WEALTH MANAGEMENT INSIGHTS

When Should You Take Social Security?

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Key Takeaways

- When to begin Social Security payments is one of the most important retirement planning decisions.
- A long retirement coupled with uncertainty about markets and inflation are the biggest retirement planning risks. Delaying Social Security, if you can, is an insurance policy against those challenges.
- You may be eligible to collect Social Security as early as 62, but waiting until age 70 yields greater benefits for most people.

Overview

The decision of when to take Social Security is highly dependent on your circumstances. You can start taking it as early as age 62 (or age 60 if you are a survivor of another Social Security claimant or on disability), or you can wait until you've reached full retirement age or even until age 70, if based on your own work history. While there's no "correct" claiming age for everybody, the rule of thumb is that if you can afford to wait, delaying Social Security can pay off over a long retirement. Here are some of the rules and guidelines to consider.

What is the full retirement age?

Full retirement age (also known as "normal retirement age") is when you're eligible to receive full Social Security benefits. Your full retirement age depends on your birth year. Under current law, if you were born in 1955 or later, your *full* retirement age can be anywhere between age 66 and 2 months – all the way to age 67 for those born after 1959. If you were born before 1955, you've already reached age 66 and full retirement age.

What if I take benefits early?

If you choose to take your Social Security retirement benefit (that is, your own benefit, not a spousal benefit) before your full retirement age, be aware that your benefit is permanently reduced by five-ninths of 1% for each month. If you start more than 36 months before your full retirement age, the worker benefit is further reduced by five-twelfths of 1% per month for the rest of retirement.

Retirement ages for full Social Security benefits

If you were born in ...	Your full retirement age is ...
1954 or earlier	You've already hit full retirement age
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

Source: : SSA.gov

For example, let's assume that you stop working at age 62. If your full retirement age is 67 and you elect to start benefits at age 62, the reduced benefit calculation is based on 60 months. This means that the reduction for the first 36 months is 20% (five-ninths of 1% times 36) and 10% (five-twelfths of 1% times 24) for the remaining 24 months. Overall, your benefits would be permanently reduced by 30%.

What if I delay taking benefits?

If you retire sometime between your full retirement age and age 70, you typically earn a "delayed retirement credit" (DRC) for your own benefits (not as a spouse).

For example, say you were born in 1960 and your full retirement age is 67. If you started your benefits at age 69, you would receive a credit of 8% per year multiplied by two (the number of years you waited). This makes your benefit is 16% *higher* than the amount you would have received at age 67. (This doesn't include any potential additional cost of living adjustments for inflation from age 67 to 69.)

That higher baseline lasts for the rest of your retirement and serves as the basis for future increases linked to inflation. While it's important to consider your personal circumstances – it's not always possible to wait, particularly if you are in poor health or can't afford to delay – the benefits of waiting can be significant.

If you decide to wait past age 65, you may still need to sign up for Medicare. In some circumstances your Medicare coverage may be delayed and cost more if you do not sign up at age 65. If you started Social Security benefits early, you will automatically be enrolled into Medicare Parts A and B when you turn 65.

To review your situation, your annual Social Security statement will list your projected benefits between age 62 to age 70, assuming you continue to work and earn about the same amount through those ages. If you need a copy of your annual statement, you can request one from the Social Security Administration (SSA) or view it online from the SSA portal.

How should I decide when to take benefits?

Consider the following factors as you decide when to take Social Security.

Your cash needs. If you're contemplating early retirement and you have sufficient resources (an investment portfolio, a traditional pension, and other sources of income), you can be flexible about when to take Social Security benefits.

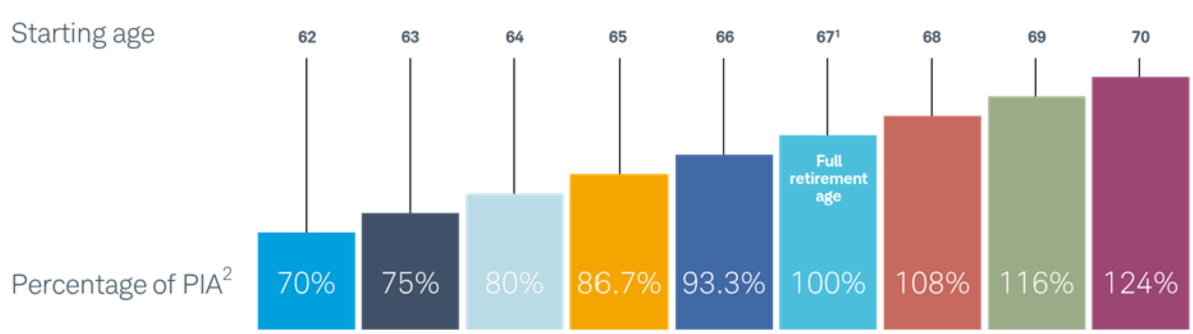
If you'll need your Social Security benefits to make ends meet, you may have fewer options. If possible, you may want to consider postponing retirement or working part-time until you reach your full retirement age – or even longer – so that you can maximize your benefits.

Your life expectancy. Taking Social Security early reduces your benefits, but you'll 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.

