

The Impact of Different Ages and Race on the Social Security Early Retirement Decision for Married Couples

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Abstract

The purpose of this study is to examine the impact of age differences on the social security early and delayed retirement decision for married couples. This paper extends the analysis of Docking et. al. (2013) to couples of different ages. This analysis is done for married couples by race. More specifically, we analyze the 9 married couple combinations for the following races: Whites (W), Hispanics (H) and Blacks (B). The nine husband/wife combinations are: WW, BB, HH, WB, BW, WH, HW, BH and HB. We develop an Excel model to compute the breakeven IRR for each of the 9 race combinations. Following Blanchett (2013), three claiming scenarios are considered: receiving benefits early (e.g., at age 62 versus 66); the maximum realistic delay period (e.g., at age 62 versus 70) and delaying benefits past full retirement age (e.g., age 66 versus 70). Within these 3 claiming scenarios we examine couples by race combination who retire at the same age with age differences of 0, 4, 7 and 10 years with the non-working spouse younger than the assumed working husband. The breakeven IRR's can be interpreted as follows: If a couple's opportunity cost of capital (which can be considered a hurdle rate) is greater than (less than) the computed breakeven IRR, the couple should retire at the earlier (later) age. Our results are somewhat perplexing. For the age 62 versus 66 comparisons the BE IRR's uniformly decrease as the age difference increases. Since, as noted above, these IRR's are hurdle rates, this implies that greater age difference couples should retire earlier since the hurdle rate is less to overcome than at a smaller age difference. These results should be interpreted with caution however since an inflection point occurs at the age 62 versus 67 comparison and continues onto the age 62 versus 70 comparison where the IRR's uniformly increase with age differences. This implies that greater age differences involve a greater hurdle and the smaller the age difference the greater the incentive to retire earlier since the hurdle rate is lower. The results for the age 66 versus 70 comparison are similar to the age 62 to 70 comparison with the breakeven IRR's increasing with age differences although the numbers themselves are quite small by comparison and would seem to suggest early retirement at all age differences given the low hurdle rates to overcome. We are perplexed by the inflection point beyond the age 62 versus 66 comparisons and we have not established a satisfactory economic explanation for these results. We also examine breakeven IRR's for couples by race combination who retire at different ages and who have a positive age difference. More specifically, we examine the impact of age differences on an early male/female retirement of 66 and 62 respectively versus a late male/female retirement of 70 and 66 respectively. In all 9 race combinations the breakeven IRR's decline as the age differences increase. This suggests that the greater the age difference the greater the incentive to retire early as the hurdle rate is lower to overcome.