cri.georgetown.edu

GEORGETOWN UNIVERSITY

McCourt School of Public Policy

CENTER FOR RETIREMENT INITIATIVES

Webinar | April 30, 2025

Social Security Claiming Timing and Older Adults' Financial Wellbeing

Panelists: (in order of presentation)

- **Manita Rao, Ph.D.,** Senior Advisor, AARP Public Policy Institute; and Non-Resident Scholar, Georgetown University Center for Retirement Initiatives
- **Sita Slavov, Ph.D.,** Professor of Public Policy, George Mason University
- **Craig Copeland, Ph.D.,** Director, Wealth Benefits Research, Employee Benefit Research Institute (EBRI)
- **Mary Beth Franklin,** Certified Financial Planner, and Founder, RetirePro
- **Joel Eskovitz,** Director, Social Security and Savings, AARP Public Policy Institute

Moderator:

- **Angela Antonelli**, Research Professor and Executive Director, Georgetown University Center for Retirement Initiatives

Manita Rao, Ph.D.

Senior Advisor, AARP Public Policy Institute; and Non-Resident Scholar, Georgetown University Center for Retirement Initiatives

Social Security Claiming Timing and Older Adults' Financial Wellbeing

Zeewan Lee[1] and Manita Rao[2]

[1]Assistant Professor, Lee Kuan Yew School of Public Policy, National University of Singapore

[2] Senior Policy Advisor, AARP Public Policy Institute; Non-Resident Scholar, Georgetown Center for Retirement Initiatives

Background

- Social Security claiming timing is an important household decision.
- More critical for older households with low retirement savings – 75% of 50+ adults are concerned about retirement security (NIRS, 2024)
- With an aging population and SS solvency issues, understanding the impact of SS claiming has implications for retirement benefits and sustainability of the system.
- However, limited research on long-term financial impact of claiming timing on older adults.

Research Question

- How does Social Security claim timing impact older adults' financial well-being after retirement?

- Is there an optimal time to claim Social Security and how does sub-optimal claiming affect retirees' finances (we answer these questions by constructing a new Optimization Failure index).

- Assess impact of sub-optimality on older households by examining four indicators of post-retirement financial well-being:
    - Liquid assets
    - Pension wealth
    - Real estate wealth, and
    - Total household wealth

Data

- Three data sources, covering the period from 1992-2020
  - Health and Retirement Study (HRS) – post-retirement financial outcomes
  - Restricted Social Security Administration (SSA) data for past annual earnings
  - Working Trajectories data for monthly labor force status

- Sample:
  - Analysis sample is restricted to HRS respondents between age 62-85
  - Includes 15 HRS waves between 1992 and 2020
  - 174,479 persons observed across all 15 waves

Empirical Strategy

- Two estimation approaches:
  - Panel Random Effects: objective is to estimate how post-claiming financial outcomes (liquid assets, pension wealth, real estate wealth, and total household wealth) are impacted by OF for a given individual in a given census region in any given year.
  - Two-Stages Least Squares (2SLS): account for reverse causality using variables that more likely to affect claim timing than financial outcomes.
- All models control for several individual-level socio-demographic and financial characteristics including age, gender, race, education, marital status, household size, labor force status, out-of-pocket medical expenses, Medicare coverage, and employer-sponsored retiree health insurance coverage.

Main Predictor: Optimization Failures (OF) Index

- Construct a new OF index which measures the difference (in years) between initial claiming age and optimal claim age.

- Develop a multistep process to identify optimal claim timing:
  - Compute lifetime SS wealth based on earnings history, employment gaps, differences in survival probabilities by age, race and gender
  - Estimate the Primary Insurance Amount (PIA) for each possible retirement age between current age till the respondent reaches age 120
  - Calculate each individuals' monthly SS benefits which varies based on lifetime SS wealth for each possible initial claiming time

  Optimal claiming timing = claiming age at which lifetime SS wealth (total benefits accruable until death) is maximum

- In addition, we decompose sub-optimal claiming into *early vs late* optimization failure to assess how each affects financial outcomes

Financial Outcomes

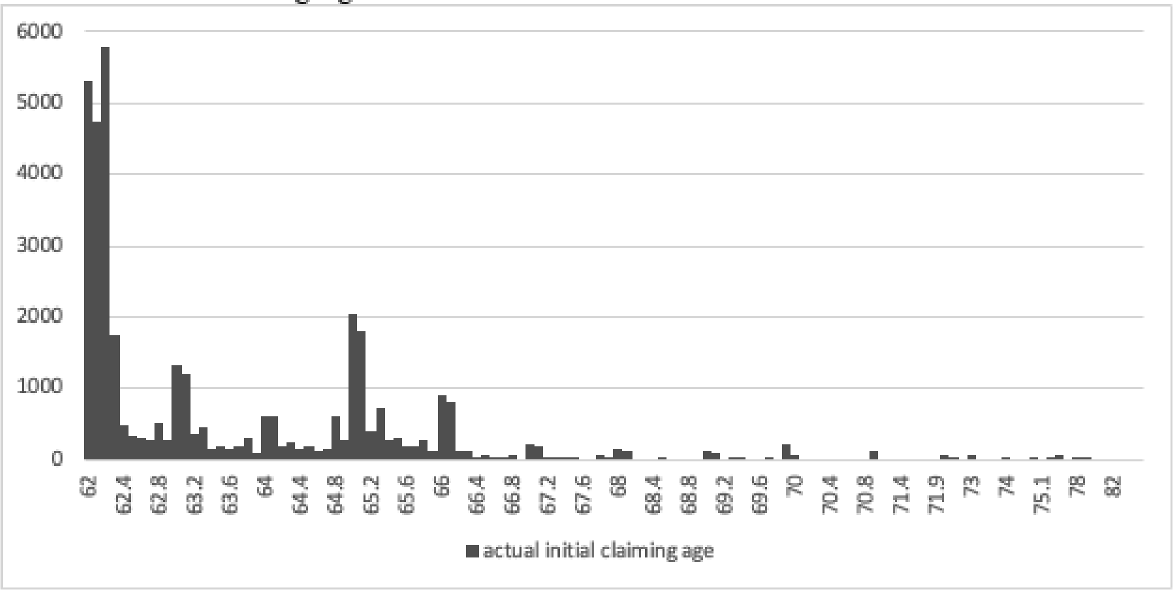
1. *Liquid assets* is sum of the value of assets in checking, savings, and money market accounts + value of stocks, mutual funds and investment trusts
2. *Pension wealth* is total amount of retirement assets accumulated in different retirement accounts (401(k), IRA/Keogh accounts, and DB, also include CDs and bonds)
3. *Real estate wealth* is total vale of primary and secondary residence net of mortgage and other home loans
4. *Total household wealth* is the sum of liquid, pension, and real estate wealth.

Respondent Characteristics

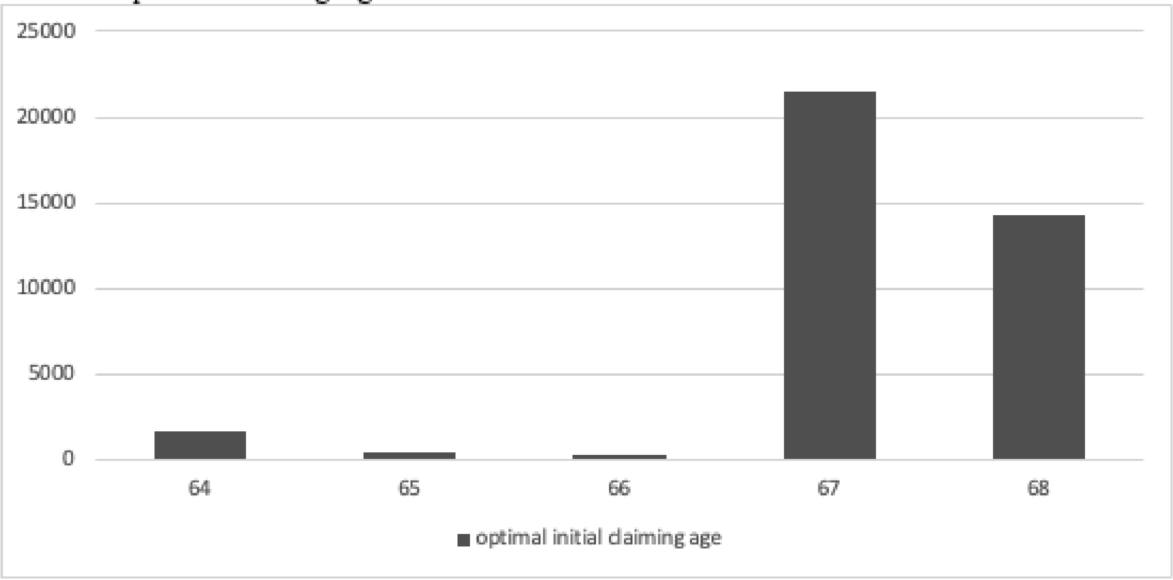
- Mean Age: 71 (late claimers are older than early claimers)
- Slightly more males than females (late claimers tend to be disproportionately male – 80%)
- Share of households that initiated claiming and continued working declined from 65% in 1992 to 15-20% in the 2010s.
- Average household wealth: early claimers - $600,000; later claimers - $840,000
- Average OF is 4 years (sub-optimal claiming occurs 4 years before or after optimal age).

