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STRANGE BUT TRUE: CLAIM SOCIAL SECURITY NOW, CLAIM MORE LATER

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Introduction

Under Social Security, married individuals are entitled to a *retired worker benefit* based on their own earnings and/or to a *spousal benefit* equal to one half of their spouse's benefit claimed at the Full Retirement Age (currently 66). If a married individual claims before the Full Retirement Age, the Social Security Administration assumes that the individual is claiming both types of benefits, compares the worker and spousal benefits, and awards the highest. Upon reaching the Full Retirement Age, individuals can choose which benefit to receive. As a result, married individuals can claim a spousal benefit at 66 and switch to their own retired worker benefit at a later date. This approach allows a worker to begin claiming one type of benefit while still building up delayed retirement credits, which will result in a higher worker benefit later.

In the past, providing these benefit options for spouses was not particularly valuable, since those who postponed benefits beyond the Full Retirement Age were giving up expected lifetime benefits. With the recent advent of an actuarially fair delayed retirement credit, lifetime benefits are roughly the same whether claimed at the Full Retirement Age or at age 70. As a result, today the availability of benefit options has real value for couples and therefore inevitably increases the cost of the Social Security program.

This *brief* describes how the procedure can benefit married couples, estimates how much it could cost the Social Security Administration on an annual basis, and characterizes those most likely to take advantage of the option. The conclusion is that the procedure could cost as much as $9.5 billion per year and a significant amount of that additional money would go to households in the upper portion of the income distribution.

Calculating Spousal Benefits

Under current law, married individuals are entitled to retired worker benefits based on their own earnings or, if they have no earnings, they receive 50 percent of their spouses' Primary Insurance Amount (PIA). If

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they have some earnings, the spousal benefit is used to "top up" the worker benefit so that the total equals 50 percent of the spouse's. The amount can be lower if the individual chooses to receive either the retired worker benefit or the spouse's benefit before the Full Retirement Age (see Table 1). However, spouses' benefits are not affected by the age at which the worker-beneficiary claims benefits.

Table 1. Spouse's Benefits as a Percent of the Worker's PIA

Full Retirement Age	Claiming own/spouse's benefit at:				
	62	65	66	67	70
62 in 1999	37.5%	50%	50%	50%	50%
62 in 2005-2016	35	45.8	50	50	50
62 in 2022	32.5	41.7	45.8	50	50

Source: U.S. Social Security Administration (2009).

Prior to reaching the Full Retirement Age (FRA), when a married individual files for benefits, he or she is subject to a "deemed filing" provision. Under this provision, it is assumed that the individual is filing for both the spousal benefit and the benefit based on his/her earnings record. The Social Security Administration then compares the two benefits and awards the higher. After reaching the FRA, deemed filing no longer applies, giving the individual the ability to choose which benefit he or she receives.

Originally, we thought that "claim now, claim more later" would involve the wife receiving the spousal benefit in two-earner couples with roughly equal earnings. For example, consider a two-earner couple in which the husband is three years older than the wife (the typical age difference according to the *Health and Retirement Study*). Both husband and wife had originally planned to delay claiming until age 70 in order to receive the highest possible monthly benefit. But, instead, once the husband claims his benefits at age 70, the wife – now 67 and no longer subject to deeming – can file for just a spousal benefit. The wife then continues working and contributing to Social Security. At age 70, she files for her own retired worker benefit, which has now reached its maximum amount due to the delayed retirement credits, and stops receiving the spousal benefit. In this situation, the wife gains three years of spousal benefits that she would not have enjoyed under the conventional claiming approach.

But it turns out that those most likely to receive a spousal benefit while using "claim now, claim more later" are the husbands in two-earner couples. The reason stems from the results of an earlier study that showed married women will maximize the couple's expected lifetime benefits by claiming early.[1] The intuition for this somewhat counter-intuitive finding is that women's planning horizon for how long they will receive their own retired worker benefit is from the date of their retirement to their husband's death. When their husband dies, they are entitled to their husband's benefit as a widow. Therefore, optimal claiming in most cases has the woman claiming benefits at 62 and the husband delaying until 69.[2] As a result, the way an optimizing couple would use "claim now, claim more later" is for the wife to claim at 62 and, once her husband reaches age 66, he would claim a spouse's benefit based on his wife's earnings. At age 69, he would claim the maximum amount of his own retired worker benefit due to the delayed retirement credits, and stop receiving the spousal benefit. Of course, if the woman is the higher earner, the story works in reverse.

