

A Case for Procrastination:

Why waiting to file for Social Security can be a good thing

By Mike Lynch

My son and daughter just couldn't wait. When the gift arrived two weeks early, they insisted that I open it right away—even though my birthday wasn't for another two weeks. It was a customized license plate for my classic Triumph TR convertible. I loved it and truly appreciated my kids' thoughtfulness. But on the day of my actual birthday, I had no gift to open. It was no big deal, but my birthday would have been a little more special if I'd waited to open their gift.

Similarly, waiting to take your Social Security retirement income can provide major benefits. But many people file as soon as possible. Later, they may regret that decision when they realize their income could have been much higher if only they'd waited. Let's discuss the three things to consider before you start taking Social Security.

What We'll Cover:

- When will you begin taking Social Security income?
- How deferring Social Security income can benefit you
- How deferring Social Security income can benefit your spouse

First, When Will You Begin Taking Social Security Income?

For some investors, deciding when to claim Social Security can be daunting. Others make up their mind quickly, perhaps well in advance.

Thirty-five percent of men and nearly 40% of women file for Social Security retirement benefits at age 62, which is the earliest most Americans are eligible.¹ While you're entitled to begin collecting Social Security income at age 62, this is considered *early* filing. There are valid reasons for filing early, but there's a trade-off: a reduction in benefits, which can sometimes be substantial.

Unfortunately, many early filers may not be aware of the consequences. A recent survey showed that 69% Boomers+ (and 49% Gen Xers) believe that if they claim benefits early, their benefits automatically go up when they reach full retirement age.² Unfortunately, that's not the case.

You May Not Need Social Security Income Right Away

Today, many people work past the date they're 'supposed to' retire. The top three reasons include having money to buy "extras," finding work rewarding, and staving off boredom.³ Since workers are more educated and healthier than previous generations, they're more than capable of doing so.⁴

If you continue to work, even part-time, or if you retire but have other sources of income that can sustain your current lifestyle, you may not need to take your Social Security benefits as soon as you're eligible.

Second, How Deferring Social Security Income Can Benefit You

You might be thinking, “If I don’t start taking Social Security, I could be missing out.” Not necessarily. If you’re able to hold off on taking your Social Security income, it can literally pay off.

In the bar chart example below, age 66 is full retirement age (FRA).^{*} (This is true for those born between 1943 and 1954. If you were born in 1955 or later, your FRA will be different. For more details, please see *Retirement Benefits/Starting Your Retirement Benefits Early* at ssa.gov). At FRA, your benefit will not be reduced. Note the difference between the monthly income amounts when filing at age 66 vs. age 62.

Although, if you defer collecting Social Security income beyond FRA, your benefit can actually grow. The longer it’s deferred—which can be done until age 70—the greater the benefit. In essence, the Social Security Administration will credit your benefit by 8% each year. The chart illustrates these incremental increases over time.

A bigger monthly benefit certainly is nice, but there may be a more pressing reason to defer filing for Social Security.

Deferring Social Security Until Age 70 Can Guard Against Running Out of Money in Retirement

Thanks to advances in medicine and technology, and the adoption of healthier lifestyles, we’re living longer. For a couple who are 65 today, there’s a 50% chance that one person will be alive at 92.⁵ It’s encouraging to know that life expectancy is up. But remember, living longer will cost more. Maybe a lot more.

An average retired couple age 65 in 2021 can expect to spend \$300,000 to cover healthcare expenses in retirement.⁶ This can dramatically raise your risk of running out of money. But delaying your Social Security benefit to ultimately receive more monthly income can help prevent healthcare expenses from eroding your retirement savings.

