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The Effects of Changes in Social Security's Delayed Retirement Credit: Evidence from Administrative Data

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Key Findings and Policy Implications

This paper examines the effect of changes in the delayed retirement credit (DRC) on Social Security claiming. The delayed retirement credit defines the increase in monthly OASI benefits for individuals who claim retired worker benefits after their full retirement age. The DRC was set at 3 percent per year for those born in 1924 or earlier and phased up to 8 percent per year for those born in 1943 or later. The analysis uses SSA data from the Master Beneficiary Record, Master Earnings File, and Numident files.

- To avoid the confounding influence of other changes in Social Security policy, and the broader increases in labor force participation by women, the study focuses on men born between 1924 and 1933, when the DRC phased up from 3 percent to 5.5 percent.
- The increase in the DRC led to later Social Security claiming. A 0.5 percentage point increase in the delayed retirement credit increased claiming at or beyond age 66 by 0.23 percentage points.
- The estimated effect is larger in magnitude among those in the top earnings decile than among those with earnings below the median. Also, the effect of the latter DRC adjustments (from 4.5 to 5.5 percent per year) were larger than for the earlier DRC adjustments (from 3.0 to 4.5 percent per year).

The most important modern reforms to the Social Security program were enacted in 1983, and included an increase in the program's tax rate, full retirement age, and delayed retirement credit. While the increase in the DRC represented an increase in benefit generosity, policymakers hoped it might still improve Social Security's finances by inducing more workers to work longer into later life. The study findings show that men did delay claiming benefits, but because the delay occurred disproportionately among higher income workers, it could have worsened trust fund finances rather than improved them.

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