

## **Life Expectation Judgments, Fairness and Loss Aversion in the Psychology of SSA Claiming Decisions**

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The decision about when to claim Social Security benefits, between the ages of 62 and 70, is one of the most important financial decisions that most Americans will ever make. Social Security is the single largest source of retirement income for retirees in the U.S. and the only meaningful source of inflation-indexed income for most Americans. Social Security benefits also provide a form of insurance against outliving one's savings. The chance of a healthy 65 year old making it to age 90 is almost 30% for a male and almost 40% for a female. Because those claiming later receive a larger income stream from Social Security, earlier research by Shoven and Slavov suggests that delaying is actuarially advantageous for a large subset of people, particularly at today's low interest rates.

Unfortunately, there is concern that many people may not be making the wisest decisions about when to start claiming their Social Security benefits. Most Americans (50%) start collecting at age 62 or within two months of leaving the labor force, and eighty percent or more claim their Social Security benefits before the normal retirement age of 66. The percentage who delay claiming to the maximum age of 70 is quite small, estimated at around 2%. Given both the substantial risks of longevity, and the financial benefits from delaying claiming, it has been suggested that later claiming should generally be chosen. While one might argue the exact percentages of who should claim when, it seems clear that many Americans are claiming too early given the various factors that should go into that critical decision.

This study seeks to better understand the Social Security claiming decision using individual differences in judgments about life expectations, loss aversion, and affective tradeoffs (such as concerns about fairness). On the topic of uncertainty, recent work has documented the effects of question framing on individuals' judgments of their own life expectations, finding that asking questions in a "live to" frame rather than a "die by" frame can lead to an approximately ten year difference in predicted life expectation. Because life expectation is a key input to the claiming decision, it is important to understand how these types of question framing effects influence predicted claiming age. Another key psychological influence on claiming decisions is an individual's measure of loss aversion, due to the perspective that not claiming early may result in a loss of benefits relative to a breakeven calculation or relative to the individual's own contributions into Social Security during their working years. Finally, we also predict that affective reactions such as feelings of perceived fairness and ownership (e.g., "I deserve the payments I contributed over my working life") can also be a strong driver of Social Security claiming.

This paper analyzes survey responses to try and better understand the individual psychology underlying early versus late claiming of Social Security benefits. We find the following main effects: First, individual measures of loss aversion do significantly affect predicted claiming age, with a 1-point increase on our 9-point scale having an effect of accelerating claiming by around one month; respondents in the top quartile of the loss aversion scale intend to claim four months earlier, on average,

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than those in the bottom quartile. Second, differences in predicted life expectancy are also significant, with an extra ten years of subjective life expectation translating to a six month delay in claiming. Third, we also find that individual differences in perceived fairness, and especially perceived ownership of benefits, significantly affect expectations of claiming. Participants in the top quartile of our 3-item, 7-point measurement intend to claim approximately four months earlier than those in the bottom quartile. We also find significant effects of several other individual measures, including perceptions of SSA solvency and measures of intertemporal patience.

The full working paper is available on our website, [www.nber.org/programs/ag/rrc/books&papers.html](http://www.nber.org/programs/ag/rrc/books&papers.html) as paper NB13-05.

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