Social Security Claiming and Retirement Stickiness: Responses to Changes in the Full Retirement Age

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Key Findings and Policy Implications

This preliminary paper examines how labor supply and Social Security claiming responded to the phased-in increase in Social Security’s full retirement age, which was age 65 for cohorts born through 1937, and had increased to age 66 for cohorts born between 1943 and 1954. The study focuses particularly on potential differences between labor supply and claiming responses; that is, to what extent might the reform delay when people claim benefits, but not their departure from work? This is the first study to use SSA administrative data to analyze these responses. The paper finds that:

- Older workers affected by the increase in the full retirement age adjust their claiming behavior completely and immediately. Specifically, the spike in claiming that previously occurred at age 65 is phased back with the change in full retirement age, and occurs at age 66 for cohorts whose full retirement age is age 66.

- The labor supply response has a more complex pattern. Fewer people retire at age 62, though age 62 is still the most common age of labor force exit; and more people defer retirement to ages 66 through 68. Thus, the average age of labor force withdrawal increased with the policy change, as one would expect. However, there is still a spike in retirements at age 65, even though age 65 is no longer an “anchor” in the Social Security schedule.

- Labor supply responses appear to be greatest among those with medium earnings, rather than those with higher or lower earnings. There are no similar differences in labor supply response by race or gender.

The policy rationale for increasing the full retirement age is twofold: mitigating the fiscal burden on the program, and inducing later retirement by older workers whose health capacity to work longer has increased. This study provides new information on the claiming and labor supply responses to such reforms.

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