

## Recent Changes in the Gains from Delaying Social Security

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Social Security retirement benefits can be claimed at any age between 62 and 70, with delayed claiming resulting in larger monthly payments. These larger payments represent an actuarial adjustment to account for the fact that an individual who claims later is likely to receive benefits for a shorter period. In earlier work, we investigated the actuarial fairness of this adjustment in light of recent low real interest rates combined with improved mortality. We concluded that delaying Social Security is actuarially advantageous for most individuals. Delay is particularly beneficial for the primary earner in a couple; however, even singles with mortality rates that are substantially above average can benefit from delay at near-zero real interest rates like those that have prevailed for much of 2013. We also demonstrated that the gains from delay have increased substantially – particularly for couples – since the early 1960s, when delays first became available.

Besides falling interest rates, a number of benefit rule changes in the 1990s and early 2000s have contributed to the attractiveness of delaying Social Security. For example, prior to 2000, a non-earning spouse in a married couple could not claim a spousal benefit until the primary earner had claimed his or her worker benefit. Thus, delaying the primary earner's benefit forced the non-working spouse to delay as well. Since 2000, however, married individuals have been able to claim spousal benefits when their spouse reaches full retirement age or claims benefits, whichever is sooner. In addition, the delayed retirement credit – the adjustment for delaying Social Security beyond full retirement age (which was 65 for those turning 62 in 1992, and has risen to 66 for those turning 62 today) – has become substantially more generous.

In this paper, we extend our earlier work by investigating the impact of these recent rule changes on the gains from delay for a variety of stylized couples. We attempt to isolate the effects of these rule changes from the effects of the interest rate and mortality changes that have also occurred over the past two decades. We find that the rule changes by themselves have increased the gains from delay – measured as the percent increase in the net present value of benefits from optimal delayed claiming relative to claiming at 62 – by about 1-2 percentage points for singles, 5-6 percentage points for two-earner couples, and 2-4 percentage points for one-earner couples. Most of this increase is attributable to the rise in the delayed retirement credit. Interest rate and mortality changes further increase the gains from delay for younger cohorts relative to older ones. The combination of rule changes, mortality changes, and interest rate changes have substantially increased the gains from delay for cohorts born in 1938 and later (i.e., for individuals turning 62 in 2000 and later), with interest rates playing the largest role.

In addition, our earlier conclusions about the gains from delay for two-earner couples relied on a somewhat unusual claiming strategy: one spouse claims spousal benefits starting at full retirement age (66 for our simulated couples), while allowing his or her own worker benefit to grow through delay. For example, we demonstrated that a present-value maximizing claiming strategy might involve the primary

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earner claiming a spousal benefit starting at age 66, then switching to his or her own benefit at age 70, while the secondary earner claims a worker benefit at age 62. Thus, the primary earner can effectively get paid during the delay period. The availability of this strategy is likely unintentional, arising from a system designed with one-earner couples in mind. It is also not well known and rarely used. Thus, we investigate how the gains from delay are altered if this strategy is made unavailable. We find that the gains from delay – again measured as the percent increase in net present value from optimal delay relative to claiming at 62 – fall by about 4-5 percentage points for two earner couples if this strategy is eliminated. However, they are still substantial.

Finally, we utilize data from the Health and Retirement Study to investigate whether individuals turning 62 in 2000 and later are indeed more likely to delay Social Security. To cleanly separate the decision to claim from the decision to stop working, we restrict attention to individuals who stopped work before age 62. Within this sample, we find that cohorts turning 62 in 2000 and later are indeed more likely to delay. However, the vast majority of individuals, even in the younger cohorts, still claim at age 62. Moreover, we find no evidence of a relationship between the probability of delay and the individual characteristics (e.g., gender, race, or health status) that affect the gains from delay.

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 NB13-04.

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