An Analysis of Social Security Retirement Benefit Timing Among Women

Social Security remains a major retirement income source for both women and men (Clark, Burkhauser, Moon, Quinn, & Smeeding, 2004). The majority (90%) of women and men, age 65 and older, receive retirement income from Social Security (U.S. Social Security Administration, 2009b). Without income from Social Security, more than half of older individuals would have income levels below the poverty threshold (Burtrica & Iams, 1999).

Men and women differ in the benefit amounts received from Social Security. In 2007, women's median annual Social Security retirement benefits were only 75% of men's benefits. While women receive less than men, Social Security still remains an important retirement income source for women. Additionally, Social Security grows in importance for retirees as they age and other income sources gradually decline. For women who are 75 and older, Social Security benefits provide 55% of their total personal income, and for 25% of them, Social Security is their only source of retirement income (Hartmann & Lee, 2003). The issue of retirement income security is extremely important for women as they are more likely than men to experience poverty as they age. This is due to lower earnings, interrupted work histories, a greater number of years in retirement due to increased longevity, and a lower average age at the time of retirement compared to men.

The purpose of this study is to use a nationally representative dataset to determine the effect of human capital characteristics (education, marital status, and health status) and types of income sources (earnings, pension income, IRA/annuity income, investment asset income, and other income) on women's alternative combinations of expected Social Security retirement benefit receipt and elected Social Security retirement benefit receipt.

Literature Review

The economic life cycle model, attributed to Ando and Modigliani (1963), examines the process of aging, from birth to death (Clark et al., 2004). According to the model, an

individual makes important decisions at each stage of the life cycle. Examples include the decision to work, pursue higher education, enter into marriage, become a parent, or retire. The timing of retirement is one of the most important life cycle decisions that individuals will make. The timing of retirement is influenced by a number of factors including earnings, health status, and the availability of income sources in retirement. Retirement is most often defined by whether an individual is a labor force participant and/or whether an individual receives income from pensions, Social Security retirement benefits, or other retirement plans (Purcell, 2007).

An important retirement decision pivots on the age at which to elect to receive Social Security retirement benefits. This decision has several options: 1) begin receiving actuarially reduced Social Security benefits at age 62, or sometime between 62 and the normal retirement age; 2) wait to receive Social Security benefits until the normal retirement age, which currently ranges from ages 65–67 depending on date of birth; or 3) delay receipt of benefits past the normal retirement age to increase monthly Social Security retirement benefit amounts by postponing receipt of benefits until after the normal retirement age, i.e., up to age 70 (U.S. Social Security Administration, 2007).

In 1956, women were given the option of electing to receive actuarially reduced Social Security benefits beginning at age 62 (U.S. Social Security Administration, 2009). In 2003, 59% of women and 53% of men elected actuarially reduced early benefits by electing to receive benefits at age 62 (U.S. Social Security Administration, 2004). The percent of older individuals who elect early receipt of benefits has increased over the years. From November 2006 to November 2007, 73% of women and 75% of men elected early receipt of benefits (U.S. Social Security Administration, 2008a). Munnell and Zhivan (2006), using data from 1992–2002, found that a greater percent (67%) of married women elected early receipt of benefits at age 62 compared to single women (49%) of the same age. Labor statistics over

the 48-year period (1950–1998) support the view that the increase in those who retire at younger ages was associated with the age at which one was eligible to elect receipt of Social Security retirement benefits and/or employer sponsored retirement plans (Fullerton, 1999; Gendell, 1998).

Burkhauser, Couch, and Phillips (1996) used the first two waves of data (1992 and 1994) of the HRS to examine 62-year-old men and women in 1993. Their analyses focused on examining differences in the income, health, and wealth of men and women who elected early receipt of Social Security benefits at age 62 and those who postponed receipt of benefits at that point in time. They found a greater percentage of 62-year-old women elected early receipt of benefits (42%) compared to men (36%). Additionally, they found that the majority of the women who elected early receipt of benefits were healthy, were less likely to have an employer-sponsored retirement plan, and interestingly were not dependent on Social Security alone for their retirement income.

McNamara, O'Grady-LeShane, and Williamson (2003) expanded on the work of Burkhauser and colleagues (1996) by examining four waves of the HRS data focused on women's marital history. The emphasis was again on women who elected early receipt of Social Security benefits at age 62 compared to women who did not. The researchers found that 60% of the women elected early receipt of benefits at age 62 (McNamara et al.). Additionally, while many women who elected early receipt of benefits had adequate economic resources, both before and after early benefits were elected, the level of economic resources differed widely by marital status and marital history. These studies are limited in that they only examined women who elected early receipt of benefits at age 62 compared to women who did not. Additionally, these studies did not account for expectations regarding the age at which one expected to elect receipt of Social Security benefits. The choice to elect early receipt of benefits may have been determined years before the decision was acted on.