The Cost of "Claim Now, Claim More Later"

One can get a rough idea of the potential annual cost by considering how many participants are eligible to use this strategy and how much they will gain from it. In 2006, roughly 650,000 husbands had higher earnings' histories than their wives.[3] The typical wife's Primary Insurance Amount – the unreduced benefit that serves as the basis of the spousal benefit – is about $900, so the husband would have received 50 percent of $900 for 36 months for a total of $16,200. Multiplying the number of men eligible (650,000) times $16,200 yields a total cost of $10.5 billion. Doing the same exercise for the 10 percent of cases – roughly 80,000 – where the wife has higher earnings than the husband yields an additional cost of $1.3 billion. Thus, a rough estimate of the annual cost incurred by households making their joint claiming decisions is about $11.8 billion.[4]

A more sophisticated approach to estimating the total cost to the program is to compare for each couple their optimal claiming ages and value of benefits under conventional claiming and under a scenario where "claim now, claim more later" is added to their options. This approach allows for couples with different age differences and different ratios of husband's to wife's earnings.

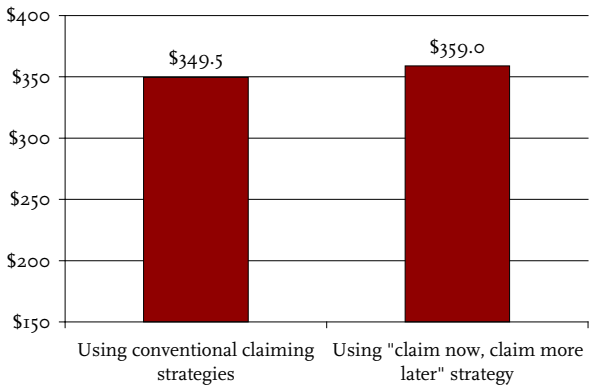
The analysis uses the 2006 *Health and Retirement Study* (HRS) and focuses on the joint claiming decision that married couples would make when the eldest member is 62 in order to maximize their expected lifetime benefits.[5] First, using life tables that vary by gender, race and education, we calculate the total expected benefits, including survivor benefits, paid to each household at each possible combination of claiming ages under conventional claiming strategies.[6] We identify the couple's combination of claiming ages that yields the highest expected benefits. Second, we expand the options available to the couple by adding the possibility of "claim now, claim more later." This expansion is accomplished by restricting first one member and then the other member of the couple from claiming benefits until he or she is 66, at which point he or she claims benefits based on the spouse's earnings record.

In order to claim benefits on the spouse's earnings record, the spouse also must have claimed benefits. But a new provision – "claim and suspend" – allows individuals who want to continue working upon reaching the FRA to claim their benefits and then suspend payment, so that their spouses may receive spousal benefits while their own worker benefits can increase with additional earnings and the delayed retirement credit. The ability to claim and suspend was assumed for both the base case and the expanded scenario.[7]

The next step in the analysis is simply to compare for each household the total amount of benefits paid under the conventional strategies and the total amount paid under the expanded options that include "claim now, claim more later." If the difference is negative, we assume the couple will not use the strategy and the cost to Social Security is zero. If the difference is positive, we assume the couple will use the strategy and impose a cost on Social Security. To get a total number for the population, HRS weights were applied to get the average for men and for women. The annual cost to Social Security is then calculated by multiplying those averages by the actual number of men and women aged 62 in the 2006 *Current Population Survey*.

The conventional strategy would have produced maximum benefits of $349.5 billion for married couples in 2006, while the expanded options would have produced maximum benefits of $359.0 billion (see Figure 1).[8] The potential annual cost to Social Security is thus $9.5 billion. This figure is close to the "back of the envelope" estimate described above.[9]

Figure 1. Maximum Benefits Paid by Social Security Under the Two Strategies, 2006 Dollars (Billions)

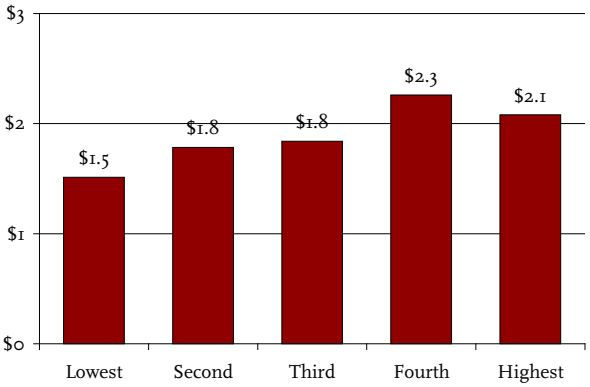


Source: Authors' calculations based on University of Michigan, *Health and Retirement Study* (HRS), 2006; and U.S. Bureau of Labor Statistics, *Current Population Survey* (CPS), 2006.

Who Gains from "Claim Now, Claim More Later"?

