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# ARE EARLY CLAIMERS MAKING A MISTAKE?

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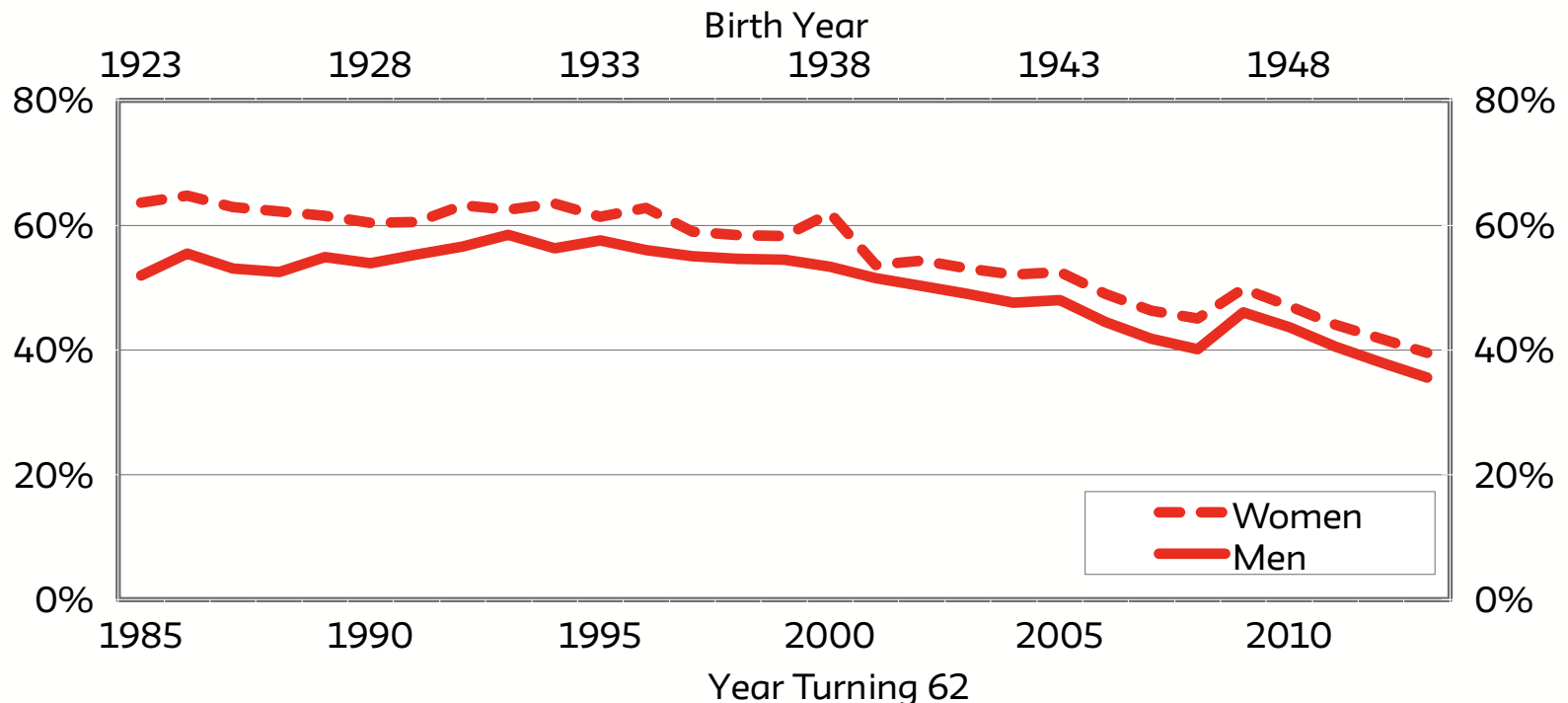
Netspar Pension Workshop  
Leiden, Netherlands  
18-20 January 2017

# Paper Addresses Three Questions

1. Who claims Social Security at age 62?
2. What percentage of households claiming at 62 are unprepared for retirement?
3. Were unprepared early claimers pushed into claiming, or did they retire voluntarily?

# Recent Birth Cohorts are Less Likely to Claim at Age 62

Percentage of Retired-Worker Claimants Who Were Age 62 by Birth Year, 1923-1951



Source: Authors' calculations from U.S. Social Security Administration data.  
Note: 1985 corresponds to the cohort born in 1923, which turned 62 in 1985.

# Data

- The paper uses data from the Health and Retirement Study from the following birth cohorts; 1931-36, 1937-41, and 1942-47.
- The unit of analysis is the household.
- For married couples, we focused on the husband's claim age.

# Who Claims at Age 62?

Previous studies include:

Burkhauser, Couch, and Phillips (1996); Coile (2002); Li, Hurd, and Loughran (2008); Hurd, Smith, and Zissimopoulos (2004); Butrica and Karamcheva (2013); and others.

Conclusions –

1. Early claimers are a diverse group
2. Few factors are statistically significant predictors of early claiming - likely reflecting diversity of group.

