

## **The Decision to Delay Social Security Benefits: Theory and Evidence**

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Upon reaching the age of 62, individuals face an important question: what is the right time to begin collecting Social Security benefits? Social Security benefits may be commenced at any time between ages 62 and 70 with a “full” retirement benefit payable at the full retirement age (66 for individuals reaching age 62 in 2012). As individuals who claim later can, on average, expect to receive benefits for a shorter period, an actuarial adjustment is made to the monthly benefit amount to reflect the age at which benefits are claimed. Claiming at age 62 results in a monthly benefit that is 75 percent of the benefit that could be claimed at age 66. On the other hand, delaying until age 70 results in a benefit that is 32 percent higher than the benefit that could be claimed at age 66. Thus the real monthly benefit is 76 percent greater if one waits until 70 rather than starting benefits at 62. Delaying Social Security is equivalent to purchasing a real annuity. Individuals who delay forgo benefits in the current year in exchange for a higher monthly benefit for the rest of their lives.

It is widely believed the benefit adjustments made for delaying Social Security benefits are actuarially fair. In other words, the average individual receives the same expected present value regardless of when benefits begin. Of course, even if the adjustments were actuarially fair for the population on average, they would not be actuarially fair for every individual. For example, those who expect to live longer than average can benefit from delaying, while those who expect to live shorter than average can benefit from claiming early. In addition, the spousal and survivor benefits offered by Social Security make delaying benefits a particularly attractive option for married couples. One member of a two-earner married couple may claim spousal benefits upon reaching full retirement age, leaving the benefit based on his or her own earnings record to accumulate through deferral. The secondary earner in a couple also receives a survivor benefit that is equal to the primary earner’s benefit. Thus, delaying the primary earner’s benefit is equivalent to purchasing a second-to-die or joint life annuity. In contrast, a single person who delays claiming only receives a single life annuity based on his or her own earnings record.

Moreover, actuarial fairness for the population on average depends on a number of other factors that vary through time. First of all, it depends crucially on interest rates: lower interest rates raise the present value of the gains from delaying benefits. Indeed, private firms that sell annuities continually vary the amount of the annuity payments they offer as interest rates change. Second, it depends on average life expectancy: improvements in life expectancy raise the gains from delaying benefits. Again, the terms of private annuities have become less generous in response to gains in life expectancy over the past few decades. In contrast, aside from a modest increase in the full retirement age, the terms for delaying Social Security up to full retirement age have been largely unchanged since 1956 for women and 1961 for men.<sup>3</sup> The terms for delaying beyond full retirement age have become more generous over the years: members of the 1924 birth cohort could earn 3 percent of their base benefit per year of delay beyond full

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retirement age, while members of cohorts born in 1943 and later can earn 8 percent of their base benefit per year of delay beyond full retirement age.

In this paper, we investigate the conditions under which delaying Social Security may be actuarially advantageous. We simulate Social Security benefits for variety of cases (singles as well as married couples with varying levels of income) and find the claiming strategies that maximize the expected present value of benefits. Our simulations suggest that delaying is actuarially advantageous for a large subset of people. The gains from delaying are greater at lower interest rates, for married couples relative to singles, for single women relative to single men, and (at most interest rates) for two-earner couples relative to one-earner couples. In addition, within a married couple, the gains from deferring the primary earner's benefit are greater than the gains from deferring the secondary earner's benefit. We find that at relatively low interest rates (similar to those that prevail today), primary earners with average life expectancy should delay benefits to age 70 to maximize expected present value. Singles with average life expectancy should delay beyond their full retirement age as well.

After identifying the factors that make delaying actuarially advantageous, we use panel data from the Health and Retirement Study (HRS) to investigate whether individuals' actual claiming behavior appears to be influenced by the degree of actuarial advantage to delaying. We find no evidence of a consistent relationship between claiming behavior and the factors that influence the expected present value of benefits, including gender and marital status, interest rates, health status, and subjective assessments of life expectancy. Indeed, among individuals who stopped working before age 62, more than 75 percent claim within two months of reaching 62. Similarly, among individuals who were not working at the time of their claim, more than 75 percent claim within two months of the later of stopping work or reaching 62. The only factors that are consistently related to delayed claiming are labor force status (individuals who work longer tend to delay their claims) and college education (individuals who have attended college are more likely to delay their claims).

The full working paper is available on our website, [www.nber.org/programs/ag/rrc/books&papers.html](http://www.nber.org/programs/ag/rrc/books&papers.html), as paper NB12-09.

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