

Deciding When to Start Receiving Social Security Benefits

As you approach retirement age, you must decide whether to begin taking reduced social security benefits early or wait until full benefit retirement age (FBRA), or even later. In many cases, this decision will depend on factors other than trying to receive the greatest lifetime benefit from social security. Remember that while you have the option of receiving social security benefits as early as age 62, the eligibility age for Medicare remains at 65. So, although you may be able to replace a sufficient amount of your earned income with social security benefits beginning at age 62, you may not be able to adequately replace your employer-provided health insurance.

Even if you have sufficient funds to live on without considering social security, many people prefer to begin receiving benefits as soon as possible. For 2013, the benefits at age 62 are reduced by 25% of what they would be at age 66 (i.e., the FBRA); but, you will receive more social security checks if benefits are drawn early. In addition, drawing early social security benefits may allow you to leave tax-deferred retirement accounts untouched and growing for longer periods.

Another reason to receive benefits early is if you have children living at home. Children under age 18 (or up to 19 if a full-time student) may be eligible for benefits if you are also receiving social security benefits.

Furthermore, if you wait until the FBRA to draw benefits, it will take several years to reach the break-even point to make up for the years of payments that were not received.

Example: Receiving social security benefits at age 62 versus the FBRA.

Curt is single and plans to begin receiving social security benefits on his 62nd birthday in 2013 when his benefit, based on his earnings history, is \$1,000. He will receive monthly social security retirement benefits of \$750, or 75% of his benefit. Therefore, he will receive 48 benefit checks of \$750 each (not considering annual inflation adjustments), a total of \$36,000, by the time he reaches age 66 (his FBRA).

Curt's benefit would have been \$1,000 if he had waited until age 66 to begin receiving benefits. Therefore, it would take him 12 years (starting at age 66) before the additional \$250 per month (\$1,000 – \$750) benefit caught up to the \$36,000 he would have received between ages 62 and 66. When the present value of future social security benefits is considered, it could be more favorable to start the benefits as soon as possible (if the money is going to be invested). However, if you are simply using early social security benefits to replace a similar amount of earned income, the short-term financial position will not be improved and the long-term outlook could suffer.

Another factor to consider in taking retirement benefits early is the increased tax cost. With a smaller social security retirement benefit, you may need to work or draw on other resources to meet expenses. If the additional taxable income you generate exceeds certain thresholds, 50% to 85% of your social security benefits will be taxable.

You might carefully consider the long-lasting advantages of waiting until FBRA based on the following factors.

Life Expectancy. Your life expectancy may be the biggest factor in deciding whether to receive benefits early. By age 62, you should have a good handle on your own life expectancy based on your current health and the longevity of your parents. In general, 77 years might be a good cutoff point. If you reasonably expect to reach that age, waiting until FBRA may be a wise choice.

Shortening the Retirement Period. A significant factor in retirement planning projections is the length of the retirement period. For example, if you want to retire at age 62 and you have a life expectancy of 85, you have a 23-year retirement period to fund. By working past age 62, you are shortening the retirement period and lowering the amount of money needed to fund your retirement regardless of longevity.

The Earnings Test. If you are considering receiving retirement benefits before your FBRA but you intend to keep working, you must consider the earnings test. For 2013, social security benefits are reduced \$1 for every \$2 in earnings above the exempt amount of \$15,120.

Replacing Lower-wage Years. Your social security benefits are calculated based on your highest 35 years of indexed earnings. If you can replace lower-wage years early in your career with higher-wage years after age 62, the benefit can be increased. This can lead to a greater benefit when you retire.

Inflation Adjustments. Social security benefits receive an annual inflation adjustment. By taking early benefits, your starting base for these annual adjustments is smaller. For example, if your benefit was \$1,000, but you retired early and received only \$750, each year you would miss out on the compounded inflation adjustment of that \$250 in lost benefits. In other words, the gap between the early retirement benefit you receive and the amount you would have received by waiting will get bigger and bigger.

The Effect on Your Spouse. Your decision to start receiving social security benefits before reaching FBRA may also affect your spouse's benefits. If your spouse does not have a personal earnings record, he or she will only receive half of your retirement benefit.

After FBRA. If you delay receiving benefits until *after* your FBRA, you will receive larger benefits because of the delayed retirement credit. You may receive a credit of up to 8% per year for each year you delay receiving benefits until age 70.

If you are able to wait, the delayed retirement credit can have a significant impact. In addition to the higher retirement benefit you will receive, you will also shorten your retirement period and increase your spouse's survivor's benefit.