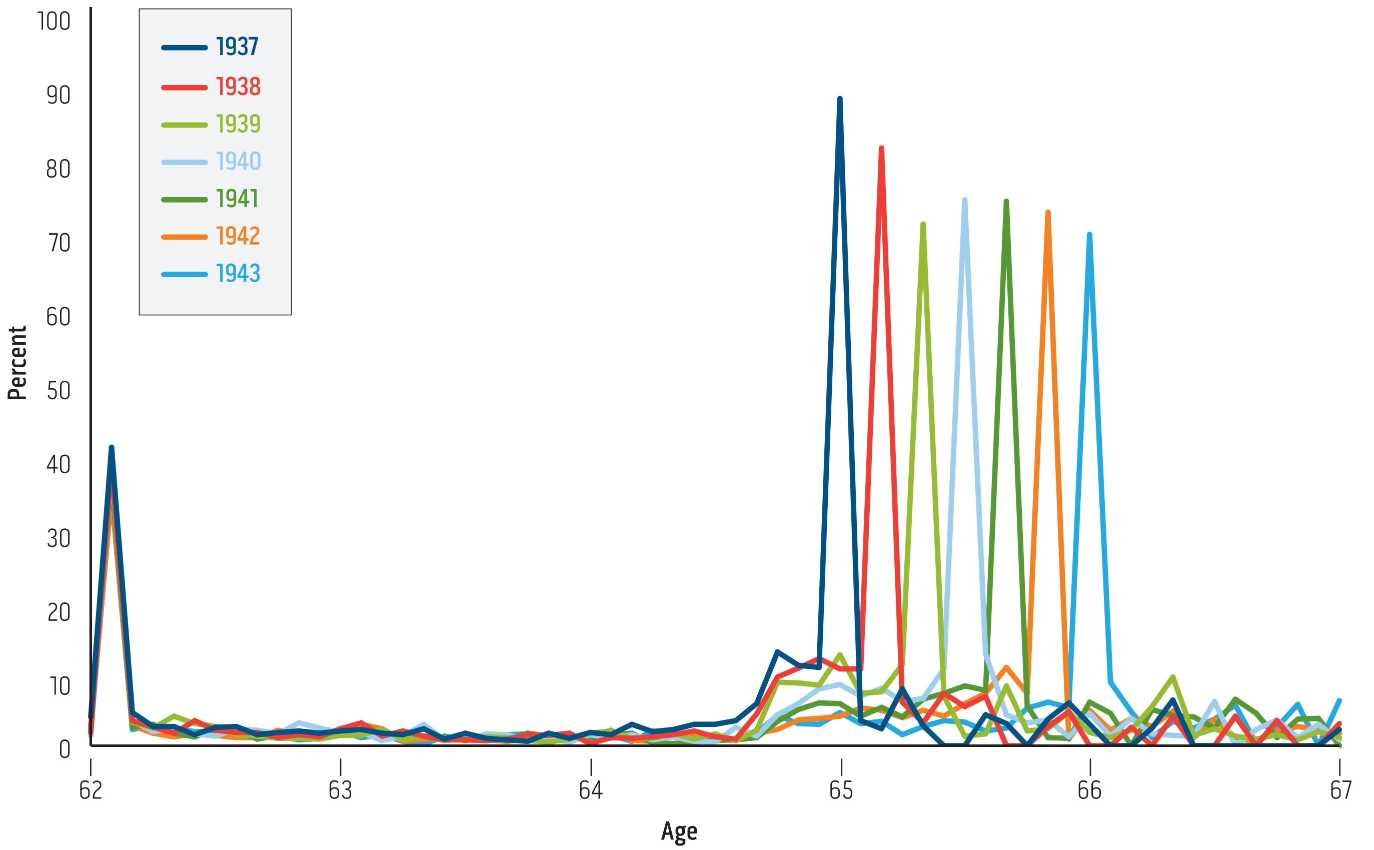
Source: Authors' estimates from the 1984–2008 panels of the Survey of Income and Program Participation panels linked to administrative benefit and earnings records.
Notes: The sample is restricted to women with 40 or more quarters of Social Security–covered earnings who did not claim benefits before age 62 and never received Social Security disability benefits. Percentages do not always total 100 because of rounding.

The increase in the FRA appears to have strongly affected claiming behavior, with many choosing to begin collecting in the very month they qualify for full benefits. Figure 5 shows the percentage of men claiming Social Security at each age, measured in years and months, among those who have not already claimed by that age. The lines represent different birth cohorts between 1937 and 1943, which each face different FRAs.