Distribution: Actual and Optimal Claiming Age

Panel A: Actual Claiming Age



Panel B: Optimal Claiming Age



Findings: Full Sample

	Liquid Assets	Pension Wealth	Real Estate Wealth	Total Household Wealth
OF Index	-19,011.9 (23036.7)	-53,437.2 (47328.2)	**-101,303.3**** (41589.9)	**-219,212.6**** (103335.7)
Covariates	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Region FE	Yes	Yes	Yes	Yes
Region X Year Fe	Yes	Yes	Yes	Yes

Note: Standard errors clustered at the household level

Findings: Early vs Late Sub-optimality

	Liquid Assets	Pension Wealth	Real Estate Wealth	Total Household Wealth
		Sub-Optimal Early Claimers		
OF Index	-12,989.3	-51,710.1	**-101,045.5****	-190,702.1
	(24543.5)	(54487.1)	(52517.1)	(121916.0)
		Sub-Optimal Late Claimers		
OF Index	-84,088.7	-36,610.7	-75,458.8	-242,849.4
	(97049.6)	(86002.3)	(112203.7)	(271930.3)
Covariates	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Region FE	Yes	Yes	Yes	Yes
Region X Year Fe	Yes	Yes	Yes	Yes

Note: Standard errors clustered at the household level

Conclusion

- Findings:
  - Sub-optimal claiming eases liquidity constraints, other retirement savings are not affected (suggests individuals do not make implicit tradeoffs between foregone SS wealth and other retirement savings).
  - Sub-optimality has stronger effects on real estate wealth particularly for sub-optimal early claimers (indicative of some form of drawing of equity from real estate assets to substitute for lower SS benefits).

- Optimal claiming improves financial security in retirement, results provide a nuanced perspective on how retirees manage finances lower SS benefits from early claiming

- Greater information on optimal claiming timing could improve when SS is claimed and post-retirement financial well-being.

Sita Slavov, Ph.D.

Professor of Public Policy

George Mason University

Discussion: Social Security Claiming Timing and Older Adults' Financial Wellbeing

Sita Nataraj Slavov

George Mason University and NBER

Summary: Very careful analysis of an important question

- Social Security is the largest source of retirement income for most people.
- Social Security claiming decision has become high stakes.
  - Increased generosity of delayed retirement credit (for delay beyond full retirement age).
  - Improved life expectancy.
- Delaying claiming is equivalent to buying an inflation-indexed annuity on relatively generous terms.
  - Can affect financial well-being decades down the road.

Why might someone claim suboptimally early?

- Suboptimal = failing to maximize expected net present value (NPV).

- Why might someone claim before NPV maximized?

  - Liquidity constraints (unlikely to explain all early claiming; Goda et al. 2018).

  - Optimal declining consumption path (Rohwedder, Hurd, and Hudomiet 2022).

  - Preferences towards annuities – "annuity puzzle" (e.g., Brown 2009).

  - Social Security rules – e.g., allowing spouse to claim spousal benefit.

Why might someone claim suboptimally late?

- Suboptimal = failing to maximize expected net present value (NPV) at <u>individual</u> level.

- Why might someone claim after NPV maximized?

  - Survivor benefits (Shoven and Slavov 2014; primary earner delay to 70 often maximizes NPV for <u>couple</u>).

  - Risk aversion (Yaari 1965; value annuities).

  - Bequest motive (Coile et al. 2002).

Suggestions / Extensions

- Analysis of who claims suboptimally early vs. late. Can it be explained by the factors discussed?
    - Many factors are measurable in the HRS.
- Suggestions on methodology – will provide to authors directly.

Craig Copeland, Ph.D.

Director, Wealth Benefits Research

Employee Benefit Research Institute (EBRI)

Replacement Rates-The Tradeoff Between Social Security and Defined Contribution Plans and How the Age Retiring Impacts These Rates

Craig Copeland, EBRI

Social Security Claiming Timing and Older Adults' Financial Wellbeing
Georgetown Center for Retirement Initiatives
April 30, 2025

Overview—Replacement Rates from Social Security and Defined Contribution Plans/IRAs

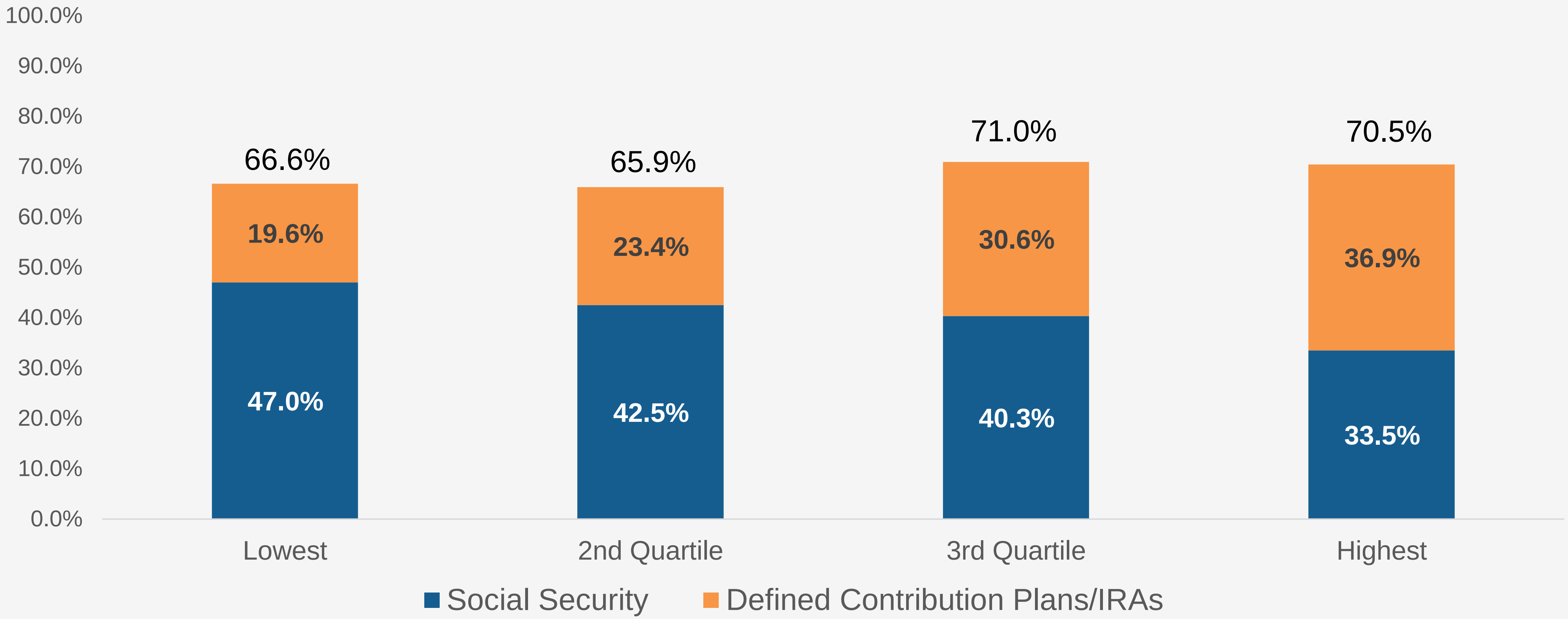
- EBRI's RSPM®, a stochastic simulation model, is used to generate asset accumulations in defined contribution plans and individual retirement accounts of workers during their careers along with tracking their earnings history for the calculation of their Social Security benefits.
- The annuitized value of the DC/IRA accumulations and Social Security benefits are compared with the simulated average annual earnings of each worker to determine the amount of the earnings that these retirement income sources will replace.
- The replacement rates are calculated for workers of different ages and incomes to see how Social Security and DC plans/IRAs work together to provide retirement income. *Defined benefit plans are not included in this analysis.*

