RESEARCH HIGHLIGHTS

# FRAMES, INCENTIVES, AND EDUCATION: EFFECTIVENESS OF INTERVENTIONS TO DELAY PUBLIC PENSION CLAIMING

By Franca Glenzer, Pierre-Carl Michaud and Stefan Staubli

**Contributory public pension benefits are a central pillar in nearly all Canadians' retirement plans, offering monthly pension benefits that can begin anytime between after age 60 and last until death. Although pension benefits are adjusted – increased or decreased – for the age at which they start, delaying claims means getting a shorter stream of benefits. As a result of actuarial factors that reduce benefit amounts by 7.2% per year (up to 36% at age 60) for claims before age 65 and increase them by 8.4% per year (up to 42% at age 70) for claims made after that age – a more than two-fold difference between ages 60 and 70 – the choice of when to start receiving a public pension has a major impact on an individual's monthly benefits for the rest of their lives.**

**Many near retirees forgo a higher stream of public pension income by claiming early, and policy-makers have been looking at ways to ensure that beneficiaries make decisions that are in their best financial interest. This is not a trivial task for policy-makers as they do not know how long different individuals or groups will live. While the pension benefit rewards/penalties are set using survival risk for the average retiree, some have higher (or lower) survival prospects. Furthermore, as rewards for delayed claiming are set for the average person, financially speaking, those with lower life expectancy lose when they delay their claim.**

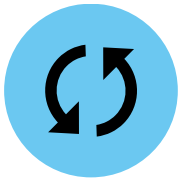
**This research investigates three approaches that can influence the timing of claiming decisions and investigates who wins and who loses from various interventions. It first looks at how individuals respond to actual financial incentives Canada; then it looks at the results of an online experimental-survey of Canadians approaching retirement (55- to 59-year-olds) that is designed to test policy interventions to affect this decision.**

This working paper finds that:

The timing of pension claiming in the Canada/Quebec Pension Plan responds little to changes in financial incentives. For example, were the decision to delay benefit receipt start by one year to result in an increase in benefits of $10k in present value terms, the probability of claiming in that year would fall by only 1.6 percentage points.* Individuals with average lifetime earnings above the median are significantly more responsive to financial incentives than those with lifetime earnings below the median, as too are men, single individuals, and those in relatively good health. Further, since few individuals respond to financial incentives, increasing penalties would result in those still claiming early receiving even lower benefits than under current rules.

Life expectancy varies a lot from one person to the next, with roughly 10% of respondents projected, given their characteristics, to pass away by age 77 or earlier, and another 10% at age 84 or after.

Educational interventions that prompt a greater understanding of longevity probabilities can lead those who are pessimistic about how long they will live to re-evaluate their claiming age and consider claiming later because they expect to live longer than they thought. Those affected by this intervention, generally speaking, have better financial outcomes.



Of the different ways to frame claiming decisions, the reframing of the “normal retirement age” from 65 to 67, without any changes in the pension formula, has a large effect and prompts more delayed claims.  However, those impacted are not always financially better off, as some with low life expectancy delay claims as a result.