Third, How Delaying Social Security Income Can Benefit Your Spouse

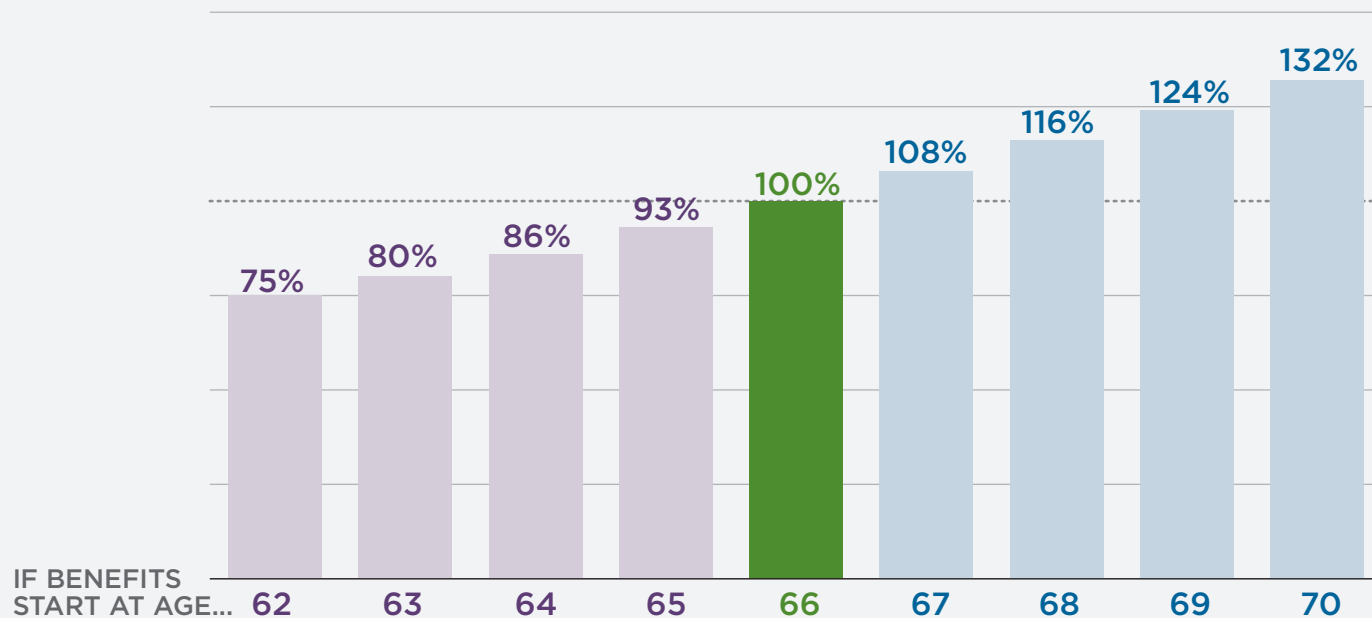
Delaying Social Security not only boosts your benefit, it can increase your spouse’s benefit, too.

When you file for your Social Security benefits, your spouse may be eligible for a spousal benefit if you’re the higher earner and vice versa. It can’t be claimed until the higher-earning spouse files, which they must do before the lower-earning spouse.⁷ The maximum spousal benefit is 50% of the higher earner’s benefit and is capped at their FRA.

This probably sounds a bit confusing. Let’s see how it would work for a couple who’ve been married for 10 years, Evelyn and Alex, on the next page.

Early vs. Delayed Filing: How It Affects Your Social Security Benefit

Amount of full Social Security benefit received (2021)^{*}



^{*}ssa.gov, 2021

Early vs. Delayed Filing: See the Difference

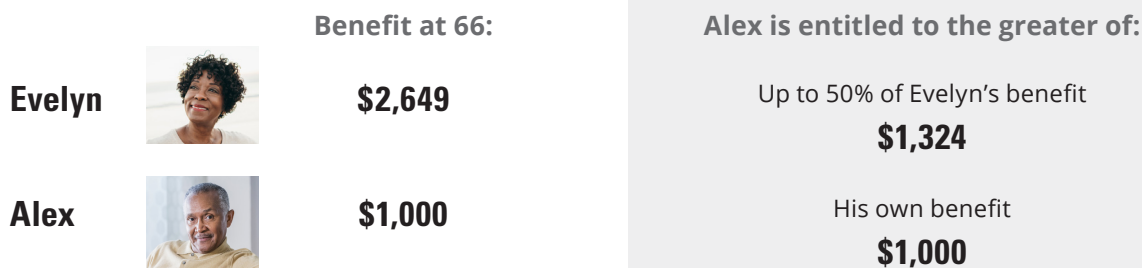
The Advantage of Waiting

If Evelyn files for Social Security benefits when she becomes eligible at age 62, her monthly benefit amount will be reduced. But waiting until her full retirement age of 66 to file, or even until age 70, can make a significant difference.