Overview—Replacement Rates from Social Security and Defined Contribution Plans/IRAs

Each figure will show the median replacement rates from DC/IRAs, Social Security, and the combined total for each income and age group examined

- All workers ages 35-64
  - Workers retire at age 65
  - Workers retire at age 67
  - Social Security benefits being reduced by 25 percent across the board with workers retiring at age 65
- Younger (35-59) vs. older (60-64) workers
- How replacement rates vary by future years of DC contributions

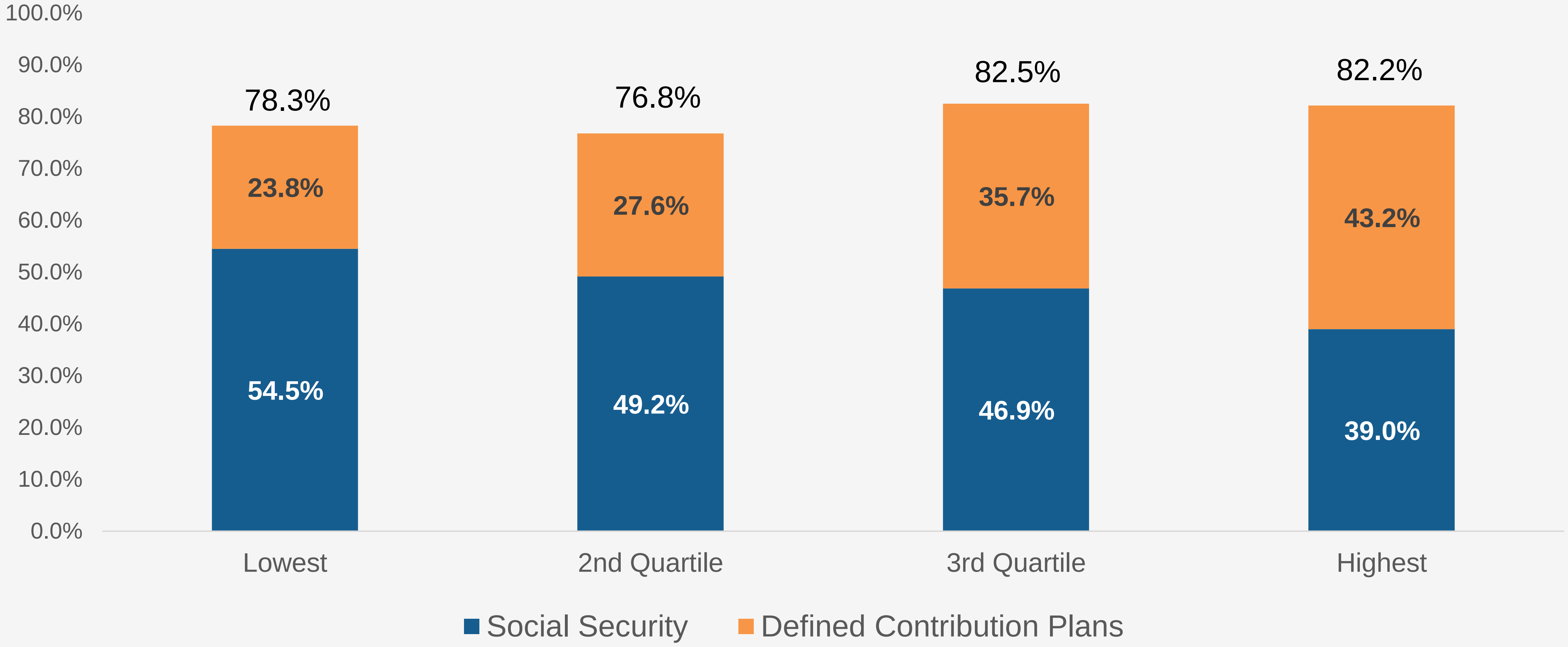
Median Replacement Rates From Social Security and Defined Contribution Plans/IRAs When Retiring at Age 65 SECURE Baseline, by Average Income Quartile



Source: 2025 RSPM Replacement Rate Analysis.
Note: The income cutoffs for the average income quartiles are $37,440, $51,850, and $68,960 in 2021 dollars.

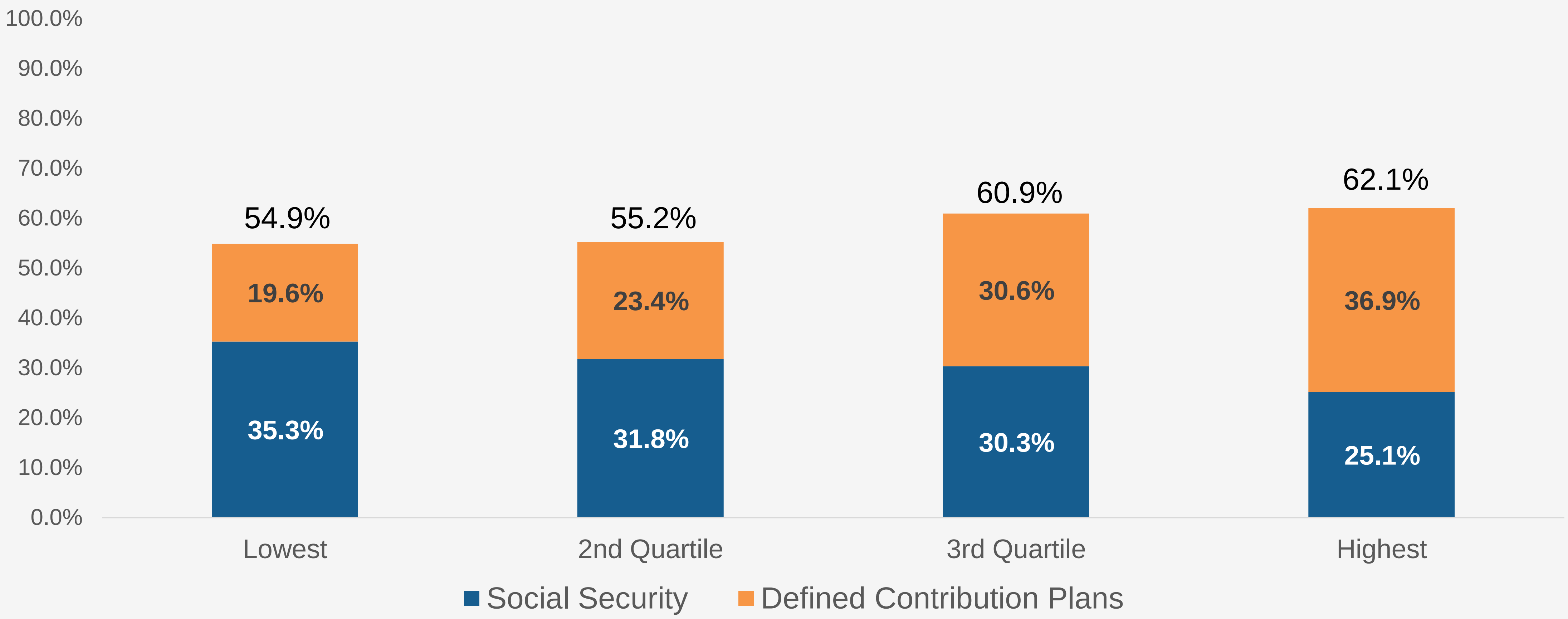
EBRI EMPLOYEE BENEFIT RESEARCH INSTITUTE

Median Replacement Rates From Social Security and Defined Contribution Plans/IRAs When Retiring at Age 67 SECURE Baseline, by Average Income Quartile



Source: 2025 RSPM Replacement Rate Analysis.
Note: The income cutoffs for the average income quartiles are $37,440, $51,850, and $68,960 in 2021 dollars.

