

How should women think about Social Security decisions?

When to retire and when to start claiming Social Security are complicated and very personal decisions. While Social Security benefits are determined in the same way for men and women, and there is no gender component in the benefit formulas, the mechanics of the program have different implications based on a worker's earning history, life expectancy, and spouse's characteristics. This brief outlines some factors about the Social Security program that women, in particular, should consider when making decisions about when to retire and start claiming Social Security benefits.

Some Social Security mechanics

Many factors determine the benefit a retired worker receives from Social Security. Workers who have worked at least 10 years at jobs covered by Social Security are eligible for a retirement benefit that is a function of the worker's highest 35 years of earnings, after accounting for average rates of wage growth since the earnings were received. Because the Social Security benefit formula is progressive, it provides higher earnings replacement for those with lower lifetime earnings.

Social Security provides retirement benefits every month until the person who earned the benefit dies. The fact that benefits continue for life protects beneficiaries against the risk of outliving their assets.

Claiming benefits at the Full Retirement Age, currently age 66 and 2 months, results in a retired worker receiving her full benefit. Within limits, it is possible to claim benefits earlier or later than the Full Retirement Age; benefits are reduced for earlier claiming or increased for claiming later than the Full Retirement Age.

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When should women retire and start claiming Social Security benefits?

Does it matter when I claim benefits?

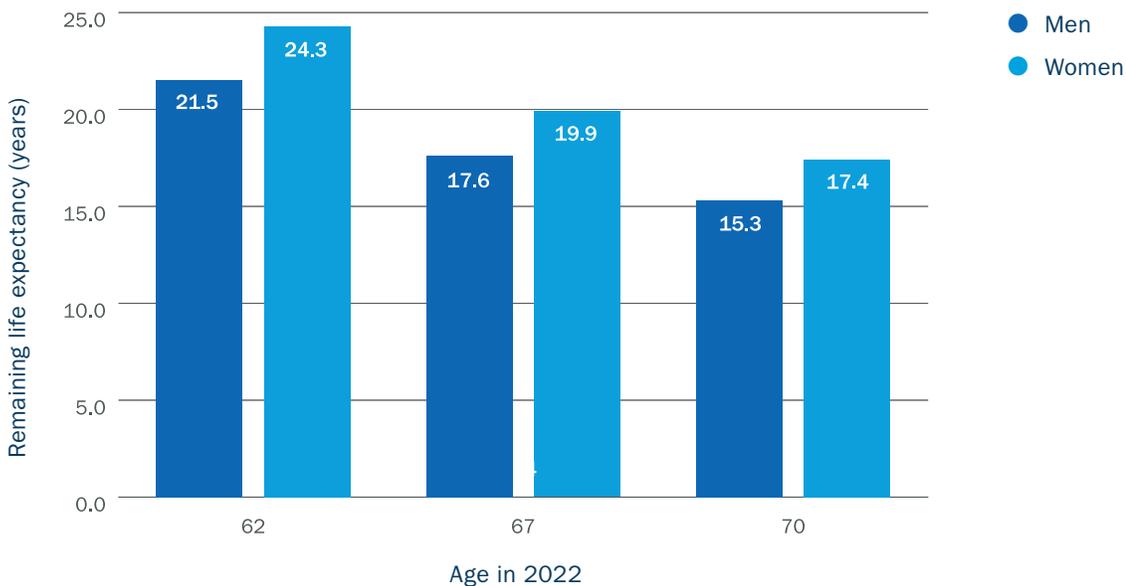
The adjustment for claiming benefits at different ages is meant to be “actuarially fair,” so that claiming benefits earlier or later doesn’t impact the total amount of benefits you are expected to receive. However, the adjustment for delayed claiming is more advantageous for certain groups than others (Shoven and Slavov, 2014).

For single individuals who are claiming benefits based on their own earnings history, those who live longer will ultimately receive more in lifetime benefits if they delay

claiming their benefits. This is because the immediate loss in benefits from delayed claiming is more than made up for by a higher level of benefits paid during their full lifetime.

As shown in Figure 1, women tend to live longer than men and have a 2–2.5 year higher remaining life expectancy at older ages. Therefore, *on average, women may gain more than men from claiming Social Security benefits later.*

