

# RETIREMENT PLANNING: WHEN TO TAKE SOCIAL SECURITY BENEFITS

If your retirement is on the horizon and you are trying to figure out when to start taking your hard-earned Social Security benefits keep in mind there is no simple answer. You currently have three options:

- ◇ You can begin collecting benefits as early as age 62—before your full retirement age—but if you do, your benefits will be reduced.
- ◇ You can begin collecting full benefits at your specified “full retirement age” (this was 65 when Social Security was launched, but is now as high as 67, depending on when you were born).
- ◇ You can forgo collecting benefits up until you turn 70 and thus qualify for a “delayed retirement credit.” If you do, your benefit will go up by as much as 8% for each year beyond your full retirement age that you put off receiving benefits.

AARP estimates that more than 60% of retirees opt for early payout benefits. But is the most popular choice the best one for you? Unfortunately, the right answer hinges upon a number of factors. What is undisputed is that the longer you wait the greater the potential payout and the possibility of a more financially-comfortable retirement.

There are situations where you may have no choice and your retirement date preference is not going to work. If, for example, you’re being forced into early retirement by a layoff or health problems, you may need to take the earliest benefit time available. Or, maybe you have not saved enough for retirement and therefore continuing to work and build your nest egg is in your best interest.

But if you want to retire early and you have enough assets to do so without having to worry about depleting them, then the question to answer about Social Security is, “Will you collect more money by starting at the earliest possible retirement date when benefit payments are lower or by holding out for the larger payments that you won’t receive for as long?”

Let’s say you turn 62 and you qualify for a \$1500/month benefit immediately or if you wait until your “full retirement age,” 66, you will collect \$2000/month. Based upon this scenario you will have collected \$72,000 by the time you have reached “full retirement age.” Ignoring the time value of money, it will take approximately 12 years to breakeven. This means that you would need to live beyond the age of 78 for the delayed benefit to payoff. If we don’t ignore the time value of money and assume your benefit could be deposited into an account earning a 6% return during your retirement, this would add almost 4 years and extend the breakeven point to age 82.

## **ARE YOU FEELING LUCKY?**

The analysis I have presented is helpful but it still didn’t answer whether or not to take the early retirement benefit. If one looks at the actuarial tables you would see that a man aged 62 has about a 46% chance in making it to 82 (the analysis breakeven age) while a woman’s odds would increase to 60%. Clearly, given the scenario I have laid out the odds would favor a man taking the early retirement benefit while a woman would probably benefit more from waiting.

The above calculations are a good starting point; however it is imperative that people also factor into consideration the answers to the following questions:


- ◇ What is your current health condition?
- ◇ What is your family medical history?
- ◇ What are your current income needs?
- ◇ What is the total of your assets you have available to use to fund your retirement?

In the end, the decision of when to take Social Security benefits comes down to a bet on your life expectancy. If you're likely to live longer than the analysis' breakeven age (when considering all factors) you stand to collect more from Social Security by waiting. This may hold true even for waiting beyond your "full retirement age" to 70, to take advantage of the delayed retirement credit. If you don't think you'll live longer, you should sign up for the earliest possible starting date to maximize your benefits. Bottom line, this analysis should be done by everyone before they make a decision on which age to begin to take Social Security.

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