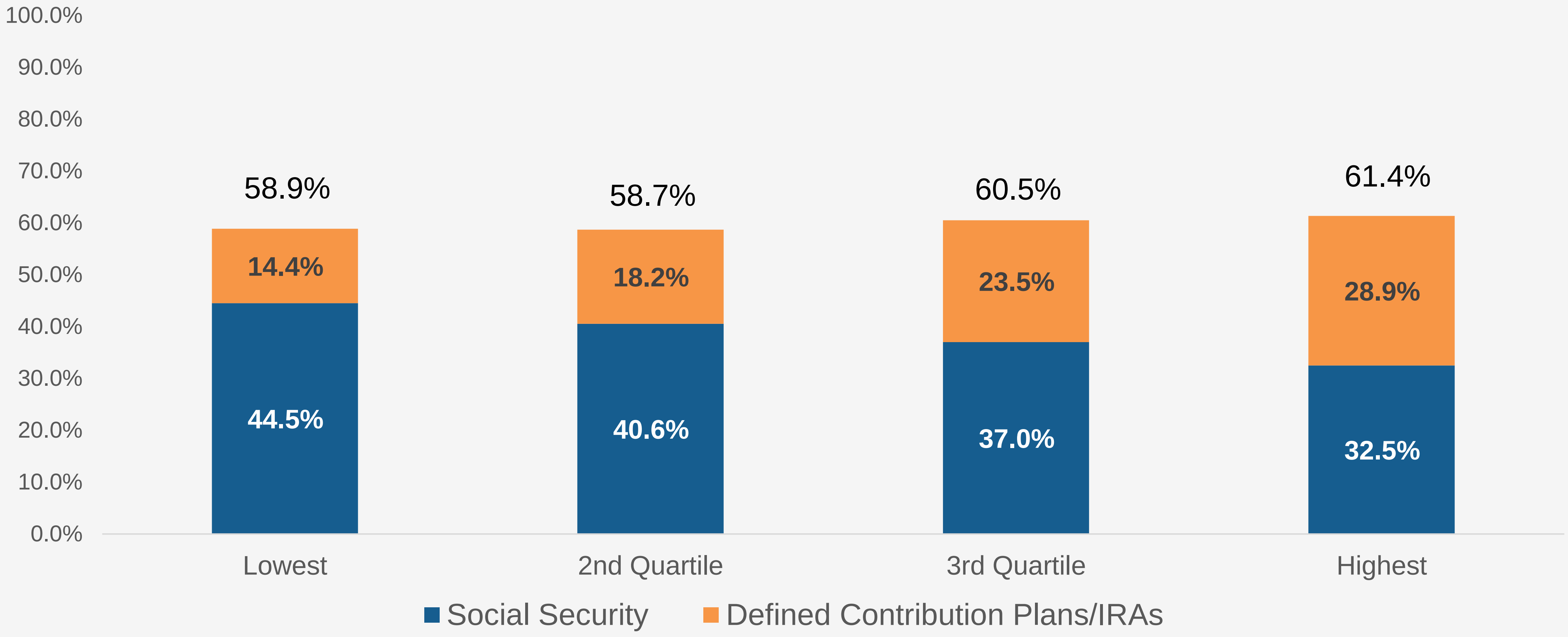
Median Replacement Rates From Social Security and Defined Contribution Plans/IRAs When Retiring at Age 65 SECURE Baseline With 25% Reduction in Social Security Benefits, by Average Income Quartile



Source: 2025 RSPM Replacement Rate Analysis.
Note: The income cutoffs for the average income quartiles are $37,440, $51,850, and $68,960 in 2021 dollars.

EBRI EMPLOYEE BENEFIT RESEARCH INSTITUTE

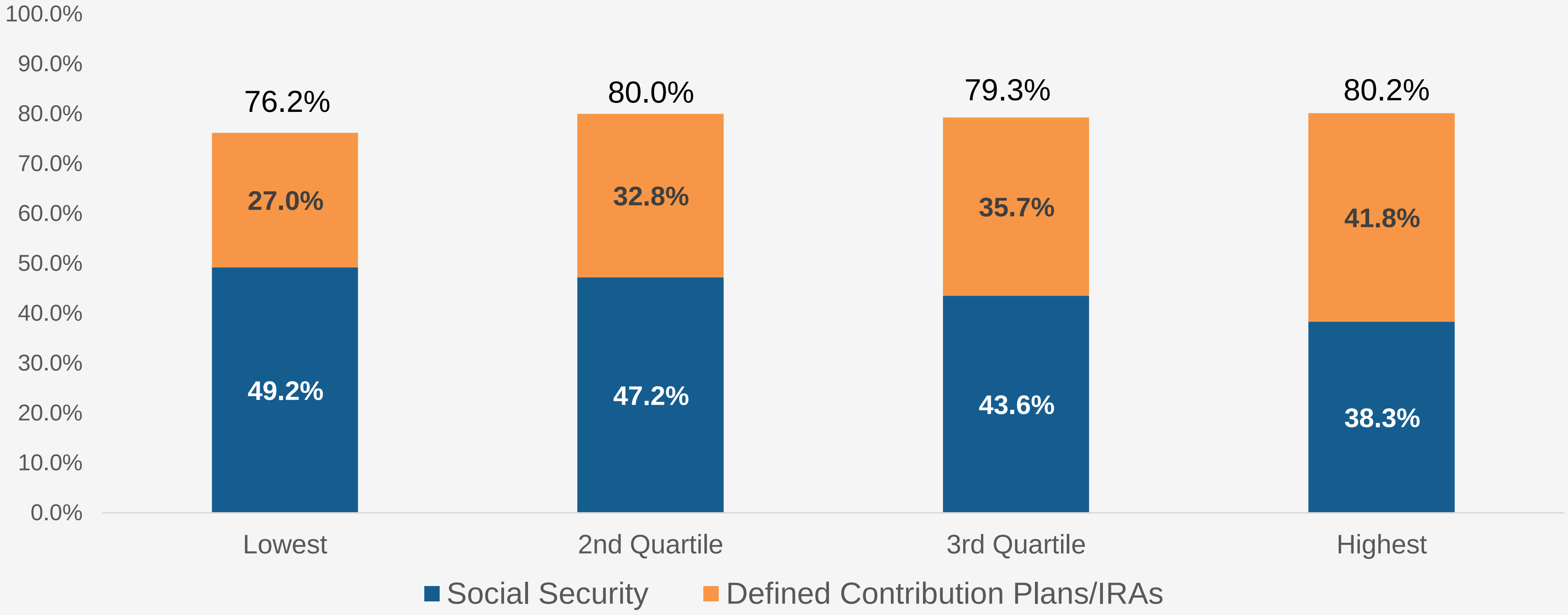
Median Replacement Rates From Social Security and Defined Contribution Plans/IRAs When Retiring at Age 65 SECURE Baseline for Those Ages 60-64, by Average Income Quartile



Source: 2025 RSPM Replacement Rate Analysis.
Note: The income cutoffs for the average income quartiles are $37,440, $51,850, and $68,960 in 2021 dollars.

