# When Should You Take Social Security?

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## Key Points

- Taking Social Security benefits before you reach full retirement age may not be the wisest choice.
- Social Security benefit eligibility and factors to consider when deciding when to take Social Security.
- The strategies for maximizing benefits can get complex, so be sure to get help from your financial planner or tax professional if you need it.

The age you can start receiving full Social Security retirement benefits is a moving target and depends on the year you were born (see table below). You can elect to take benefits early at age 62 (earlier only if you are a survivor or on disability), or wait as late as age 70.

Given the range of choices, as your 62nd birthday approaches, you'll likely be thinking about more than just how all those candles are going to fit on the cake. Before you decide when to take Social Security, let's take a look at some of the rules.

## What's full retirement age?

Full retirement age (also known as normal retirement age or NRA) is when you're eligible to receive full Social Security benefits. The full retirement age used to be 65 for everyone. However, under current law, 2002 was the last year anyone age 65 could receive full benefits.

If you were born in 1938 or later, your full retirement age is some point after age 65—all the way up to age 67 for those born after 1959.

# Retirement ages for full Social Security benefits

| If you were born in ... | Your full retirement age is ... |
|---|---|
| 1937 or earlier | 65 |
| 1938 | 65 and 2 months |
| 1939 | 65 and 4 months |
| 1940 | 65 and 6 months |
| 1941 | 65 and 8 months |
| 1942 | 65 and 10 months |
| 1943-1954 | 66 |
| 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.

## You'll get a penalty for taking Social Security too early...

If you choose to start receiving your Social Security check before your full retirement age, your benefit is permanently reduced by five-ninths of 1% for each month before that age, up to 36 months. If you start more than 36 months before your full retirement age, the benefit is further reduced by five-twelfths of 1% per month.

For example, if your full retirement age is 66 and you elect to start benefits at age 62, the reduced benefit calculation is based on 48 months. The reduction for the first 36 months is five-ninths of 1% times 36, or 20%. The reduction for the remaining 12 months is five-twelfths of 1% times 12, or 5%. So, in this example, the total permanent benefit reduction is 25%.

## ... and you'll get credit for delaying

If you retire sometime between your full retirement age and age 70, you typically get a credit. For example, say you were born in 1944 and your full retirement age is 66. If you intend to take your benefits at age 68, you get a credit of 8% per year multiplied by two (the number of years you waited), which means your benefit is 16% *higher* than the amount you would have received at age 66.

You can also refer to your annual Social Security statement, which lists your projected benefits at age 62, full retirement age, and age 70. If you need a copy of your annual statement, you can request one from the Social Security Administration (SSA).

If you feel like it will be difficult to wait, you're not alone. Even though most people would probably be better off delaying benefits, **more than two-thirds of eligible workers take early Social Security.**[1]

## Factors to consider

Taking the money early might seem attractive, but it means settling for a lower monthly payment for the rest of your life. Consider the following factors as you decide when to take the money.