The age expected to elect receipt of Social Security retirement benefits is a gap in current research. Prior researchers tended to focus on retirement expectations relative to labor force withdrawal. Munnell and Zhivan (2006) used the 1992 wave of HRS data to explain the age at which men and women expected to withdraw from the labor force for those who were working at that point in time. Retirement age was defined as the age at which one exited the labor force. Expectations were discussed relative to the age at which men and women expected to exit the labor force. The researchers found that age increased expected retirement age and having fair or poor health increased the likelihood of expecting to retire at a younger age. Additionally, they found that regardless of gender, men and women who were divorced expected to retire at older ages. Regarding pension wealth and Social Security wealth, they found that regardless of gender, both encouraged the anticipation of earlier withdrawal from the labor force. Their study is limited in that it did not take into account the possible effects of age expected to elect receipt of Social Security retirement benefits or the timing (early, normal, or delayed) of receipt of Social Security benefit elections on the labor force decision.

If women elect receipt of Social Security retirement benefits early, they may be jeopardizing their future economic security because early recipients receive actuarially reduced benefits. If a woman at age 62 in 2006 decided to elect early receipt of benefits, her monthly benefit would be reduced by 25% of her full retirement benefit amount. Similarly, if a woman who was age 66 in 2006 decided to elect early receipt of benefits at age 62 in 2004, her monthly benefit amount would be reduced by 22.5%.

Theoretical Framework

It is beneficial to explore the timing of Social Security retirement benefits through the lens of human capital theory. Education increases earnings (Becker, 1975). Given Social Security regulations regarding the retirement earnings test, the optimal time to elect to receive Social Security retirement benefits may be influenced by one's employment or amount of

earnings. For example, if a woman is employed at age 62, she may choose to postpone her Social Security benefits for a larger future benefit amount and continue to work, thereby avoiding income loss due to the Social Security earnings test.

In general, being married enhances a woman's human capital accumulation. Based on human capital theory, married women who have a larger human capital accumulation, compared to unmarried women, may be more likely to delay receipt of Social Security benefits. Married women may delay receipt of benefits due to anticipating a higher combined longevity, needing monthly benefit amounts for a longer period of time in the future. Women who are divorced/separated or widowed may be more likely to elect early receipt of benefits due to having less human capital accumulation, as they have more of an immediate income need. However, prior research findings do not support this, Munnell and Zhivan (2006) found that 67% of married women elected early receipt of benefits, compared to 49% of unmarried women. The attribute that is more influential may lead to a direction of marital status effect, which is an empirical question.

Investments in human capital throughout one's life cycle will likely increase the availability of types of alternative retirement income sources. Having alternative income sources may increase the likelihood of postponing Social Security benefit receipt for a larger future monthly benefit amount. In general, better health status is a measure of greater human capital, therefore allowing one to work longer and thus postpone benefit receipt. Additionally, human capital accumulation may influence the age at which a woman expects to begin receiving Social Security benefits.

<center>**Methods**</center>

Data

Data from the Health and Retirement Study (HRS) were used for this study. The HRS is a national longitudinal study of older Americans. The HRS data provide in-depth information about the economic status of households including human capital characteristics, demographic characteristics, and employment status. For this study, the 2000-2006 waves were utilized. Between March 2006 and February 2007, the HRS interviewed a nationally representative sample of 18,469 respondents over the age of 50. Therefore, the 2006 wave of the HRS study included 18,469 respondents. Of these respondents, 10,371 were women of which 3,030 were in the age range 62–70. Due to small sample size (n=98) women reporting marital status of never married were eliminated leaving 2,932 women. Women who did not report their race as white or missing values were eliminated due to small sample sizes when creating subsamples leaving 2,073 women. Women who elected receipt of Social Security benefits during the 2000 wave or had not elected receipt of benefits as of the 2006 wave were eliminated leaving 1,146. The sample was further limited to women who responded to the 2000 wave question regarding the age they expected to elect receipt of Social Security retirement benefits. Thus, the final cross-sectional data set consists of 733 female respondents ages 62-70 who were married, divorced/separated, or widowed, of the white race, elected receipt of Social Security benefits during the 2002, 2004, or 2006 waves, and responded to the 2000 wave question regarding the age they expected to elect receipt of Social Security retirement benefits.

Measures

The dependent variable is constructed as the possible combinations of two variables indicating *elected* timing of receipt of Social Security retirement benefits and *expected* timing of receipt of Social Security retirement benefits.

Timing of receipt of Social Security retirement benefit measured as elected early = 1, elected normal = 2, or elected delayed = 3 receipt of Social Security retirement benefits for each wave.

Respondent's self-reported age at which she expected to begin receiving Social Security retirement benefits was included. This variable is from the 2000 wave where respondents were asked, "Do you expect to receive Social Security benefits at some time in the future?" and if they answered "yes," they were then asked, "At what age do you expect to start collecting these benefits?" Hereafter, this is referred to as age expected benefits. The age range included is 62–70. Age categories were then created: expected early (ages 62–64) = 1, expected normal (ages 65 and 66) = 2, and expected delayed (ages 67–70) = 3.