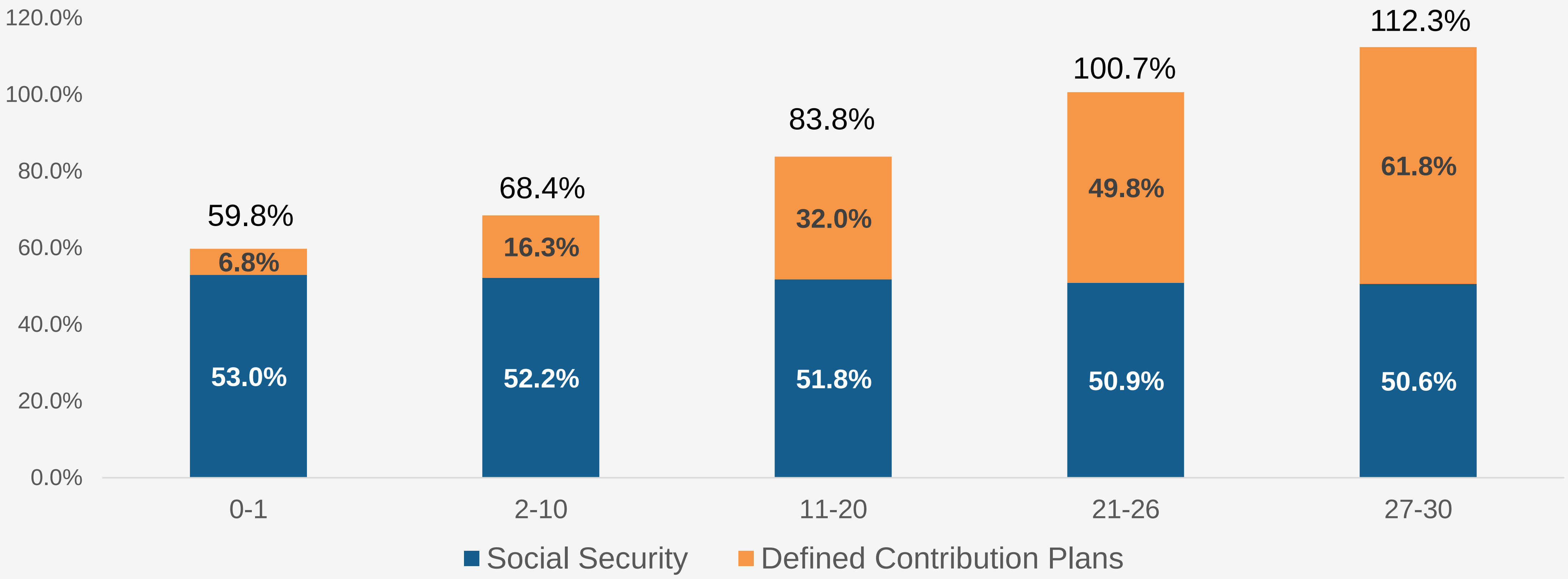
EBRI EMPLOYEE BENEFIT RESEARCH INSTITUTE

Median Replacement Rates From Social Security and Defined Contribution Plans/IRAs When Retiring at Age 65 SECURE Baseline for Those Ages 35-39, by Average Income Quartile



Source: 2025 RSPM Replacement Rate Analysis.
Note: The income cutoffs for the average income quartiles are $37,440, $51,850, and $68,960 in 2021 dollars.

Median Replacement Rates From Social Security and Defined Contribution Plans/IRAs When Retiring at Age 65 SECURE Baseline For Those Ages 35-39 in Lowest Income Quartile, by Future Years of Contributions



Source: 2025 RSPM Replacement Rate Analysis.

EBRI EMPLOYEE BENEFIT RESEARCH INSTITUTE

Takeaways

- Social Security is a vital part of individuals' retirement incomes, especially among lower income individuals. The Social Security system works together with the defined contribution system in way that similar total median replacement rates are projected across individuals of all income levels.
- Lower income individuals receive larger shares from Social Security, while higher income individuals receive larger shares from the private system. Middle-income individuals rely heavily on the private system and Social Security to provide income in retirement.
- The age at which a worker retires (claims Social Security) has a significant impact on what retirees' incomes will be in relation to what they had before retiring.
- The defined contribution system is improving, so that future cohorts can expect more from DC plans than those retiring now.
- Cutting Social Security benefits or claiming them early would have a dramatically negative impact on workers' retirement security, especially among those who were lower earners.

Appendix: Assumptions

- Replacement rate definition-the annuity value of all defined contribution (DC) plan and individual retirement account (IRA) balances plus the annual Social Security benefit at retirement age of 65 or 67 divided by the average of the simulated annual earnings (i.e., for those ages 45 at the beginning of the simulation, it is the average of their earnings from age 45 until retirement age; for those age 50, average of earnings from age 50 through retirement age)
- Annuity assumptions-annuity starts at retirement age, with all married individuals taking a joint and survivor annuity and not married individuals taking single life annuities of their respective gender. Rates as of August 5, 2024, from *immediateannuities.com*
    - **Monthly benefits per $100,000**

	Age 65	Age 67
Joint and Survivor	$545	$564
Male	$635	$665
Female	$612	$639

Mary Beth Franklin

Certified Financial Planner

and

Founder, RetirePro

Lifelong Income

You can outlive your savings and investments, but you can never outlive your Social Security benefits. Social Security is the foundation for a secure retirement, but it was never designed to be the sole source of retirement income. On average, it replaces only about 40% of pre-retirement earnings and even less—about 33%-- for higher-income workers.

To have a comfortable retirement, you will need additional sources of income such as a pension, retirement savings, home equity or a job.

Your Claiming Age Matters

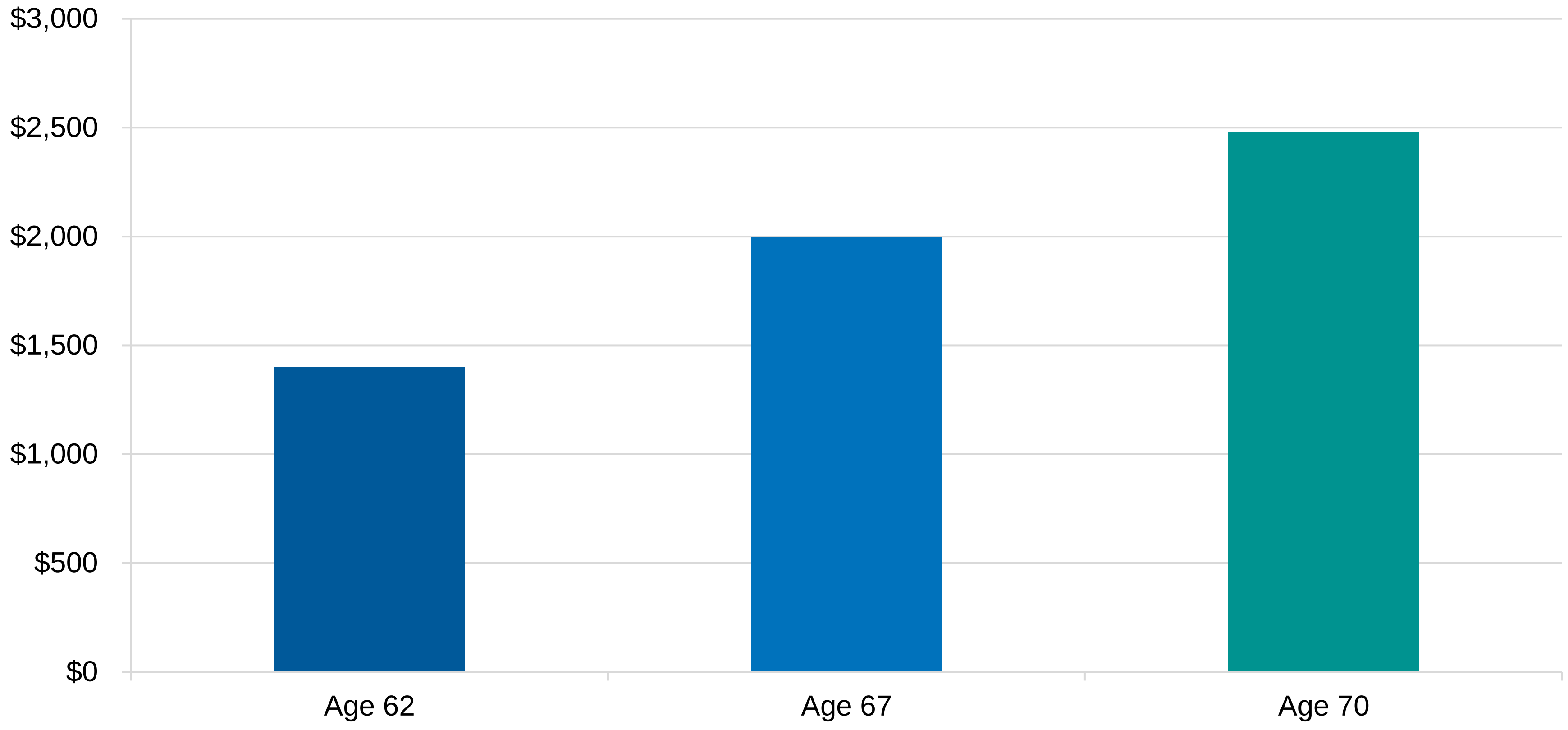
You can collect Social Security retirement benefits as early as 62, but they will be permanently reduced by up to 30% for the rest of your life. Benefits can be reduced even further if you work and earn more than $23,400 in 2025.

