

WHEN TO TAKE SOCIAL SECURITY

First the housekeeping items:

- *Nothing in the following article should be construed as advice or an opinion on the best time to take social security.*
- *I also do not profess to be an expert on social security and its numerous programs and regulations. Please confirm your individual situation with a professional or the Social Security Administration.*
- *No tax ramifications of social security will be discussed. But be advised that social security is taxable on your federal tax return.*

SOME GOOD NEWS / BAD NEWS

The social security benefit increase projected as of this article is 8.6% - effective - January 2023. The other side of the coin is the 8.6% is the COLA (cost of living adjustment) and based on the consumer price index. In other words, it is based on inflation.

When it comes to planning for retirement, one of the biggest factors to consider is time. One of the most difficult aspects of retirement planning is that you do not know how long you will live and therefore how many years of retirement you will have or need. Some financial planners use an estimate of life expectancy.

What Is Full Retirement Age (FRA)?

You will receive your full monthly benefit if you start claiming when you reach what Social Security considers your full retirement age (FRA), sometimes also referred to as “normal retirement age.” It depends on the day you were born, and for most people it ends up being about age 66 or 67. But you are allowed to retire, as the SSA defines it, as early as age 62.

You are probably aware that the longer you can afford to wait after age 62 up to age 70, the larger your monthly benefit will be. Nevertheless, delaying benefits does not necessarily mean you will come out ahead overall. Other factors should be considered, including your expected longevity and whether you (or your spouse) plan to file for spousal benefits. As with the age you plan to retire, the SSA also has norms set up for how long you might live. The standard ages for people have risen over time to account for better health and longer lives.

For those considering when to take Social Security retirement benefits, having the funds sooner rather than later sounds nice. Still, does it really work in your favor? If you live to your standard life expectancy, ***odd as it may seem***, you will get almost the same amount whether you take Social Security early or wait until later to take it.

To make an educated guess about when to claim, try doing a breakeven analysis. The analysis can tell you when the total benefits you would receive by waiting will begin to exceed the total you would receive by taking benefits earlier. If, for example, you would get \$1,650 a month starting at age 62 or \$2,250 a month starting at age 66, then you will have received roughly the same amount in total benefits by age 77. At that point, the higher monthly benefits that you would get as a result of waiting will begin to pay off.

Taking Social Security early reduces your benefits, but you will also receive monthly checks for a longer period of time. On the other hand, taking Social Security later results in fewer checks during your lifetime, but the credit for waiting means each check will be larger.

So, at what age will you break even and begin to come out ahead if you delay Social Security? The break-even age depends on the amount of your benefits and the assumptions you use.

To see how this works, it helps to look at an example using real numbers.

Suppose Mr. Ed is age 61 and thinking about when to start his benefits. Here are the numbers from a normal Social Security statement showing how much he will receive at which age:

- Age 62: \$1,650 (\$19,800 per year)
- Age 66: \$2,250 (\$27,000 per year)
- Age 70: \$3,020 (\$36,240 per year)

Mr. Ed at age 62 years old has a life expectancy of twenty more years, or to age 82, per the SSA's tables. Let us look at the three options:

- Assume Ed starts getting his monthly benefit check at 62. He gets \$1,650 per month, or \$19,800 per year, for 20 years. He receives a total of \$396,000.
- If he waits until age 66, he gets \$2,250 per month, or \$27,000 per year, for 16 years (to age 82). He receives a total of \$432,000.
- If he waits until age 70, he gets \$3,020 per month, or \$36,240 per year, for 12 years (to age 82). He receives a total of \$434,880.

In sum:

- He will receive \$396,000 if he starts benefits at age 62.
- He will receive \$432,000 if he starts benefits at age 66. *(At age 77 this choice beats taking benefits at age 62 in total funds – breakeven point).*
- He will receive \$434,880 if he starts benefits at age 70. *(At age 82 this choice beats taking benefits at age 66 in total funds – breakeven point).*

If Ed lives to the age of 82, he collects the maximum amount of income over his life by choosing to take benefits at his full retirement age, or at age 70 in his case.

It may seem morbid to guess how long you might live, but why not think like the SSA and base it on data and common patterns? Many calculators are made just for this purpose that will ask your health and lifestyle questions to help assess your own life expectancy.

If you think you will beat the average life expectancy, then waiting for a larger monthly check might be a good deal. On the other hand, if you are in poor health or have reason to believe

you will not beat the average life expectancy, you might decide to take what you can while you can.

While it may be tempting to look only at your break-even point and think about Social Security as a math equation or an investment decision, it is often better to think about Social Security as a form of insurance. Meaning waiting as long as you can to take it will increase future benefits and thus improve your lifestyle in your later years.

OTHER ISSUES

Spousal Issues

I used a retirement calculator recently and the calculator advised myself as the higher wage earner to wait until age 70 to take benefits. That was not surprising – what was surprising is the calculator advised that my spouse file for benefits as early as possible. I looked into this, and the reasoning is this. “When the spouse with the lower earnings delays benefits, it is true the benefits increase by waiting but you only receive that increase as long as both spouses are still living.” Under Social Security rules, as soon as one spouse passes, the surviving spouse will get the higher benefit amount but will lose their monthly benefit.

A spouse can file for benefits on their spouse’s benefits or even on an ex-spouse’s benefits. The spousal benefit is 50% of the amount being received by the spouse or ex-spouse. There are rules on this (time married etc.) so please check with Social Security on qualifications.

What if I change my mind?

If you receive Social Security benefits at a reduced rate, but then change your mind, you have the option of withdrawing your application and paying back to the government what you have already received. Then, you could restart benefits at a later date to take advantage of a higher payout. **But you are limited to one change per lifetime, and it has to be within the first 12 months of receiving benefits.**

The Bottom Line

You do not have to take Social Security just because you are retired. If you can live without the income until age 70, then you will ensure the maximum payment for yourself and lock in the maximum spousal benefit. Just be sure you have enough other income to sustain your lifestyle and your health is good enough that you are likely to benefit from the wait. When you are ready, you can apply for benefits online, by phone, or at your local Social Security office