Consider those born in 1937, who face an FRA of 65 years and zero months. Forty-four percent claimed Social Security retirement benefits within a month of turning 62 years old, when they first qualified for benefits. The likelihood that they claimed benefits in any single subsequent month remained low until they neared age 65. Claiming spiked at age 65 and zero months—this cohort's FRA—when 88 percent of those who had not already claimed began collecting benefits. Only 5 percent of the remaining non-claimants began collecting the next two months, and claiming probabilities remained low in later months.

Claiming behavior for men born in subsequent years followed a similar pattern, except that the claiming spike occurred two months later each year, exactly corresponding to the increase in the FRA. Among men not already collecting Social Security, 81 percent of those born in 1938 began col-

Figure 5. Social Security Take-Up Rates for Men, by Age and Year of Birth



Source: Authors' calculations from the 1984–2008 panels of the Survey of Income and Program Participation, linked to administrative earnings and benefit records.
Notes: The figure shows the percentage of men claiming Social Security retirement benefits by single month of age, among those who had not already claimed and never received Social Security disability benefits. The sample is resticted to men with at least 40 quarters of Social Security–covered employment.

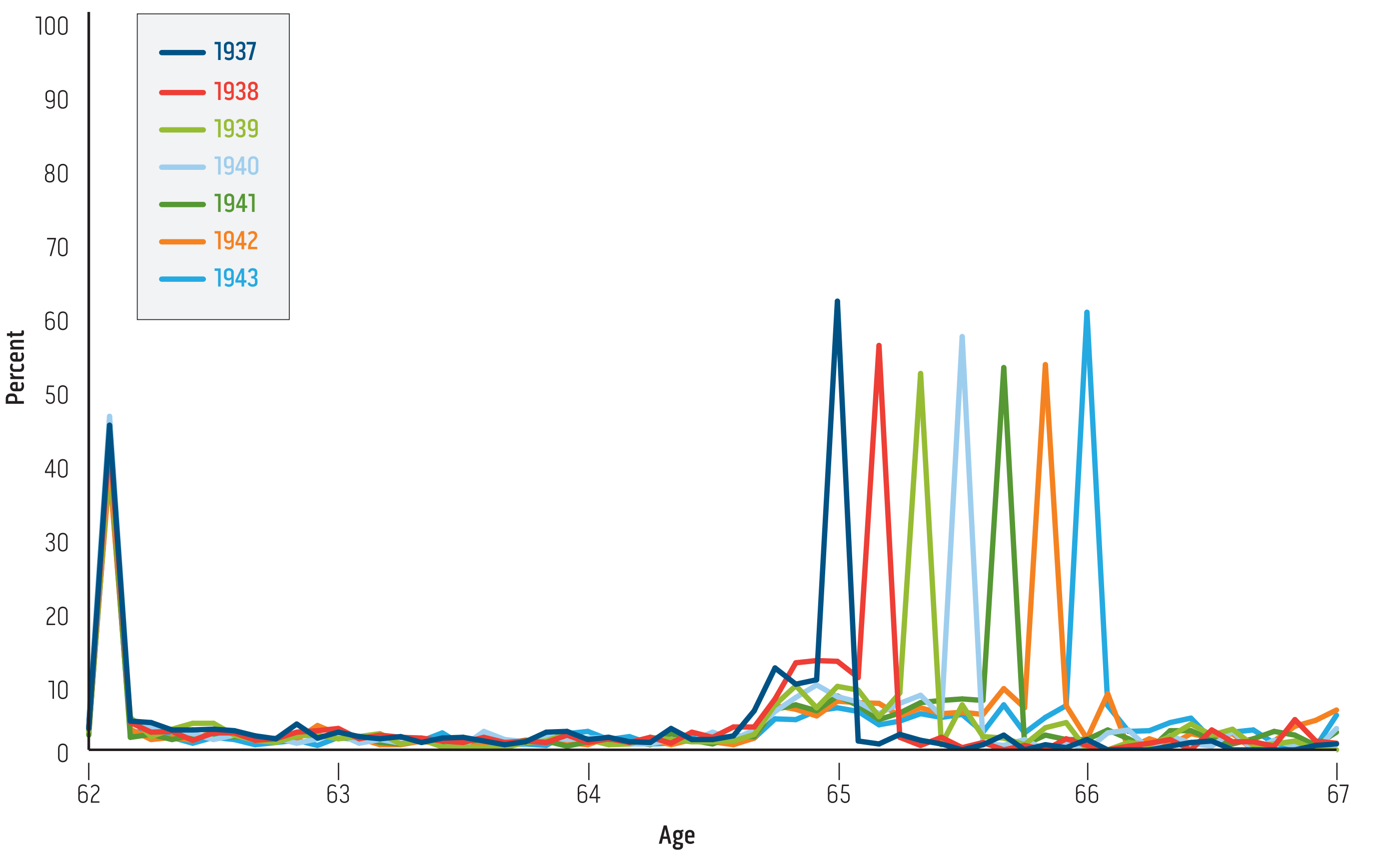
lecting at 65 years and two months, for example, and 71 percent of those born in 1939 began collecting at age 65 years and four months. The claiming spikes at age 62 and the FRA are somewhat smaller for later cohorts but still quite pronounced. Only 5 percent of men born in 1943 (for whom the FRA is 66 years) began collecting benefits at 65 years and zero months. Although not shown in the figure, claiming patterns for men born in 1944 (who also face an FRA of 66 years and zero months) are similar to those born a year earlier.

