

Why Americans Claim Benefits Early and How to Encourage Them to Delay

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Background

Americans are living longer, but retiring earlier (Burtless & Quinn, 2002; Wise, 1997). The average American now spends 20 years in retirement (National Commission on Fiscal Responsibility and Reform, 2010). However, many Americans do not save sufficiently for retirement (EBRI, 2010; NIA, 2007; Thaler & Benartzi, 2004). Consequently, Social Security benefits represent a significant source of retirement income for many Americans (NIA, 2007; Wise, 1997) and deciding when to claim benefits is one of the most important financial decisions older Americans make. Because yearly benefits increase each year that claiming is delayed (from age 62 to 70), early claiming can significantly decrease the lifetime amount of benefits a retiree will receive. For many, if not most, Americans early claiming is a bad decision economically (Coile, Diamond, Gruber, & Jousten, 2002). If many Americans would benefit from claiming later, why are they claiming early? And, if we understand the reasons for claiming early, how can we encourage them to delay?

Method

To investigate the drivers of the claiming decision, we are conducting a series of web-based studies. The first study used a community sample provided by a market sampling firm. Participants were pre-screened to confirm that they ranged in age from 45 to 70 and either were currently eligible for Social Security benefits or expected to become eligible for Social Security benefits. Our initial analyses are based on data from 122 participants.

Participants read standard Social Security benefits information, patterned after the actual inserts that workers receive each year. Before stating their preferred claiming age, participants were asked to list their thoughts about the decision using a type-aloud protocol (Johnson, Häubl, & Keinan, 2007; Weber et al., 2007). Participants later self-coded these thoughts as either favoring claiming early or later. Lastly, they completed a battery of individual difference measures.

Results and Discussion

In line with observed behavior (Muldoon & Kopcke, 2008; Song & Manchester, 2007), 50% of participants preferred to claim benefits early (i.e., before full retirement age, which is 66 or 67 depending on year of birth) and 38% of participants preferred to claim benefits as early as possible (i.e., at the earliest eligibility age, which is currently 62) ($M_{\text{preferred claim age}} = 65.16$, $SD = 3.02$).

These data suggest that the earliest eligibility age (EEA) serves as a reference point for Americans deciding when to claim benefits. Participants' thought listings confirmed that EEA functions as the default claiming age and also suggested that the claiming decision is the result of a memory-based constructed preference. When faced with a decision, people construct their preferences by asking themselves a series of queries about the available choice options, and they

do so sequentially beginning with the default option (Johnson et al., 2007; Weber et al., 2007). Because of output interference, people generate more arguments supporting the default option than alternative options and this balance of support predicts choice (Johnson et al., 2007; Weber et al., 2007). In the current study, over one-half of participants' thoughts favored claiming before full retirement age ($M_{\text{number of thoughts favoring early claiming}} = 1.54$, $SD = 1.83$; $M_{\text{number of thoughts favoring later claiming}} = 1.41$, $SD = 1.60$). Furthermore, the clustering and proportion of thoughts favoring early claiming significantly negatively predicted claim age. That is, participants had earlier and more thoughts in favor of early claiming and this predicted a preference for early claiming.

Participants' thoughts were a better predictor of claiming, even compared to their work status and current health. Although participants who were retired preferred to claim significantly earlier than participants who were still working, this effect was reduced to marginal significance when controlling for the clustering and proportion of thoughts in favor of early claiming. In both regressions, participants in better health preferred to claim marginally significantly later than participants in worse health. We plan to increase the sample size, and are currently analyzing data from several individual difference measures (including financial literacy, numeracy, loss aversion, discounting parameters (i.e., beta and delta), and fluid intelligence) to determine their effects on preferred claiming age. Additionally, we are examining the relationships among these individual differences.

Since it appears that EEA functions as a default and drives people toward earlier claiming, we are in the process of running studies to test interventions that could change that behavior. In the first follow-up study, we alter the choice architecture to change the default claiming age. Previous research on intertemporal choice has shown that minor changes in the presentation of information can shift the default option from receiving gains now to receiving gains later and this induces more people to choose the later option (Weber et al., 2007). Therefore, revising the standard Social Security benefits information to make claiming at the full retirement age (FRA) the default option should induce more people to delay claiming past EEA. In the second follow-up study, we use the existing choice architecture and instead change the way people consider the decision. Previous research has shown that asking participants to consider the alternative option first and the default option second weakens and even eliminates the effect of the default (Hardisty, Weber, & Johnson, 2010; Johnson et al., 2007; Weber et al., 2007). Thus, asking participants to consider the benefits of claiming at FRA before considering the benefits of claiming at EEA should induce more people to delay claiming past EEA.

Conclusion

The National Commission on Fiscal Responsibility and Reform has recently suggested that the Social Security Administration use behavioral economics approaches to encourage people to delay benefit claiming. This research uses just such an approach to understand why Americans claim benefits before full retirement age and to design interventions to nudge people toward later claiming. Specifically, we find that the current benefits information conveys a default claiming age of 62 and that participants' thoughts favoring early claiming predict their preferred claiming age. We are testing two interventions (asking participants to consider the alternative option first and shifting the default) that have proved successful in other domains.

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