If you wait until your full retirement age (FRA), which ranges from 66 to 67 depending on birth year, you can collect your full retirement benefit even if you continue to work as earnings limit end at FRA.

If you delay collecting retirement benefits beyond your FRA, you can increase the amount by 8% per year up to age 70.

The Value of Waiting:

77% Increase in Monthly SS Benefits for Life When Claimed at 70 vs 62



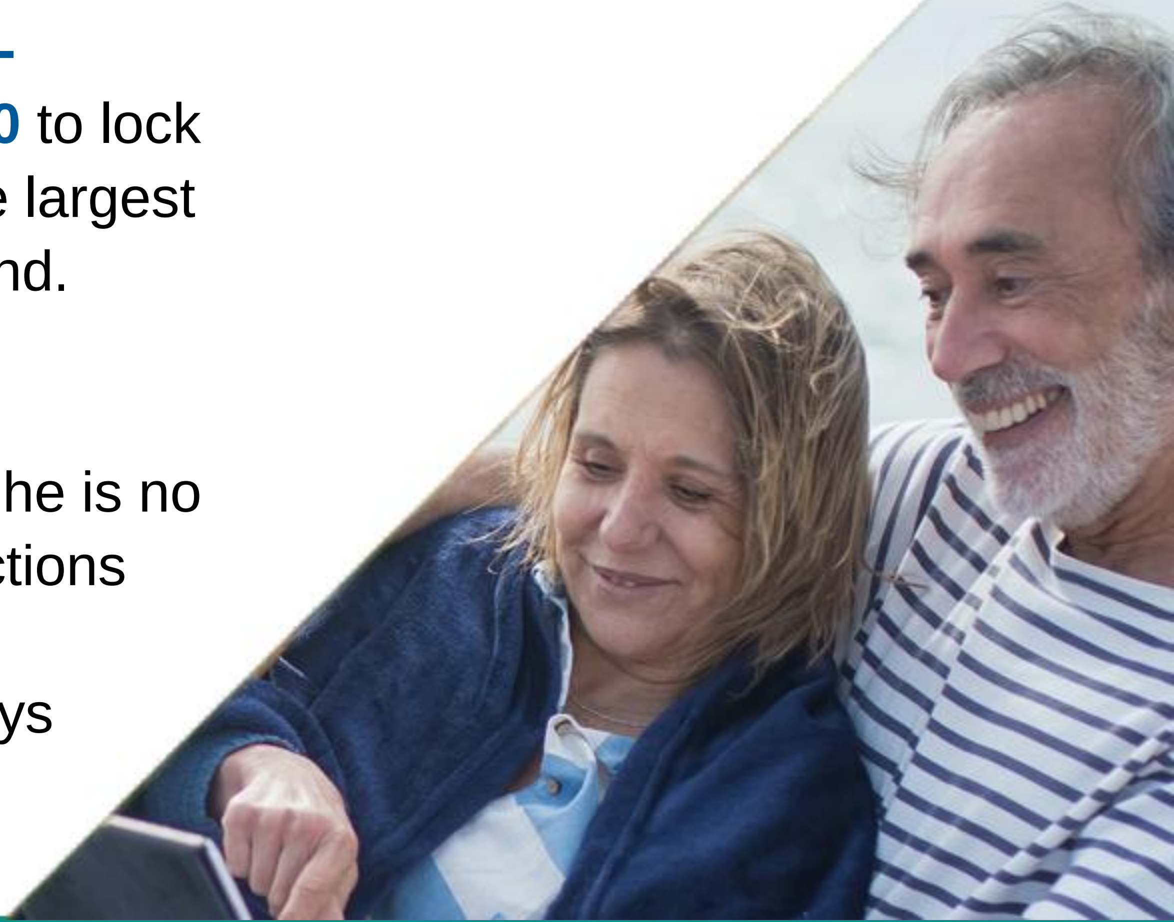
Should You Delay Social Security?

Pros	Cons
• Bigger benefit for each year you postpone claiming between 62 and 70 • Creates a larger base for future Cost-of-Living Adjustments (COLAs) • Provides a potentially larger survivor benefit	• Reduced cash flow now • Higher breakeven age to make delaying worthwhile • Could die before claiming

Strategies for Married Couples

In many cases, it makes sense for the higher-earning spouse to delay benefits up to age 70 to lock in the maximum retirement benefit as well as the largest possible survivor benefit for the spouse left behind.

The lower-earning spouse may want to claim reduced benefits early at 62, assuming she or he is no longer working, or at FRA (when earnings restrictions end) if still working. This split strategy increases household cashflow while the other spouse delays benefits.



Goal: Maximize Survivor Benefits

Spousal benefits = 50% of worker's FRA benefit.
Survivor benefits = 100% of worker's benefit, including any delayed retirement credits, if surviving spouse is at least FRA; less if collected earlier.

Even if one spouse claimed reduced retirement benefits early, it will have no impact on her survivor benefits if she is at least FRA when she claims them. Must be married at least 9 months at time of death.

Rules for Divorced Spouses

Must be **married at least 10 years** before divorcing.

Currently unmarried to claim spousal benefits (different rules for survivor benefits).

Both ex-spouses must be **at least 62 years old.**

Plus, if divorced at least 2 years, you may be able to claim benefits on your ex even if your former spouse has not yet filed for Social Security assuming that benefit is bigger than your own.

You Can Collect on Your Ex

Although you must be single to collect on a living ex, if you wait until age 60 or later to remarry, you can collect *survivor* benefits on your deceased ex even if you're married to someone else. Survivor benefits are worth twice as much as spousal benefits.

Survivors Can Switch Benefits

Survivor benefits and retirement benefits represent two different pots of money. Eligible survivors who are also entitled to their own retirement benefit can switch benefits.