Women's claiming behavior also shifted with the increase in the FRA (figure 6). Among women not already collecting Social Security, 61 percent of those born in 1937 claimed benefits at 65 years and zero months, while 59 percent of those born in 1943 began collecting at 66 years and zero months. Many women continued to claim benefits within a month of turning 62 years old, although the share fell from 47 percent among those born in 1937 to 41 percent among those born in 1943.

Conclusion

The Great Recession led some men and women to claim Social Security retirement benefits in 2009 as unemployment surged, but the increase was temporary and relatively modest. The longer-term trend toward later retirement resumed in 2010. Half of women

Figure 6. Social Security Take-Up Rates for Women, by Age and Year of Birth



Source: Authors' calculations from the 1984–2008 panels of the Survey of Income and Program Participation, linked to administrative earnings and benefit records.
Notes: The figure shows the percentage of women claiming Social Security retirement benefits by single month of age, among those who had not already claimed and never received Social Security disability benefits. The sample is restricted to women with at least 40 quarters of Social Security–covered employment.

and more than half of men now wait until after age 62 to claim their retirement benefits, and a quarter of men claim at age 66 or later.

Retirement claiming increased only modestly during the Great Recession and its aftermath because unemployment growth at older ages was largely offset by an increase in the number of older adults choosing to work longer. The unemployment rate at age 62 and older more than doubled during the economic downturn but reached only 6.7 percent at its peak in 2010, well below the rate for younger workers. Although many older workers who lost their jobs were unemployed for a long time, relatively few older workers ever lost their jobs (Johnson and Butrica 2012). Instead, the share of adults age 62 and older who were employed increased steadily from 2007 through 2012 (Johnson and Park 2013). Most older workers continued the decade-long trend of delaying retirement, prompted by changes in Social Security and employer retirement benefits that raised the financial incentives to work longer as well as health improvements and educational gains that made work at older ages easier.

The impact of the FRA increase on claiming behavior is particularly striking. This relationship may stem partly from the retirement earnings test, which does not apply after the FRA. Older workers earning more than the exempt amount, then, generally have strong financial incentives to wait to collect Social Security retirement benefits until they reach the FRA. However, relatively few older workers earn more than the exempt amount in the calendar year in which they reach the FRA, because the threshold more than doubles that year. In 2013, for example, the exempt amount for workers reaching the FRA is $40,080, compared with $15,120 for older workers who have not yet reached the FRA. Although more analysis is needed, it seems unlikely that the retirement earnings test would explain the entire claiming spike at the FRA, and there are no other financial incentives to claim at that age. Delaying claiming raises monthly benefits by five-ninths of a percent per month in the three years before the FRA, and by two-thirds of a percent per month in the four years after the FRA. Retirees do not reap any special reward by claiming Social Security when they reach their exact FRA.

Instead of operating through financial incentives, the FRA might influence retirement decisions by signaling an "appropriate" time to begin collecting retirement benefits. Many workers may interpret the government-designated FRA as an implicit endorsement of retirement at that age. The federal government might be able to encourage some workers to delay retirement even further with different signals, such as by designating age 70 the FRA, without changing the way benefits are computed. ▪

Notes

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1. Authors calculations based on Social Security Administration (2013a), tables 4.C2 and 4.C5.

2. The Affordable Care Act's health insurance exchanges may lower premiums for older adults once they are implemented in 2014.

3. Disability applications grew 25 percent in 1974, when Supplemental Security Income (SSI) was introduced. SSI, which provides cash benefits to very low-income older adults and people with disabilities, increased disability applications because working-age SSI applicants are required to apply for disability benefits (Zayatz 2011).

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About the Authors

Richard W. Johnson is a senior fellow at the Urban Institute, where he directs the Program on Retirement Policy.

Karen E. Smith is a senior fellow in the Urban Institute's Income and Benefits Policy Center.

Owen Haaga is a research associate in the Income and Benefits Policy Center.

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URBAN INSTITUTE
2100 M Street, NW
Washington, DC 20037-1231
(202) 833-7200
publicaffairs@urban.org www.urban.org