If you think you'll beat the average life expectancy, then waiting for a larger monthly check might be a good deal. On the other hand, if you're in poor health or have reason to believe you won't beat the average life expectancy, you might decide to take what you can while you can

Your spouse. If you're married, start by taking your spouse's age, health, and benefits into account, particularly if you're the higher-earning spouse. For

Benefits vary with claiming age



[1]Represents Full Retirement Age (FRA) based on DOB Jan. 2, 1960
[2]PIA = The primary insurance amount is the basis for benefits that are paid to an individual
Source: SSA.gov

A note about life expectancy

According to the Social Security Administration, the average life expectancy for a 65-year-old is around 84 years for males and 87 for females.

Married individuals tend to live even longer, with a greater than average probability of at least one spouse living to age 90.

To compute your own life expectancy, use the life expectancy calculator at SSA.gov.

Remember, though, that the average is just that – an average. If you expect to have a shorter life expectancy, then early withdrawals might make sense. If you live longer than average, starting Social Security later can be beneficial.

example, at full retirement age, your spouse can either take 100% of his or her own retirement benefits, or 50% of yours as a spouse, whichever is higher. A surviving spouse can either receive their own retirement benefits or up to 100% of their deceased spouse's benefits, whichever is higher. It's important to make the most effective use of the combination of a worker, spousal, and survivor benefit, working with a financial planner if possible.

Also note that if you were previously married to your ex-spouse for 10 years or more, your ex-spouse can receive benefits based on your Social Security record (up to 50% of your full retirement benefits), but it won't impact your or the current spouse's benefits.

Whether you're still working. Earning a wage (or even self-employment income) can reduce your benefit temporarily if you take Social Security early. If you're still working and you haven't reached your full retirement age, $1 in benefits will be deducted for every $2 you earn above the annual limit ($22,320 in 2024).

In the year you reach your full retirement age, the reduction falls to $1 in benefits for every $3 you earn above a higher limit ($59,520 in 2024). However, starting *the month* you hit your full retirement age, your benefits are no longer reduced no matter how much you earn.

Again, any reduction in benefits due to the earnings test is only temporary. You receive the money back in the form of a recalculated higher benefit beginning at full retirement age, so don't use the reduction as the sole reason to cut back on working or worrying about earning too much.

What about taxes on Social Security?

Keep in mind that Social Security benefits may be taxable, depending on your "combined income." Your combined income is equal to your adjusted gross income (AGI), plus non-taxable interest payments (e.g., interest payments on tax-exempt municipal bonds), plus half of your Social Security benefit.

As your combined income increases above a certain threshold (from earning a paycheck, for instance), more of your benefit is subject to income tax, up to a maximum of 85%. For help, talk with a CPA or tax professional.

In any case, if you're still working, you may want to postpone Social Security either until you reach your full retirement age or until your earned income is less than the annual limit. In no situation should you postpone benefits past age 70.

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 within the first 12 months of receiving benefits and paying back to the government what you've already received (including Medicare payments and taxes deducted). Then, you could restart benefits at a later date to take advantage of a higher payout. Note, you're limited to one withdrawal per lifetime.

For example, let's say you elected to receive early benefits at age 62 but then decided to go back to work at age 63. You could withdraw your Social Security application, pay back the years' worth of benefits you received, go back to work, and then wait until your full retirement age to restart your benefits at a higher level.

Once you reach full retirement age, another option is to voluntarily stop benefits at any point in time before age 70 to receive delayed retirement credits (spousal benefits and any other benefits based on your Social Security record will be stopped as well). Benefits will automatically restart at age 70 at a higher amount, unless you choose an earlier date.

Take note that when you withdraw your application or stop your benefits after full retirement age, you must specify if your Medicare coverage – if you have it – should be included in the withdrawal

What is the future of Social Security?

As of March 2023, the combined Social Security Trust Funds are projected to have enough resources to cover all promised benefits until 2034 when, absent a change from Congress, benefits would need to be cut for all current and future beneficiaries to about 80% of scheduled benefits.[1] Over the longer term, changes to the full retirement age or means testing – which could reduce or eliminate benefits based on your other income sources – may be considered.

If you're skeptical about the future of Social Security or wary of potential changes, you may be tempted to start benefits early, assuming that it's better to have something than nothing. Regardless of your situation, if you are concerned about the future prospects for Social Security, then that's a good reason to save more – and earlier – for your retirement.

Bottom line

If you have a choice and are in good health, think seriously about waiting as long as you can to take your benefits (but no later than age 70). A long retirement coupled with uncertainty about markets and inflation are the biggest risks. Delaying Social Security, if you can, is effectively an insurance policy against those challenges.

Your situation may differ, however, and there are many factors to consider. Get help from your financial planner if you need it.

Endnote

1. The 2023 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, Social Security Administration, 03/31/2023, www.ssa.gov/OACT/TR/2023.

To wait or not to wait?

Consider taking benefits earlier if ...	Consider waiting to take benefits if ...
You are no longer working and can't make ends meet without your benefits.	You are still working and make enough to impact the taxability of your benefits. (At least wait until your normal retirement age so benefits aren't further reduced due to earnings.)
You are in poor health and don't expect the surviving member of the household to make it to average life expectancy.	You are in good health and expect to exceed average life expectancy.
You are the lower-earning spouse, and your higher-earning spouse can wait to file for a higher benefit.	You are the higher-earning spouse and want to be sure your surviving spouse receives the highest possible benefit.

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