

# Social Security Claiming Decisions: Don't Dismiss the Math, but It Doesn't Always Apply to Real Life

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I'll admit it: "Let's talk about Social Security claiming" isn't usually my opening line when I meet friends for dinner. And yet, with Peak 65 recently occurring (when more Americans turned 65 every day than in any previous year), it's never been more important to talk about Social Security claiming, given the enormous implications this decision holds for so many people.

To be clear, Social Security claiming decisions also raise a much larger conversation about decumulation, in general (that is, how to spend down one's hard-earned retirement nest egg). And, as Nobel Prize-winning economist Bill Sharpe famously said, decumulation is "the nastiest, hardest problem in finance."

Don't despair, though: Academics and financial advisors have been steadily accumulating practical, psychology-driven insights to help with these decisions. Before I jump into them, let me acknowledge that this article takes a slightly different format from my others.

Whereas I normally spotlight ideas and practical findings from a recent research article, here I'm going to highlight takeaways from an episode of my podcast, [The Behavioral Divide](#). For those unfamiliar, each episode of the program features one academic and one financial advisor discussing a single topic in financial decision-making with me.

For [this episode](#), I sat down with Suzanne Shu, Ph.D., a marketing professor at Cornell University who has studied decumulation decisions for over 20 years, and Taylor Schulte, CFP, the founder and CEO of Define Financial, who helps his clients grapple with them on a day-to-day basis.



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## Decumulation Is a Different Beast Than Accumulation

To level the playing field, accumulation is the process of building up retirement assets, and decumulation is what happens when you retire. It involves understanding how consumers use the assets they've saved over the course of their careers to make them last through retirement ... a span of years that, in some cases, can be as long as the time they spent working!

As a result, the feelings associated with decumulation can be quite different from those associated with accumulation. For many clients, accumulation may feel easy – "I made money, I saved money, I didn't do anything stupid, I bought a few ETFs" – but decumulation poses a daunting psychological challenge. After 30–40 years of watching your retirement account balance rise, it suddenly starts to decline.

Helping clients reason through decumulation is inherently difficult – and here, too, it differs sharply from accumulation. For several decades now, researchers and financial services firms have implemented "one-size-fits-all" solutions to help people save more (and save smarter). Famously, defaults (where workers are automatically enrolled in saving plans) and auto-escalation (where their contributions automatically increase over time) have been quite successful.

By contrast, as Shu pointed out, decumulation is a much more customized problem to solve because you're now dealing with differences in life expectancy, family composition, goals, and available options. It requires far more thought and care.

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<sup>1</sup> Thomas J. Stanley and William D. Danko, *The Millionaire Next Door: The Surprising Secrets of America's Wealthy* (Longstreet Press, 1996).

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## Social Security Claiming Can't Be Decided in Isolation

The real question isn't just when to claim, but how the income from Social Security benefits fits into a client's larger portfolio, withdrawal strategy, tax plan, and lifestyle timeline. People often approach claiming as simply "when should I claim?" The advisor's job is to step back and point out that this is part of a much larger decision.

To be fair, clients sometimes view this as a larger decision, even if they are misguided. Schulte, for instance, published a conversation he had about an academic paper that suggested the benefits of claiming as early as age 62. But he was surprised by the number of people who responded with comments like, "How could I claim at 62 when I need to wait until 65 for Medicare to get health insurance?" Even though this sentiment is a misconception, many people nonetheless dismissed the idea of early claiming because of questions about health insurance.

Funny enough, when I had previously considered the idea that claiming age should be integrated into other decisions, I was thinking strictly in terms of other financial decisions. In reality, the aperture should be widened to include non-financial domains, such as health care.

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<sup>2</sup> Graeme Wood, "Secret Fears of the Super-Rich," *The Atlantic*, April 2011.

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## Claiming Decisions Aren't Just About Math

Popular finance books have tried to turn Social Security claiming into a math problem. The gist is that if I know how much I want to spend in retirement, how long I expect to live, what rate of return I can earn on my savings, and how I value a dollar today versus a dollar a decade from now, I can solve for the “right” age to claim – somewhere between 62 and 70, where each year I wait permanently boosts my monthly check.

That's before factoring in potential spousal benefits, tax implications, and the need to predict the year of my own death. You can see how this “math” problem can quickly break down when the uncertainty of these components is overwhelming.

The math can break down further when the formula suggests, as it often does, that people spend down their savings first and delay Social Security to 70. In the real world, however, people often do the opposite and claim as early as possible to avoid touching their retirement savings.

According to Shu, three psychological drivers can help explain why such early claiming occurs:

1. Psychological ownership – “That was my money that I put into the government system, and I want it back.”
2. Loss aversion – The fear that if you don't claim at 62 and don't make it to 70, “I will have lost out.”
3. Control over the nest egg – The 401(k) is a savings account that I control, and drawing it down is painful, so people let it sit and use “the government's money” first.

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So, you've got several psychological forces that work against a formulaic approach. Don't get me wrong: The math is important; it's just not the whole of the issue. As Schulte put it, "We have to pay attention to the math, but sometimes the math isn't real life."

Here's how he approaches the Social Security discussion with clients: He first outlines the textbook answer, then uses it as a conversation starter to determine a more personalized answer for each client. It's a great opportunity to bring to light what may actually matter to a client in retirement, such as how much money to have, and when and how to spend it.

One reframe from the conversation stuck with me as a way to make that personalized answer easier to reach. Instead of asking a client to predict how long they'll live – an impossible and often anxiety-inducing task – Schulte asks what they're trying to protect against.

Delay until 70 and live to 95, and you'll be grateful for the longevity protection. But claim at 62 and something happens at 73, and you'll have had a decade of income that funded travel and time with grandchildren. You could call it mortality protection.

When the question is framed as "protection" rather than "prediction," the conversation about Social Security claiming age shifts away from guessing a number and toward what matters to clients.