We therefore use latent class analysis to sort early claimers into distinct groups and analyze each group separately.

# Early Claimers are Better Off in Some Ways and Worse Off in Other Ways

Characteristics of Claimers & Postponers, 1942-47 Birth Cohort		
Characteristic	Claimers	Postponers
<b>Claimers Worse Off Than Postponers</b>		
Blue Collar	47.3%	32.9%
College Education	48.1%	61.1%
Top Quartile of AIME	22.5%	41.3%
<b>Claimers and Postponers Roughly Equal</b>		
Fair or Poor Health	16.0%	16.0%
Top Quartile of Wealth	30.7%	33.9%
<b>Claimers Better Off Than Postponers</b>		
DB Plan	62.6%	54.5%

Source: Authors' calculations from HRS (1992-2010).

# Latent Class Analysis

## Early Claimers Comprise Both an Advantaged and a Disadvantaged Group

### Early Claimer Characteristics by Latent Class Assignment, 1942-47 Birth Cohort

Characteristic	Disadvantaged	Advantaged
<b>Job Characteristics</b>		
Physical job	61.5%	11.0%
Blue Collar	77.0%	9.9%
Laid-off	12.9%	8.8%
<b>Financial Status</b>		
Top Quartile of Wealth	8.3%	59.1%
DB Pension	48.8%	80.1%
Retiree Health Insurance	33.5%	52.1%
<b>Percent of Claimers</b>	<b>55.9%</b>	<b>44.1%</b>

Source: Authors' calculations from HRS (1992-2010).

# Latent Class Analysis

## Continued

### Distribution of Early Claimers by Latent Class Assignment, 1942-47 Birth Cohort

Characteristic	Disadvantaged	Advantaged
<b>Education</b>		
College	17.1%	87.1%
<b>Race</b>		
White	77.0%	91.2%
Hispanic	14.7%	1.8%
<b>Health Status</b>		
Fair or Poor Health	21.7%	8.8%
Work Limitation	19.8%	13.1%
<b>Percent of Claimers</b>	<b>55.9%</b>	<b>44.1%</b>

Source: Authors' calculations from HRS (1992-2010).



# We Use Latent Class Analysis to Further Sub-Divide Early Claimers

- An advantaged group
- Three distinct disadvantaged groups
  1. The destitute, with no wealth or pension coverage
  2. An otherwise advantaged group who are in bad health
  3. A typical working class group

# What Percentage of Households Claiming at Age 62 are Unprepared?

We compare actual with target replacement rates.

- Replacement rate numerator comprises income from:
  - Social Security
  - DB pensions
  - Financial assets\*
  - Proceeds of a reverse mortgage\*\*
- Replacement rate denominator equals average wage-indexed earnings

\*Assuming the household purchases a nominal annuity.

\*\*Mortgage debt is repaid from financial assets/proceeds of a reverse mortgage. Any remaining mortgage debt is amortized over life expectancy and deducted from DB pensions/Social Security income.

# Target Rates Come from Georgia State Study

Target Replacement Rates by Income Level and Household Type

Household Type	\$20,000	\$30,000	\$40,000	\$50,000	\$60,000	\$70,000	\$80,000	\$90,000
One-earner couple; age 65 worker, age 62 spouse	94%	90%	85%	81%	78%	77%	77%	78%
Two-earner couple; age 65 higher earner, age 62 spouse	94%	90%	85%	81%	80%	78%	78%	78%
Single worker; age 65	88%	84%	83%	80%	79%	81%	82%	81%

Source: Palmer (2008)

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# A Word of Caution

- Early claimers may have a strong preference for leisure and may be willing to accept lower than average replacement rates.
- Future research is necessary to analyze whether early claimers with low replacement rates also have low pre-retirement consumption.

# Median Age-62 Replacement Rates Have Declined Over Time

Median Replacement Rate at 62 by Cohort			
Birth cohort	1931-1936	1937-1941	1942-1947
<b>Replacement Rate</b>			
Replacement rate w/out reverse mortgage	66.9%	62.2%	61.2%
Replacement rate w/ reverse mortgage	73.5%	67.9%	69.1%

Due to increases in:

- The Full Retirement Age
- Two-earner couples

Source: Authors' calculations from HRS (1992-2010).

