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## Social Security behavior modification: What works?

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By Editor Test     Thu, Aug 1, 2013

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A new [brief](#) from the Urban Institute’s Program on Retirement Policy shows that some of the government’s incentives and disincentives—a rising full retirement age, a bigger penalty for taking benefits early and a bigger reward for taking them late—is beginning to have some effect in encouraging people to delay Social Security.

To be sure, there was a spike in claiming during the financial crisis, but it subsided. “Retired worker awards increased 12% in 2008 and 20% in 2009, when a then-record 2.7 million adults received retirement benefits for the first time. The unemployment rate soared over that period, more than doubling between 2007 and 2009 for workers age 55 or older.”

Unemployment continued to grow in 2010, but the claiming rates declined that year and again in 2011, even though the unemployment rate for workers age 55 or older remained as high as in 2009. The number of retirement benefit awards increased by only about 3,000 in 2012, despite continued substantial growth in US population age 62 to 69.

“The share of retirees collecting Social Security at age 62 has fallen 12 percentage points over the past decade,” to about half of women and less than half of men, the report said. About one in four men now claim at the current full retirement age of 66.

There are huge spikes in claiming rates at age 62 and then again at the full retirement age (FRA) for each age group. In other words, most people either take benefits when they reach the earliest possible age or the FRA, whatever theirs happens to be. Few people wait until age 70, when they qualify for the maximum benefit.

The full retirement age (FRA) was raised to 65 years and two months for those born in 1938. It increased another two months for each successive birth cohort until it reached 66 years for those born in 1943. It will stay at 66 until it begins increasing two months per year again for those born in 1955 through 1960. Current law sets the FRA at 67 years old for everyone born in 1960 or later.

The penalty, as it were, for retiring at age 62 has been going up, while the incentives for waiting until later ages has been increasing. People born in 1937 receive 80% of their full retirement benefits if they retire at age 62, but people born in 1943 receive 75% and people born in 1960 receive only 70%.

The reward for delaying Social Security benefits is also much higher than it once was. Congress has gradually increased the actuarial adjustment for delayed claiming past the FRA. That adjustment, now 8% a year (up to age 70) for those born in 1943 or later, was only 3.5% for those born in 1925.

The government reduces Social Security benefits for people by \$1 for every \$2 they earn over \$15,120 prior the year they reach FRA. The exempt amount rises to \$40,080 in the year they reach FRA. After the FRA, there's no penalty for earned income.

The FRA seems to be a behavioral anchoring. Fully 25% of men born in 1943 or 1944 claimed at age 66 or later, including 19% who claimed at 66 (their FRA). By contrast, only 4% of men born between 1938 and 1942, whose FRA was 65, claimed at age 66 or later. Thirty percent of these men, whose FRA ranged from 65 years and 2 months to 65 years and 10 months, began collecting at age 65—more than twice the share of men born in 1943 or 1944 who began collecting at that age.

Half of women born in 1943 or 1944 claimed at age 62, compared with three-fifths of those born between 1935 and 1937. Eighteen percent of women born in the later years claimed at age 66 or later, up from 6% for those born in the earlier years. As with men, fewer women now begin collecting benefits at age 65 now that the FRA is 66 years.

Delaying claiming raises monthly benefits by five-ninths of a percent per month in the three years before the FRA, and by two-thirds of a percent per month in the four years after the FRA.

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