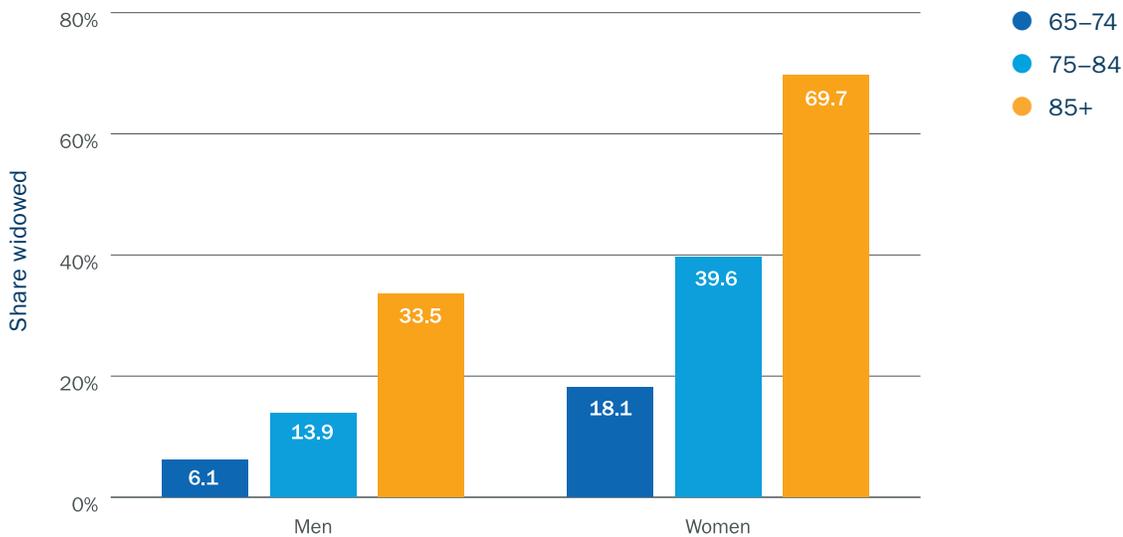
Figure 1. Women have higher remaining life expectancy than men at each age



Source: Social Security Administration, Cohort Life Tables, based on intermediate assumptions of the 2020 Trustees Report, retrieved on September 26, 2022, from <https://www.ssa.gov/oact/HistEst/CohLifeTables/2020/CohLifeTables2020.html>.

Optimal claiming for members of married couples may be quite different because Social Security provides survivor benefits to the surviving spouse after the first spouse dies based on the higher earner’s benefit. This means that the higher earner’s claiming decision will affect the longer-living spouse, and the couple is on average better off when the higher-earning spouse delays claiming Social Security benefits. Since women have

longer life expectancies than men and tend to outlive their husbands, they are much more likely to be widowed at older ages (see Figure 2). Therefore, *the benefits of the higher earner delaying claiming will disproportionately accrue to women.*

Figure 2. Women are much more likely than men to be widowed at older ages

Source: U.S. Census Bureau, 2019 American Community Survey, 1-year estimates; authors' calculations.

The returns to working longer

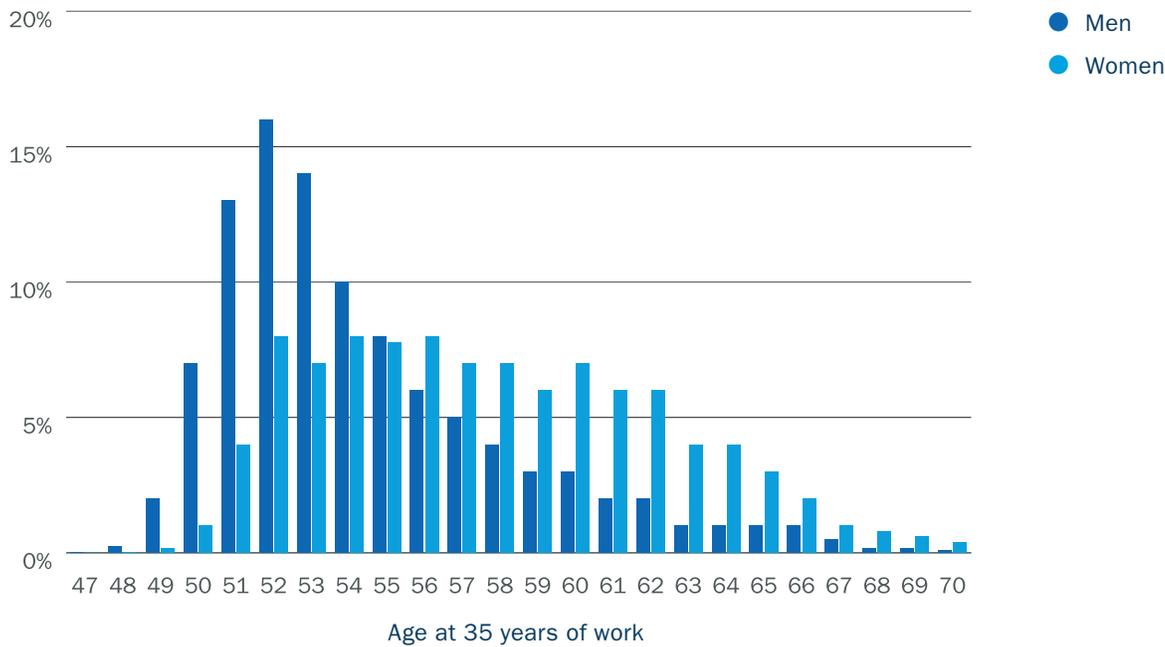
Because benefits are based on the highest 35 years of earnings, all workers gain from completing 35 years of work experience in Social Security-covered employment to avoid having zero-earnings years included in the calculation of benefits. For workers with long careers, after 35 years the returns to continued work will be less because the additional years will be replacing non-zero earnings years. However, since women often take breaks in their career, and many will have fewer than 35 years of positive earnings, work at older ages is likely going to lead to a bigger gain in retirement income for women who are claiming under their own earnings.