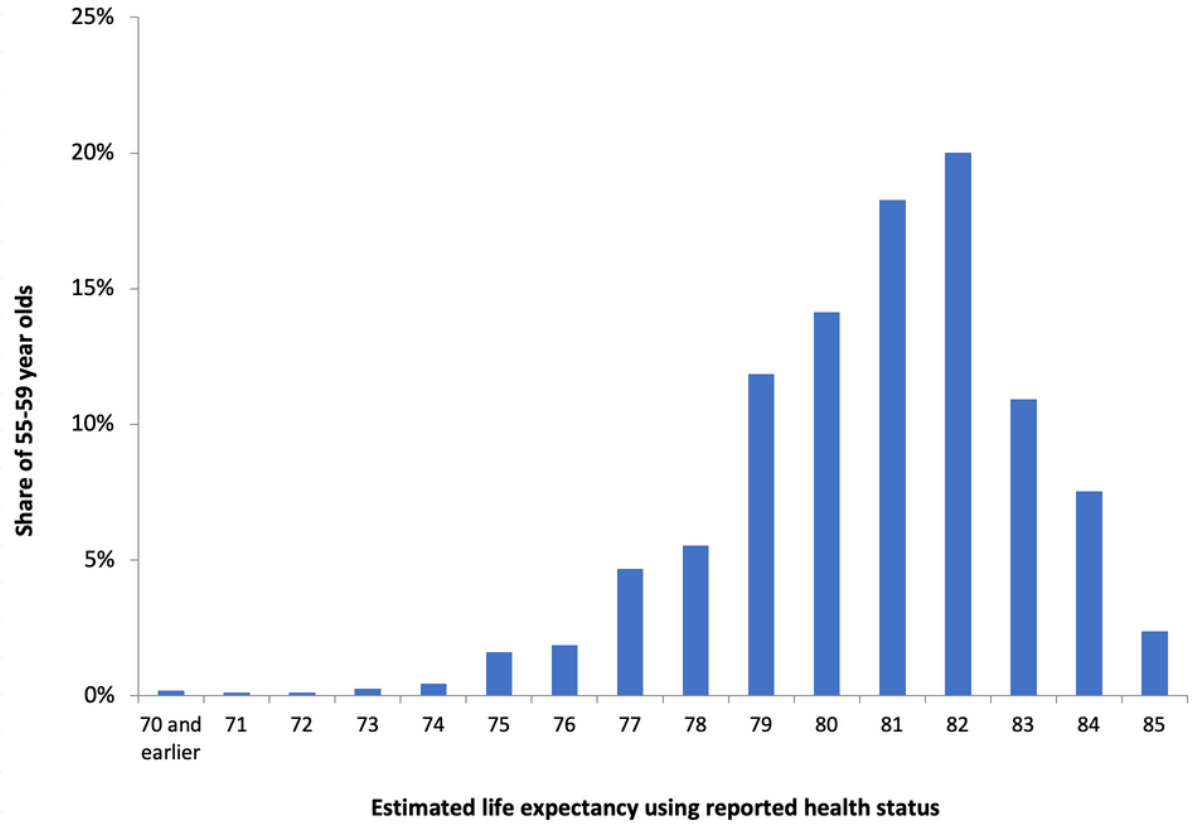
# POTENTIAL POLICY IMPLICATIONS

- Variations in life expectancy across cohorts of Canadians approaching retirement ages – and the unequal distribution of recent increases in life expectancy across different groups in society – means that policy-makers must be cautious in using blunt tools to encourage delayed claims, such as raising the earliest age at which one could apply for benefits.

- Because educational interventions that inform respondents about their true survival prospects appear to change behaviour for those who are pessimistic about living long in retirement, educational efforts should focus on this group of near retirees.

- Changing people's frame of reference regarding the normal retirement age – shifting what people perceive as a "normal" age without changing financial incentives – has a large effect on claiming behaviour. However, policy-makers considering options to delay claiming until age 67 must be mindful of potential negative financial results for groups with low life expectancy.

## Key Figure: Large variation in estimated life expectancy complicates policy design



The full-length manuscript, titled “Frames, Incentives, and Education: Effectiveness of Interventions to Delay Public Pension Claiming,” was published as a working paper with the Retirement and Savings Institute and the National Bureau of Economic Research (United States).

## NOTE ON METHODOLOGY

The empirical analysis of the effect of financial incentives on claiming decisions relies on changes over time to the Canada and Quebec Pension Plans, and on the Longitudinal Administrative Database (LAD), a representative panel of 20% of Canadian tax filers from 1982 to 2018. The web survey administered by the research team to Canadians aged 55-59 has a few important features. It first elicits individuals’ socioeconomic characteristics, preferences, and expectations about longevity, health status, etc. Health status is important because it permits the development of personalized survival risk using a microsimulation model. The survey elicits the age at which respondents plan to claim their pension and reasons that could have helped shape this decision (e.g., advice received, claiming behaviour of friends or family, etc.). In the second part, the survey elicits choices in hypothetical scenarios where the respondent must decide on a claiming age. It also assesses in the same experiment the sensitivity of claiming to financial incentives with the objective of understanding the effects estimated from the natural experiment that uses the LAD. The randomization of educational (break-even ages and lifetables) and framing interventions, coupled with the extensive control over the choice set faced by these respondents, permits the fulsome investigation of heterogeneity in responses.

*The responsiveness of delayed claiming decisions in response to increases in benefits is detailed in regression 4 on page 29 of the working paper. It regresses the respondent’s decision to make a claim at a given age (and in a given intervention scenario) on the present discounted value of future benefits at a given age, the pension accrual – our variable of interest, as it captures the change in the present discounted value of benefits from delaying claiming by one year – and select other variables.