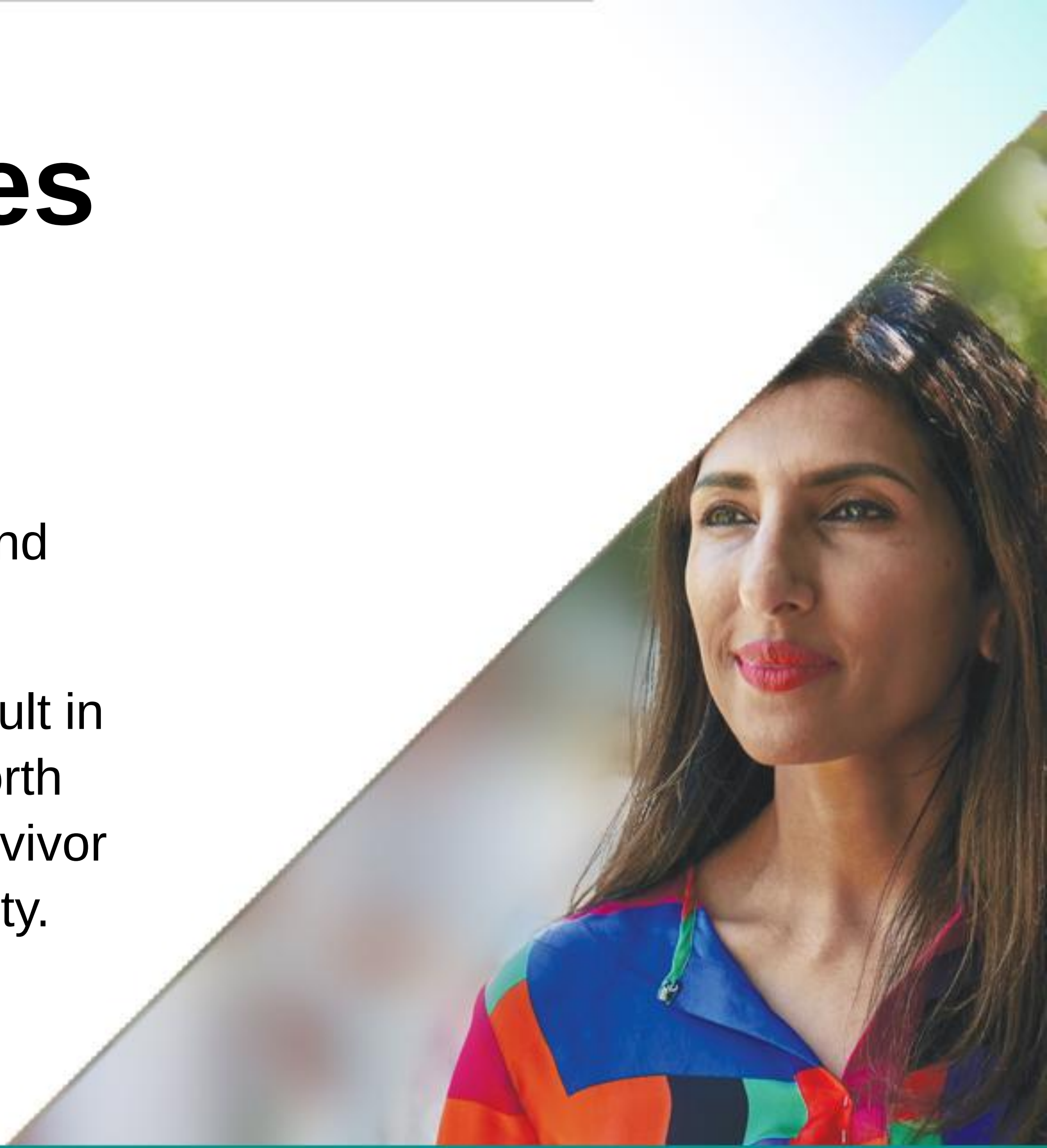
Widows, widowers and surviving ex-spouses can collect survivor benefits as early as age 60 but are subject to benefit reductions if claimed before FRA and the earnings cap if they continue to work.

They can collect survivor benefits initially—worth up to 100% of the deceased spouse's benefit—and then switch to their own benefit that continues to grow at 8% per year until age 70. Or, they could collect their own reduced retirement benefit first and switch to maximum survivor benefits at FRA.

Strategies for Singles

For those who never married or who were divorced before 10 years of marriage:

- Benefits based on average lifetime earnings and age at time of claim.
- Delaying claiming benefits until age 70 will result in a larger monthly payment but it may not be worth waiting that long since no one will collect a survivor benefit if you die before claiming Social Security.



Will Social Security Be There For Me?

The Social Security combined trust funds are expected to be exhausted in 2035. That does not mean the system is bankrupt. There would be enough money from ongoing FICA taxes to pay about 80% of promised benefits. Congress must act before then to prevent across-the-board benefit cuts.

Should You Rush to Claim Benefits Now?

Some people, worried that Social Security is going broke, think they should claim benefits now to avoid a future benefit cut. But claiming benefits early out of fear is like selling stocks in a down market: The only thing you have guaranteed is that you have locked in a loss.

Claiming Social Security before full retirement age results in a permanent reduction in benefits and if the worst-case scenario occurred—and future benefits had to be cut—your benefits could be reduced even further.

Joel Eskovitz

Director, Social Security and Savings

AARP Public Policy Institute

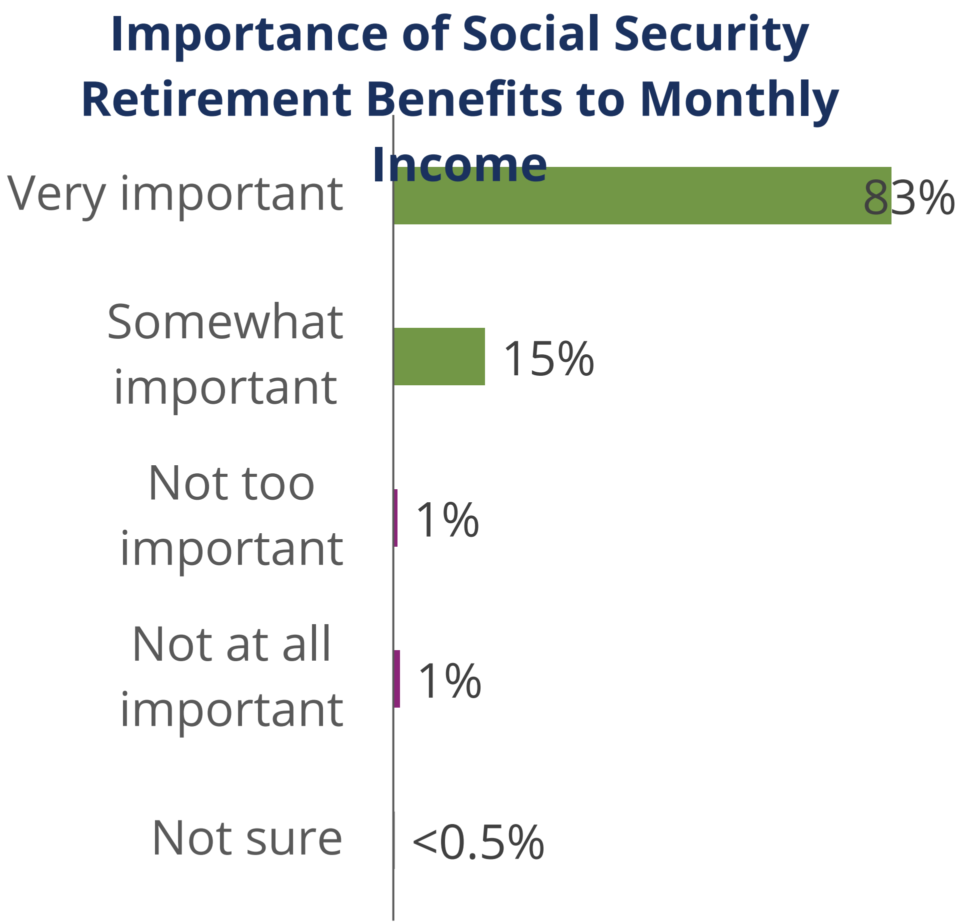
Social Security at 90: A Bipartisan Roadmap for the Program's Future

A Survey with Trade-off Analysis

National Academy of Social Insurance
With: AARP, NIRS, U.S. Chamber of Commerce
Conducted by: Greenwald Research, NORC

