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## Partial lump-sum payouts for Social Security?

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By Editor Test     *Wed, May 15, 2013*

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To the frustration of many academics and public policy makers, most Americans claim Social Security earlier (near age 62) rather than later (until age 70), and therefore get a longer period of lower monthly benefits instead of a shorter period of larger ones.

Hoping to encourage more people to work longer, delay Social Security payments, and boost their incomes at higher ages, a team of retirement researchers from Goethe University in Frankfurt, Germany and the Wharton School at the University of Pennsylvania have proposed a change in Social Security policy that involves a lump sum payment at retirement.

The researchers suggest that instead of giving Americans increasingly higher monthly benefit for waiting past age 62 to claim benefits (to a maximum age of 70), the Social Security Administration might present the premium for delay as a lump sum, which they could spend, invest, or use to fund a legacy.

“This lump sum payment would be equal, in present value terms, to the additional benefit stream paid to the worker claiming Social Security benefits after the NRA,” wrote researchers Jingjing Chai, Raimond Maurer and Ralph Rogallo of Goethe University and Olivia Mitchell of Wharton.

“Under the Social Security system’s current rules, a worker who delays claiming her benefit until after the Normal Retirement Age (NRA) is entitled to a benefit increase of about 8% per year that retirement is deferred,” they added.

“In our model, under an actuarially fair lump sum scheme, an individual who opted to work to age 66 instead of claiming benefits at age 65 would then receive a lump sum worth of about 1.2 times her age-65 benefit, plus the age-65 benefit stream for life.

“Similarly, an individual deferring retirement even later, to age 70, would receive a lump sum worth about 6 times the starting-age annual benefit payment, plus the age-65 benefit stream for life.”

Thus, for someone who might have received \$1,800 a month at normal retirement age and \$2,400 a month if she waited until age 70, could instead receive at age 70 a lump sum payment of \$129,600 and a monthly benefit of \$1,800 per month. The researchers believe that such a modified incentive would raise the average retirement age in the U.S. by 1.5 to 2 years. They wrote:

“In years to come, US policymakers will be actively seeking ways to reform Social Security to restore the system to solvency. Proposing cuts in benefits tends to be quite politically difficult.

“By contrast, offering a fair lump sum in place of the delayed retirement annuity credit may be more

politically attractive. By (voluntarily) delaying their retirement date due to the lump sum option, workers would continue to pay Social Security payroll taxes for more years, which could help return the system to solvency via additional payroll tax collections.

“Moreover, such a policy could be designed to be cost-neutral, albeit in the real world one would also need to consider additional issues including spouse and survivor benefits, changes in annuity factors, sudden demands for liquidity due to health shocks, and other factors.”

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