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HOW SOCIAL SECURITY REFORM AFFECTS RETIREMENT AND PENSION CLAIMING

ABSTRACT

A reform increasing the full retirement age (FRA) by one year leads to larger than expected delays in pension claiming and retirement, while making late claiming more lucrative leads to a smaller than expected delay in pension claiming. Survey evidence shows people view the FRA as the "normal" retirement age and prefer to couple pension claiming and retirement decisions together, even though these two decisions are not coupled through social security provisions. Two mechanisms are at work: reference dependence with loss aversion in pension claiming, and spillovers from pension claiming on retirement choices. The FRA increase leads to large government savings. (JEL H55, J26)

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