Recent research supports the notion that women on average have a higher return to a few more years of work later in life than men. In a recent study, Rutledge

and Lindner (2016) document that nearly one-half of women have fewer than 35 years of work experience and so have at least one year of zero earnings in the calculation of their benefit. In comparison, only 15% of men have one or more zero-earnings years at the time of claiming benefits. Figure 3 shows the range of ages at which men and women attain 35 years of work.¹ Women tend to hit their 35th year of work later than men due to career interruptions: the median age for men is 53, while for women it is 57. Because working at older ages is more likely to replace zero-earnings years, *the returns to working at older ages are generally higher for women.*

¹ Approximately 54% of workers (66% of men and 37% of women) work 35 years or more in Social Security-covered employment. This figure uses data from 2004, and more recent years would show that women are catching up a little, but a large gap still remains.

Figure 3. Women often attain 35 years of work later than men



Source: Social Security Administration, Benefits and Earnings Public Use File, 2004; authors' calculations.

Should I work while receiving benefits?

Some people who choose to retire and then subsequently decide to take on a different job or start a second career may be worried about the impact that working has on their Social Security benefits. Indeed, people who claim Social Security benefits before their Full Retirement Age are subject to the retirement earnings test. This means that some retirement benefits may be withheld if the beneficiary is younger than the Full Retirement Age and earning more than a specified threshold (e.g., \$19,560 in 2022).²

However, any benefits that are withheld prior to the Full Retirement Age are paid back in increased benefits after the Full Retirement Age. As a result, *work decisions after claiming should be made without regards to any Social Security benefits that may be withheld.*

Research suggests that, despite the fact that benefits withheld are not lost, and the worker receives the full benefits later, the retirement earnings test is commonly misunderstood (Weber et al., 2021). In fact, there is ample evidence that the retirement earnings test results

in fewer 62-65 year olds working than would be expected if the retirement earnings test did not apply (Gelber et al., 2020, 2021).

What if I worked in employment not covered by Social Security?

When determining what one's Social Security benefits will be, it is important to recognize whether some of your work experience was in a job that is not part of the Social Security program. Historically, not all public sector employers participate in Social Security due to concerns about the federal government collecting taxes from state and local governments (see Morrill and Westall, 2019). In fact, about 40% of teachers are not covered by Social Security (Kan and Aldeman, 2014), so many women nearing retirement might have some labor market experience during which they were not contributing to Social Security.

² The earnings threshold increases in the year the recipient attains the Full Retirement Age. For example, in 2022, the higher threshold is \$51,960.

Because the Social Security formula is progressive, meaning those with lower covered earnings receive a relatively higher benefit, the government has two programs that reduce the benefits received by individuals who have work experience in a public sector job that is not covered by Social Security. These programs are designed to make sure that individuals who did not contribute to the Social Security system do not receive extra compensation from Social Security benefits.

The Government Pension Offset (GPO) applies to spousal or survivor benefits. Social Security benefits affected by the GPO are reduced by 66% of the benefits that were earned from a federal, state, or local government pension that is not covered by Social Security. The Windfall Elimination Provision (WEP) applies to workers who have worked long enough in a job covered by Social Security to qualify for benefits but who also have some work experience in a job not covered by Social Security. The WEP adjustment reduces the benefits of these workers to better reflect their true earnings history.

These programs have complicated rules, and affected individuals are often not aware that their benefits will be reduced until they file for their Social Security benefits. *If you think you might have some work experience that was not covered by Social Security, confirm with the Social Security Administration what your adjusted benefits are going to be when calculating your projected Social Security benefit levels.*

Conclusion

There are many factors for workers to consider when determining when to stop working and when to begin collecting Social Security benefits. This brief discusses some aspects of these decisions that are particular to the work and life experiences of women. While there is no one-size-fits-all strategy, it is important to understand that decisions around working and claiming Social Security benefits can have large implications for women's lifetime financial security.

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