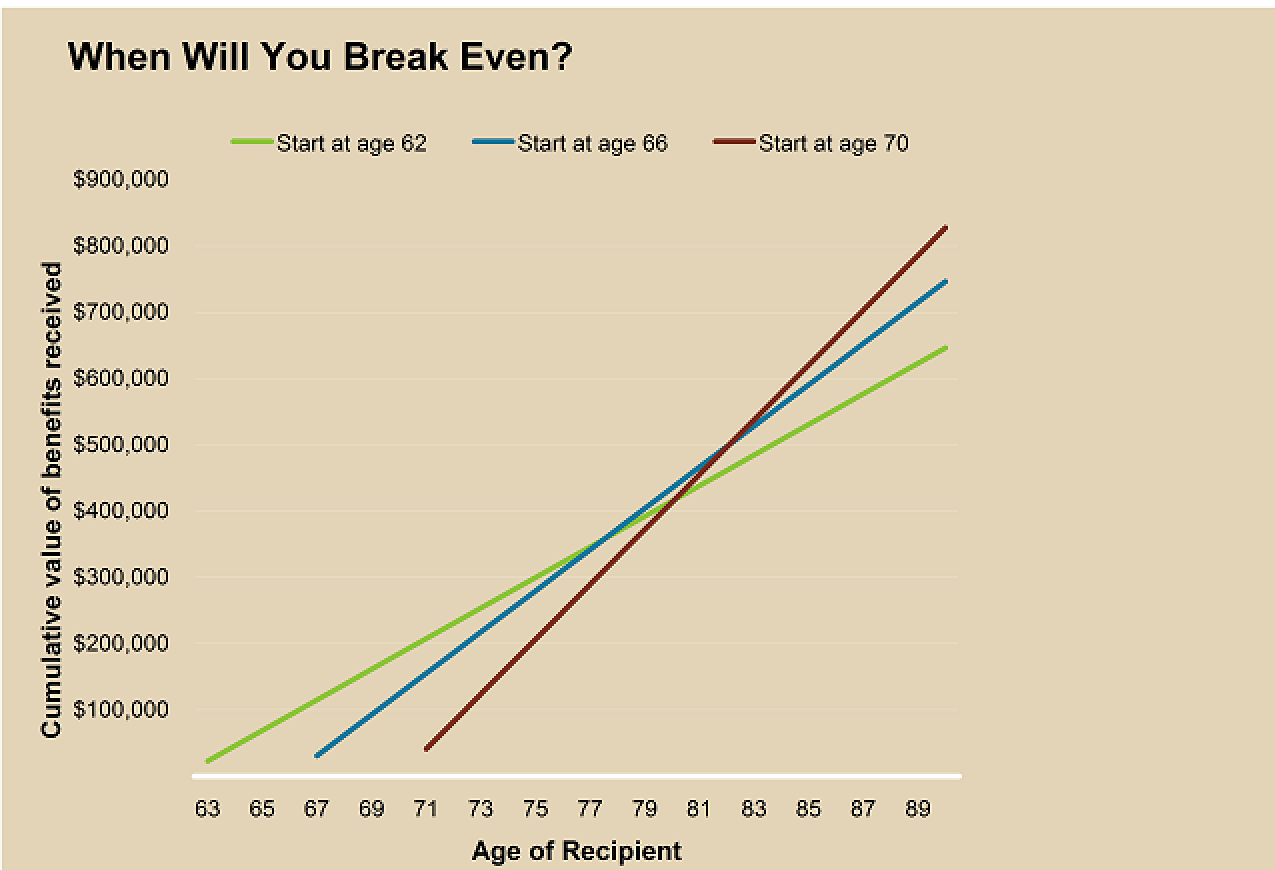
**1. Your cash needs.** If you're contemplating early retirement and you have sufficient resources (adequate investments, a traditional pension, other sources of income, etc.), you can be flexible about when you take Social Security benefits. However, if you'll need your Social Security benefits to make ends meet, you may want to consider postponing retirement for a few years until you reach your full retirement age—or even longer so that you can maximize your benefits.

**2. Your life expectancy and break-even age.** Taking Social Security early reduces your benefits, but it also means you'll receive monthly checks for a longer time. Taking Social Security later results in fewer checks during your lifetime, but the credit for waiting means each check will be larger.

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 account for taxes and the opportunity cost of waiting (investment return you could have made, inflation, etc.). The SSA has several handy calculators you can use to estimate your own benefits. For example, if you're a top wage earner turning 62 this year, then your break-even ages are as follows:

| Monthly Social Security benefits | Retirement age | Break-even age |
|---|---|---|
| $1,992 | 62 vs. 66 | Between 77 and 78 |
| $2,676 | 62 vs. 70 | Between 80 and 81 |
| $3,557 | 66 vs. 70 | Between 83 and 84 |

In this example, if you wait until age 66 to take Social Security instead of taking it at age 62, you'll come out ahead as long as you live to at least age 77-78. The break-even age goes up the longer you wait. See the graph below for an illustration of sample break-even points.



Source: Estimates based on data from ssa.gov, shown in today's dollars, using SSA's Quick Calculator as of May 5, 2014 for someone born May 1, 1952 with earned income equal to or greater than the maximum Social Security wage base. No cost of living adjustment is included. Time value of money is not considered in the example.

Theoretically, it shouldn't matter when you start to receive your checks, provided you have an average life expectancy. 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 get while you can.

A quick note about life expectancy: At birth, our average life expectancy is about 78 years (about 75 for men and 81 for women), according to the National Center for Health Statistics.
However, if you are lucky enough to reach age 65, **your average life expectancy rises to 82 for men and 85 for women**. The average is even higher for married couples, with the odds of at least one spouse living to age 90 at over 60% for couples who reach age 65 together.
Remember, too, that the average is just that—you might be among those who live longer, in which case you may be glad you waited for a larger benefit.

**3. Your spouse.** Don't forget to take your spouse's age and health into account as you consider when to begin receiving Social Security, particularly if you're the higher-earning spouse. The amount of survivor benefits for a spouse who hasn't earned much during his or her working years could depend on the deceased, higher-earning spouse's benefit—the bigger the higher-earning spouse's benefit, the better for the surviving spouse.

# Strategies for married couples

**62/70 split strategy**

With this strategy, the lower earner files early at age 62 based on his or her own benefit and then the higher earner later files at age 70.
When a **lower-earning spouse files for benefits at age 62**, the benefits are reduced based on the number of months before full retirement age.