The final issue is who gains from the availability of the option to claim spousal benefits and then claim their own. Some obvious criteria include: 1) the individuals must be married; 2) at least one member of the couple must be healthy enough to delay claiming until 66; and 3) both spouses must have an earnings history. The higher and the more equal the earnings records, the more to gain. Figure 2 shows that the

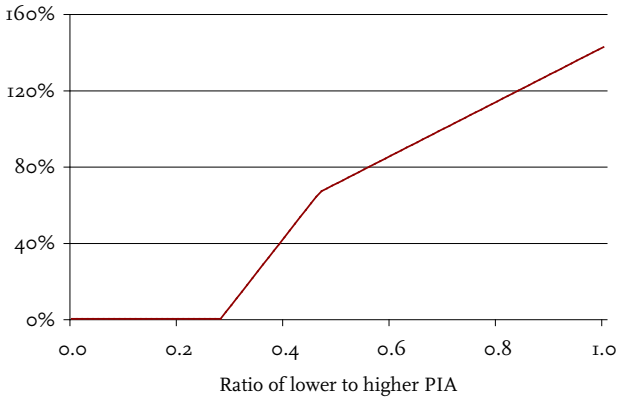
Figure 2. Potential Gain from "Claim Now, Claim More Later" Strategy by Wealth Quintiles, 2006 Dollars (Billions)



Source: Authors' calculations based on 2006 HRS; and 2006 CPS.

potential benefits from "claim now, claim more later" are relatively evenly distributed, though they somewhat favor households in the top two quintiles of the wealth distribution. These higher-wealth households receive over 45 percent of the total benefits. Figure 3 shows that the more equal the earnings between spouses, the greater the relative gain.

Figure 3. Potential Gain as a Percent of Higher Earner's PIA, by PIA Ratio



Note: This calculation assumes: (1) a three-year age difference between the older, higher earner and his spouse, and (2) gender-specific life expectancy.
Source: Authors' calculations.

Conclusion

This financial crisis has demonstrated the importance of Social Security as the backbone of the retirement income system. Thus, restoring balance to the Social Security program, which faces a deficit over the next 75 years, should be a high priority. This process will involve careful scrutiny of all provisions to assess whether they are consistent with the basic goals of the program. It is not clear what public policy goal the "claim now, claim more later" option addresses. Moreover, the main beneficiaries are two-earner couples, and a significant portion of the benefits goes to those with higher incomes. The potential cost in 2006 was about $9.5 billion. This cost will climb sharply as large numbers of baby-boom couples start retiring.

Endnotes

1 Munnell and Soto (2005).

2 Technically, these ages apply in circumstances when the wife's Primary Insurance Amount is equal to 40 percent or more of the husband's (see Munnell and Soto 2005).

3 We find that couples will not gain from this strategy if the lower earner's PIA is less than about 30 percent of the higher earner's PIA.

4 Discounting the benefits back to age 62 would reduce the total to $10.2 billion.

5 Because of the low number of couples reaching age 62, we augmented our sample size to get a more reliable estimation. See Appendix for further explanation.

6 Our calculations are based on the 1948 cohort life table. The socioeconomic survival rates come from Brown, Liebman, and Pollet (2002), which determines relative survival probabilities for 12 race-gender-education groups. If an individual did not fall into one of the 12 groups, they were assigned gender-specific cohort mortality.

7 To understand the effects of the "claim and suspend" provision, we calculated the cost to Social Security both with and without its use. Under conventional claiming behavior, "claim and suspend" increases total lifetime benefits by about $1 billion. Because "claim and suspend" is primarily used by couples with low PIA ratios, its use only marginally affects those who would normally use the "claim now, claim more later" strategy.

8 We assume that, under the conventional strategy, couples claim benefits at the optimal ages that maximize their expected lifetime benefits. In reality, men and women tend to claim early (see Sass, Sun and Webb, 2008, and Munnell and Soto, 2005). Sass, Sun, and Webb demonstrate that individuals forfeit roughly 4 percent of the value by claiming at suboptimal ages. If we use actual claiming behavior as the base case, rather than optimal behavior using conventional strategies, the potential cost would be about $23.5 billion rather than $9.5 billion.

9 The expanded claiming options produce a shift in the optimal claiming age for the high earner from 69 to 70. Therefore, one would expect the optimization calculation to yield a higher value than the "back-of the-envelope," since the higher-earning spouse would be receiving spousal benefits for four years instead of the three years used in the example. One would expect improved survivor benefits would also make the optimization calculation higher than the "back-of the-envelope." This is not the case. Of the possible reasons, the clearest is that the "back of the envelope" calculation does not take the "claim and suspend" provision into account.