# At Age 62, Early Claimers Are About as Prepared for Retirement as Those Who Delay

Household Retirement Preparedness at 62 by Cohort			
Measures of Unpreparedness	1931-1936	1937-1941	1942-1947
<b>Claim at age 62</b>			
Share unprepared	60.1%	65.2%	66.4%
Share unprepared w/ Reverse Mortgage	53.9%	58.0%	56.3%
<b>Do not claim at age 62</b>			
Share unprepared	65.4%	70.9%	70.0%
Share unprepared w/ reverse Mortgage	59.2%	64.1%	61.9%
<b>Memo – share claiming at age 62</b>	<b>53.0%</b>	<b>49.5%</b>	<b>47.0%</b>

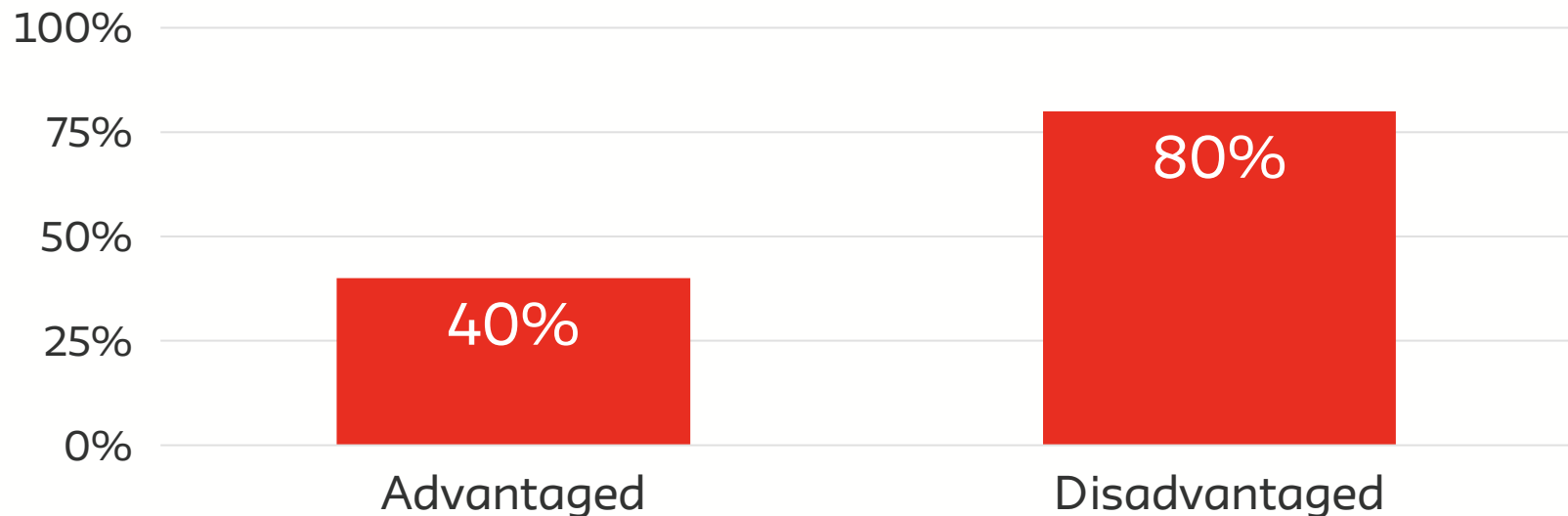
Source: Authors' calculations from HRS (1992-2010).

# Later Retirement Has Not Resulted in Improvements in the Readiness of Remaining Early Claimers

- We hypothesized that the trend to retire later might reflect delayed claiming by the unprepared, with only the adequately prepared continuing to claim at age 62.
- But the composition of early claimers hasn't changed much, and the decline in preparedness of early claimers mirrors that of the overall population.

# Among Early Claimers, the Disadvantaged Are Twice as Likely To Be Unprepared

Percentage Unprepared for Retirement



Source: Authors' calculations.



# Why are Early Claimers Unprepared?

## Marginal Effect of Being Unprepared by Latent Class Assignment

Variables	Advantaged		Disadvantaged	
<b>Shocks prior to claiming</b>				
Laid-off	0.06	(0.066)	0.09**	(0.037)
Health Shock	0.14**	(0.068)	0.06**	(0.027)
<b>Conditions at Age 62</b>				
No DB Pension	0.31***	(0.044)	0.23***	(0.029)
Spouse has Worker Benefit	0.15***	(0.043)	0.11***	(0.027)
<b>Demographics</b>				
Married Couple	0.02	(0.058)	0.03	(0.038)
No College Degree	0.09	(0.040)	0.23	(0.164)
White	-0.11*	(0.063)	-0.05*	(0.030)
Hispanic	-0.07	(0.152)	0.08**	(0.031)
Cohort 1	-0.08*	(0.048)	-0.08**	(0.035)
Cohort 2	-0.08	(0.049)	0.01	(0.035)
<b>Observations</b>	944		1,149	
<b>R-squared</b>	.07		.13	

Source: Authors' calculations from HRS (1992-2010).

Notes: Robust standard errors in parentheses. \*\*\* p<0.01, \*\* -<0.05, \* p<0.1

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# Conclusion

- An increase in the Social Security Full Retirement Age reduces the benefits of those who do not delay retirement.
- Although average retirement ages have increased, a substantial share of households continues to retire at age 62.
- The share of early claimers unprepared for retirement has increased over time. Additional cuts to Social Security benefits would further increase that share.
- Health and employment shocks contribute to early claiming among disadvantaged households.
- A goal of retirement policy should be to increase or even mandate retirement plan coverage among “disadvantaged early claimers.”

**THANK YOU**

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