Expectations compared to actual timing of receipt of Social Security benefits was created by categorizing age expected in years into expected early, expected normal, or expected delayed Social Security retirement benefits compared to the actual timing (early, normal, or delayed) of benefit receipt to create the alternative combinations of expected early and elected early = 1, expected early and elected normal/delayed = 2, expected normal/delayed and elected early = 3, and expected normal/delayed and elected normal/delayed = 4.

Human capital characteristics included education, health status, and marital status. Education in years was included from the 2006 wave with the assumption that it was an accurate measure of education over the four waves of data given the age of the respondents. Current health status (excellent = 4, very good = 3, good = 2, or fair/poor = 1) for each wave was included. Current marital status for each wave was included as dummy variables for each status: married, divorced/separated, or widowed.

Types of income sources by wave included individual dummy variables for whether the individual received income from earnings, investment assets, pensions, IRAs/annuities, or

other sources. Investment asset income includes rental income and all income from financial products such as stocks, bonds, savings accounts, certificate of deposits, or mutual funds. Employer retirement plans [401(k) or 403(b)] and other tax deferred accounts.

Analyses

Multinomial logistic regression was used to estimate the likelihood of women being in one of the following three retirement option combinations: 1) expected early and elected early, 2) expected early and elected normal/delayed, and 3) expected normal/delayed and elected early. The fourth retirement option, expected normal/delayed and elected normal/delayed, was the comparison group. The effect of education, health status, marital status, and types of income sources were predictor variables.

Results

Descriptive Analyses

Regarding differences between the timing elected receipt of Social Security retirement benefits (i.e., early, normal, or delayed) and expected receipt of Social Security benefits (i.e., early, normal, or delayed), of those who elected early receipt of Social Security benefits, 61% expected to do so while 34% expected to elect normal receipt of benefits and 5% expected to delay receipt of benefits beyond age 66. Of those who elected normal receipt of Social Security benefits, 67% expected to do so while 24% expected to elect early receipt of benefits, and 9% expected to elect delayed receipt of benefits. Of those who elected delayed receipt of benefits, 15% expected to do so while 23% expected to elect early receipt of benefits, and 63% expected to elect normal receipt of benefits. Clearly, not everyone does what they say they are going to do.

Multivariate Analyses

Table 1 presents the results of the multinomial logistic regression estimating the likelihood of expected early receipt of benefits and elected early receipt of benefits, expected

early receipt of benefits and elected normal/delayed receipt of benefits, and expected normal/delayed receipt of benefits and elected early receipt of benefits compared to expected normal/delayed benefits and elected normal/delayed benefits. This model is statistically significant ($\chi 2$ (11) = 140.646, p < .001) and explained 19% of the variability (Nagelkerke–R $^2 = 0.191$).

Findings relative to expected early receipt of Social Security retirement benefits and elected early receipt of benefits include women who had more years of education were 1.18 times less likely to have expected early and elected early receipt of benefits. Divorced/separated women were 2.13 times less likely to have expected early and elected early receipt of benefits. Widowed women were 10 times less likely to have expected early and elected early receipt of benefits.

Findings relative to expected early receipt of Social Security retirement benefits and elected normal/delayed receipt of benefits include women who had more years of education were 1.25 times less likely to have expected early and elected normal/delayed receipt of benefits. Widowed women were 6.80 times less likely to have expected early and elected normal/delayed receipt of benefits compared to married women. Women who received income from earnings were 2.49 times more likely to have expected early and elected normal/delayed receipt of benefits.

Findings relative to expected normal/delayed receipt of Social Security retirement benefits and elected early receipt of benefits include women who had more years of education were 1.11 times less likely to have expected normal/delayed and elected early receipt of benefits. Widowed women were 1.59 times less likely to have expected normal/delayed and elected early receipt of benefits.

Discussion

What is the best age at which to elect receipt of Social Security retirement benefits? The choices are complex with many options and consequences. In this study, 50% of the women who expected to elect normal or delayed receipt of Social Security benefits elected early receipt of benefits. At a time when women are living longer, traditional benefit-based pension plans (i.e., defined benefit plans) are less common. The typical retirement plan is now a defined contribution plan (i.e., 401(k)) that does not guarantee payments that will last as long as you live. The longevity risk of outliving your retirement income has been placed on the individual worker. The average woman who is age 65 can expect to live another 20 years to age 85 (U. S. Social Security Administration, 2008b). The reduction in monthly benefit amounts for electing early receipt of Social Security retirement benefits are designed to be actuarially fair for a woman with average life expectancy. The problem remains that many women live longer than the average expectancy. Given a historically heavy reliance on Social Security for retirement income and increased longevity, women may consider delaying benefit receipt as long as possible to earn the highest future monthly benefit amount. The goal could be to optimize potential Social Security retirement benefit payments over the next several decades. Policies to extend working lives and delay the election of Social Security retirement benefits might need to be considered. Working longer and delaying receipt of Social Security benefits may be one of the most advantageous ways for a woman to improve her retirement income.

Women need to understand their Social Security retirement benefit election options and consequences of their election choices. To optimize future Social Security retirement monthly benefit amounts, women should consider working longer and delaying receipt of Social Security benefits.

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