Social Security benefits highly important to current beneficiaries

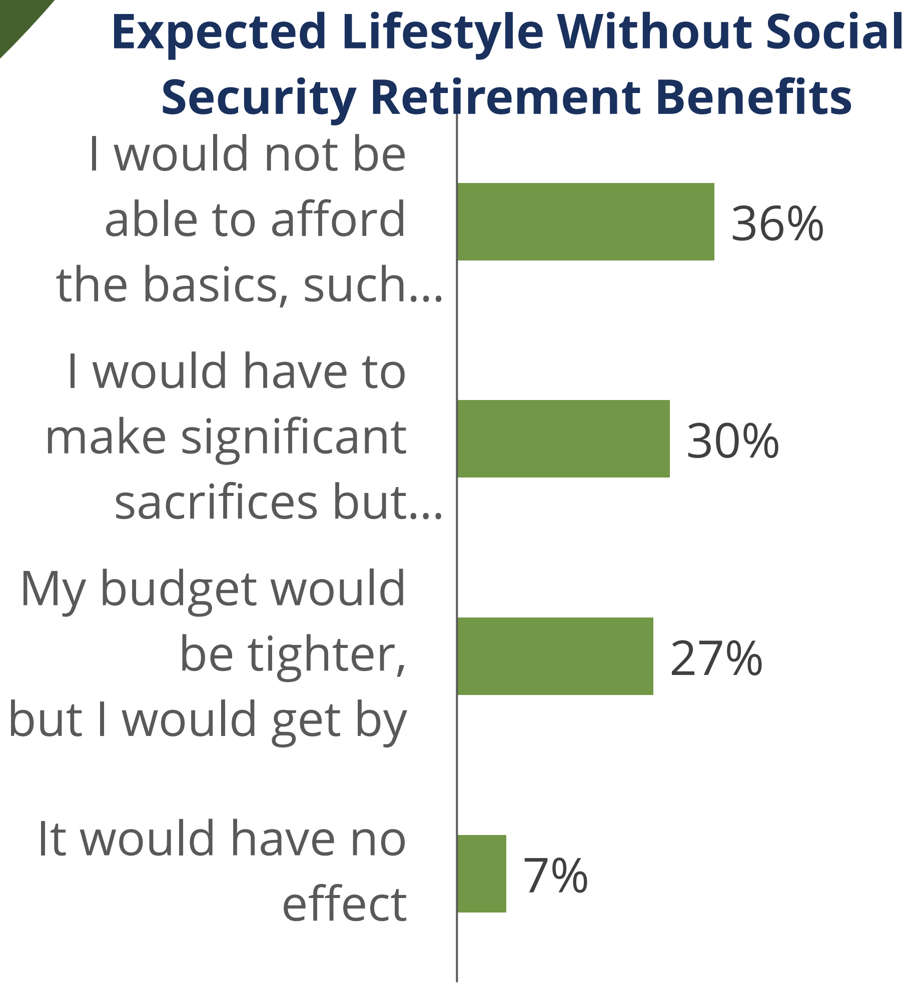
- Among those in households receiving benefits, 4 in 5 say benefits are very important to monthly income
- Only 1% say benefits received are not at all important



How important would you say Social Security retirement benefits are to your monthly income?
(FILTER: Self and/or spouse is currently receiving Social Security=651)

2 in 3 couldn't afford basics/ would make significant sacrifices

- Two-thirds say they would not be able to afford the basics or would have to make significant sacrifices without Social Security
- Only 7% say would not be affected
- Even among highest-income households (>$200,000) only 18% say absence of Social Security would have no effect



If for some reason you did not receive your Social Security retirement benefits, which of the following statements best describes the effect it would have on your lifestyle, if any, in (retirement / your later years)?

(n=2154)

Trade-Off Analysis: Americans' Preferred Package

Trade-Off Analysis

The Preferred Package

- Increases revenues
- Pays for targeted benefit improvements
- Eliminates financing gap and provides a slight surplus

Category	Policy
Taxable Earnings Cap	Keep current cap of about $168,000 and also collect Social Security taxes on earnings above $400,000; Those who earn more than $400,000 would not get any additional benefits
Tax Rate	Increase tax rate from 6.2% to 7.2% for both employees and employers
Age for Full Retirement Benefits	No Change
COLA	Increase COLA by basing it on inflation for older people
Work Credit to Parents who are Caregivers	Give parents who are caregivers for children under age 6 with credit for work for calculating Social Security benefits
Benefits for all beneficiaries	No Change
Taxation of Benefits	No Change
Bridge Benefit	Reduce the penalty for receiving Social Security benefits early for people with a history of physically demanding work or who are no longer able to work due to declining health
Beneficiaries with Higher Income in Retirement	Reduce benefits for higher earners (beneficiaries with >$60K/$120K in non-Social Security income in retirement)

Trade-Off Analysis

Certain changes have a strong impact on package's appeal

Changes that strongly *increase* package appeal:

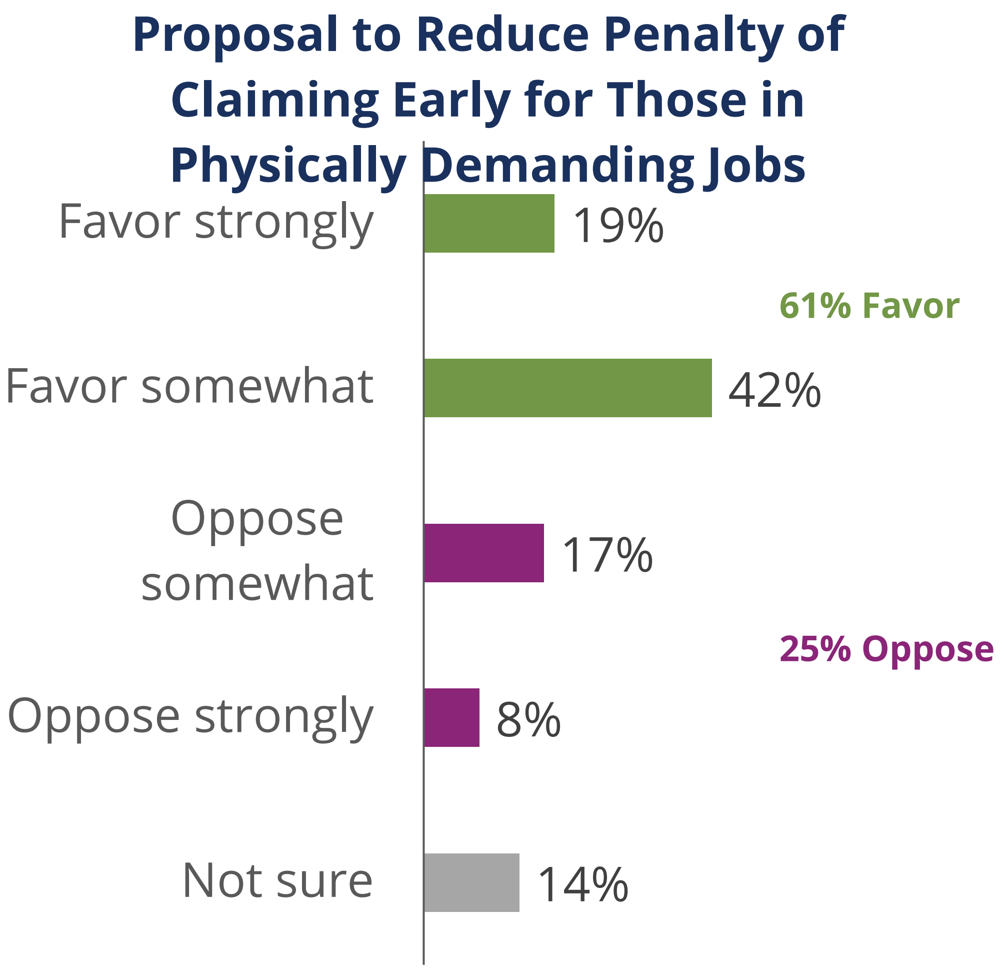
- Applying payroll tax on earnings over $400,000 that are taxed for Social Security
- Gradually increasing the Social Security tax rate from 6.2 percent to 7.2 percent
- Keeping Social Security’s full retirement age at 67 instead of raising it further

Changes that strongly *decrease* package appeal:

- Not changing the tax cap.
- Decreasing the cost-of-living adjustment by basing it on a different calculation that increases the amount more slowly than the current method.
- Increasing benefits by $250 a month for all new beneficiaries.
- Increasing the full retirement age from 67 to 69.

Most favor bridge benefit for those in physically demanding jobs

- More than twice as many favor than oppose this proposal
- Only 1 in 4 oppose including only 1 in 12 who strongly oppose



Currently, the age required to get full Social Security retirement benefits is 67. People can claim benefits as early as 62 but will receive reduced benefits if they do so. This proposal would create an exception for people with a history of physically demanding work or who are no longer able to do their current jobs due to declining health. These workers would still face reduced benefits if they claimed before age 67, but the reduction would not be as large.
Do you favor or oppose this change?

(n=2233)

QUESTIONS?

Center for Retirement Initiatives
McCourt School of Public Policy

125 E Street NW, Suite 530, Washington, DC 20001
202-306-8540 | cri.georgetown.edu

Angela M. Antonelli
Executive Director
ama288@georgetown.edu

Follow us on social media for updates

GEORGETOWN UNIVERSITY
McCourt School of Public Policy

CENTER FOR RETIREMENT INITIATIVES