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APPENDIX

Appendix: Calculation of the Cost of the "Claim Now, Claim More Later" Strategy

The analysis is based on 1,006 couples with the eldest member between the ages of 62 and 70 in the 2006 *Health and Retirement Study* (HRS). The HRS restricted and self-reported earnings data make it possible to calculate Social Security's Primary Insurance Amounts (PIAs). The PIA is used to calculate the cumulative lifetime benefits earned by couples based on their joint retirement ages. (To estimate steady-state annual costs, we assumed a Full Retirement Age of 66 and delayed retirement credits of 8 percent for each year benefits are postponed. The analysis also assumes that individuals attempt to maximize benefits paid to their household and, consequently, couples make cooperative claiming decisions.)

The first step is to determine each couple's optimal claiming ages and subsequent lifetime benefits under conventional claiming methods – without the use of the "claim now, claim more later" strategy. We treat each couple as if the eldest member is 62 and compute potential benefits at each age discounted for probability of survival and interest. Based on 1948 cohort life tables, we then use relative mortality rates for 12 gender-race-education categories from Brown, Liebman, and Pollet (2002) to calculate the total expected benefits paid to each household at each combination of possible claiming ages, taking expected survivor benefits into account as well.

For the husband's claiming age of i and the wife's claiming age of j, total expected benefits, $TotB_{ij}$, is equal to:

$$(1)\quad TotB_{ij} = \sum_{x=i}^{120} (BenH_i * probH_x * probW_x + Surv_{ij} * ((1 - probW_x) * probH_x)) + \sum_{y=j}^{120} (BenW_j * probW_y * probH_y + Surv_{ij} * ((1 - probH_y) * probW_y)$$

where $BenH_i$ is the benefit received by the husband, $probH_x$ is the probability that the husband is alive at time x, $Surv_{ij}$ the survivor benefit paid to the surviving spouse, $BenW_j$ is the benefit received by the wife, and $probW_y$ is the probability that the wife is alive at time y. If an individual is eligible for both personal and spousal benefits, he or she will receive the larger of the two. We then identify the couple's combination of claiming ages that yield the highest expected lifetime benefits, and assume it to be their optimal claiming strategy under conventional behavior.

The second step is to determine each couple's optimal claiming ages and subsequent lifetime benefits when using the "claim now, claim more later" strategy. To introduce this strategy, we restrict one member of the couple from claiming benefits until he or she reaches age 66 and assume that, during each year that the individual delays claiming after age 66, he or she will receive a spousal benefit based on the spouse's earnings record. Because this is a joint decision, we allow for the possibility that either the individual age 62 or his spouse will be the one receiving spousal benefits while earning delayed retirement credits. When the husband uses this strategy, the total expected benefits paid to the household, $TotB'_{Hij}$, will be:

$$(2)\quad TotB'_{Hij} = \sum_{x=66}^{i-1} (Sps_H * probH_x * probW_x) + \sum_{x=i}^{120} (BenH_i * probH_x * probW_x + Surv_{ij} * (1 - probW_x) * probH_x) + \sum_{x=i}^{120} (BenW_j * probW_y * probH_y + Surv_{ij} * (1 - probH_y) * probW_y)$$

where Sps_H is the spousal benefit that the husband is entitled to based on his wife's earnings record. If the wife uses this strategy, the total expected benefits paid to the household $TotB'_{Wij}$, will be:

$$(3)\quad TotB'_{wij} = \sum_{y=66}^{j-1}(Sps_W * probW_y * probH_y) + \sum_{y=j}^{120}(BenW_j * probW_y * probH_y + Surv_{ij} * (1 - probH_y) * probW_y) + \sum_{x=i}^{120}(BenH_i * probH_x * probW_x + Surv_{ij} * (1 - probW_x) * probH_x)$$

where Sps_W is the spousal benefit that the wife is entitled to based on her husband's earnings record. We assume the couple will use whichever strategy yields the higher expected household benefit.

The third step involves, for each couple, subtracting the expected lifetime benefits paid under the conventional claiming strategy from the expected lifetime benefits paid under the "claim now, claim more later" strategy. If the difference is negative, we assume that the couple will not use the strategy and there will be a zero net cost to Social Security. If the difference is positive, we assume that the couple will use the strategy and the gain over the conventional claiming behavior is the cost incurred by that couple to Social Security.

Finally, the HRS weights were then applied to calculate average gains made by couples when using this strategy. The total cost to Social Security is then found by multiplying those averages by the actual number of couples in which the eldest member is aged 62 from the 2006 *Current Population Survey*.

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The Center for Retirement Research at Boston College was established in 1998 through a grant from the Social Security Administration. The Center's mission is to produce first-class research and forge a strong link between the academic community and decision makers in the public and private sectors around an issue of critical importance to the nation's future. To achieve this mission, the Center sponsors a wide variety of research projects, transmits new findings to a broad audience, trains new scholars, and broadens access to valuable data sources. Since its inception, the Center has established a reputation as an authoritative source of information on all major aspects of the retirement income debate.

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