- **If the higher earner has not yet filed**, the reduced benefit will be based on the early filer's own earnings record.
- **If the higher-earning spouse has already filed** for benefits at his or her own full retirement age, the lower earner would receive an amount equal to 50% of the higher earner's full retirement age benefit or their own benefit, whichever is greater.

However, the early-filing penalty would still apply to any benefits the lower-earning spouse receives, whether they're calculated based on that spouse's own earnings record or the higher-earning spouse's record.

# Full retirement strategy

If both spouses are in good health and expect to meet or exceed average life expectancy and can afford to wait, an alternative strategy would be for both spouses to delay filing until full retirement age. At the time of filing, the higher earner files and suspends his or her benefits until age 70 to continue accruing delayed retirement credits. At the same time, the lower earner can claim spousal benefits. At age 70, the higher earner starts receiving his or her own higher benefit and the lower earner can continue to receive the spousal benefit or one based on his or her own earnings, whichever is greater.

As you can see, such strategies can get complex. Before making any decisions, be sure to consult with your certified public accountant (CPA) or other qualified advisor, and also double-check with the SSA.

**4. Whether you're still working.** Earning a wage (or even self-employment income) could reduce your benefit temporarily if you take Social Security early. For example, 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 ($15,480 in 2014).

In the year you reach your full retirement age, it changes to $1 in benefits deducted for every $3 you earn above a higher limit ($41,400 in 2014), deducted only for income earned before the month you reach your full retirement age.

Starting the month you hit your full retirement age, your benefits are no longer reduced no matter how much you earn. Keep in mind, any reduction in benefits due to the earnings test is only temporary, analogous to "withholding." You will get the money back in the form of a higher benefit at full retirement age, so you shouldn't cut back on working or worry about earning too much.

That said, Social Security benefits may be taxable, depending on your modified adjusted gross income (MAGI). As your MAGI 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 more information, see the SSA publication How Work Affects Your Benefits, and IRS Publication 915: Social Security and Equivalent Railroad Retirement Benefits.

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. However, in no case should you postpone benefits past age 70. You will receive your largest benefit by delaying retirement until age 70, so it never makes sense to wait past that age.

**5. What you see on your Social Security statement isn't what you actually get.** Besides the potential for taxes to eat into your benefit, your Medicare Part B (and Part D, if applicable) premium will also be deducted from the gross amount.

For example, under the means-testing formula already in place, the Part B monthly premium deducted automatically from your gross Social Security benefit could range anywhere from $104.90 to $335.70 depending on your prior MAGI.

## Changing your mind

If you previously elected to receive early Social Security benefits at a reduced rate, you have the option of paying back to the government what you've already received. You could then restart benefits at a later date to take advantage of a higher payout. This option is limited to one year's worth of benefits.

For example, let's say you elected to receive early benefits at age 62 and you're now 63 and thinking of going back to work. You could stop receiving Social Security, pay back the one year's worth of benefits you received, go back to work, and then wait until a later age to restart your benefit checks at a higher level.

Paying back prior benefits is similar to buying an annuity, except that you don't have to pay any interest on the benefits you've already received and there are no fees (which is why this option is limited to one year).

Whether it makes sense to take advantage of this option depends on your tax situation, age and life expectancy. Of course, you also have to come up with the repayment money. You might want to enlist the help of a CPA or another financial professional to help you crunch the numbers.

For important details about repaying benefits please read the SSA publication If You Change Your Mind. If you determine that it makes sense to repay your benefits, you can start the process by filling out Form 521: Request for Withdrawal of Application.

## What about the future of Social Security?

If you're skeptical about the future of Social Security, you may be inclined to take benefits as early as you can under the assumption that a bird in the hand is better than nothing. Healthy skepticism is understandable.

One scenario we might see (besides benefit reductions and tax increases) is means testing, where the amount of benefits could vary depending on income, assets, or some other measure of wealth. This could result in a middle-class squeeze: The wealthy aren't eligible but are fine on their own and the needy are entitled to receive full benefits, but those stuck in the middle get something less than hoped for. In any event, waiting to receive benefits would still result in a larger check, all else being equal.

If you're really worried about the future prospects for Social Security, that's all the more reason to save more for your own retirement—even if it means spending a little less now. Regardless of how much is left when you're set to retire, wouldn't it be nice to treat your Social Security benefit as icing on your retirement cake, rather than the main course?

## To wait or not to wait? That is the question

| Consider taking benefits earlier if ... | Consider waiting to take benefits if ... |
|---|---|
| You are no longer working and really 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 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. |

## The bottom line

If you have a choice and are in good health, it's probably best to wait as long as you can to take your benefits (but no later than age 70). There are many factors to consider, and deciding when to take Social Security can be complex. Get some help from your financial planner or tax professional if you need it.

1. Source: OASDI (Old Age, Survivors and Disability Insurance) Monthly Statistics.