Potential Bonus: A Higher Spousal Benefit⁷

Suppose Evelyn is married and also the higher earner. If she files for Social Security retirement benefits at her full retirement age of 66, her husband Alex can opt to collect the spousal benefit. In this example, as long as he's reached his own FRA, Alex can increase his own benefit by nearly a third.



Note: The spousal benefit will not increase if Evelyn delays filing after her full retirement age. This is a very basic example, but some situations can be complicated. We strongly urge you to consult the Social Security administration with any questions you may have.

Again, spousal benefits will be reduced if:⁷

- higher-earning spouse claims benefits before FRA
- lower-earning spouse files before their own FRA

Anyone thinking about this option may want to look at earnings differences. If incomes have been mostly similar, or a lower monthly income is manageable, the lower-earning spouse may want to claim Social Security first, while the higher earner waits until age 70, allowing their benefit to grow.

"What if Social Security Goes Away? I Could Miss Out!"

Social Security isn't without its funding challenges. After decades of collecting more than it paid out, it built a surplus of assets.⁸ Now, with a retiree population that's outpacing the working population—and living longer—the system is beginning to pay out more than it takes in. The program will likely need to change at some point to continue, but it's too important to go away.

Until that happens, it's still worth thinking about deferring your Social Security income.

As You Consider When To Begin Taking Social Security, Remember These Three Things

First, filing for Social Security income prior to your full retirement age can dramatically reduce your monthly income amount. Second, if you have no immediate need for Social Security income, consider holding off on filing. This will allow your benefit to grow 8% each year you defer, until the age of 70. Third, deferring filing not only increases your individual monthly benefit, it can also increase your spousal benefit.

I Won't Be Opening My Gifts Early

After my birthday letdown, I now wait, despite my kids' wishes, to open my gifts on my birthday. Filing for Social Security at the earliest possible time can be tempting, and many people can't resist. The downside is that it reduces their Social Security income—and that won't change. There are instances when filing for Social Security early, or at full retirement age, may be

the best option. But if that's not true in your situation, consider the benefits of waiting before making your final decision.

Next Steps

1. Think about whether you'll work in retirement or have other expected income sources
2. Calculate how much monthly income you'll need in retirement, and determine whether your expenses can be covered without Social Security
3. Talk to your financial professional about your retirement income strategy



Mike Lynch is a managing director of the Hartford Funds Applied Insights Team. The team translates the expertise of the psychologists, physiologists, professors, and practice-management experts we partner with into practical, actionable ideas and tools to make sense of a rapidly evolving market and demographic landscape.

Sources:

¹ How to Help Americans Claim Social Security at the Right Age, Bipartisan Policy Center, 8/20

² Nationwide's 2020 Social Security Consumer Survey, nationwide.com

³ EBRI Issue Brief, No. 522: Why Do People Spend the Way They Do in Retirement? Findings From EBRI's Spending in Retirement Survey, 1/21

⁴ Joseph Coughlin, The Longevity Economy, 2017

⁵ How Much Do You Need for Retirement if You Live to Be 100?, newretirement.com, 6/20

⁶ How to plan for rising health care costs, fidelity.com, 5/21

⁷ Benefits for Spouses, ssa.gov, 2/21

⁸ 10 Social Security Myths That Refuse to Die, aarp.org, 5/21

All information provided is for informational and educational purposes only and is not intended to provide investment, tax, accounting or legal advice. As with all matters of an investment, tax, or legal nature, you should consult with a qualified tax or legal professional regarding your specific legal or tax situation, as applicable.

Hartford Funds Distributors, LLC, Member FINRA. MAI326_0821 225089