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Should I Wait to Start My Social Security Benefits?

Even if you plan to keep working, social security retirement benefits are available to most workers as early as age 62. Two sources of income sounds good, right?

Not so fast. Electing to start social security early may allow you to put these monthly paychecks to work for you immediately. But it will permanently reduce your overall monthly benefit. On the other hand, beginning social security at age 70 will earn you a delayed retirement credit, and greater monetary benefits. Of course, you can start benefits anytime between age 62 and 70. This decision to begin, or delay, social security can be complicated, and it rests on several factors.

The first of these is identifying your Full Retirement Age (FRA), or when the Social Security Administration (SSA) allows you to collect your full benefit. For workers born before 1939, that's age 65. For those born later, the FRA gradually increases to age 67. Retiring prior to your FRA can reduce your monthly benefit as much as 30 percent — but you may receive benefits for a longer period than if you delay them. Despite social security's annual inflation adjustment, it may not be enough to equal the same benefit you would have received by waiting until your FRA.

(Why the increase in FRA's? Seventy-eight million baby boomers are nearing retirement. Congress hopes FRA limits might put less of a funding strain on social security.)

From a purely mathematical point of view, most people are slightly better off waiting to start social security benefits. But there are other questions to ask yourself:

Do you need the cash? If you need help to pay for your basic living expenses, you probably should elect to begin receiving benefits as soon as you qualify.

How is your health? What's your family pattern of longevity? The longer you live, the more you benefit by delaying. According to the most recent SSA life expectancy tables, a healthy 62 year old has a 69-percent chance of living to age 75. If you don't expect to attain normal life expectancy, consider taking benefits early, if you are single. But if you are married, doing this reduces your spouse's survivor benefit.

Will you continue to work? Your social security benefits may be reduced by \$1 for every \$2 you earn from working, if your wages are greater than \$12,480 in 2006 and you selected early benefits. The calculation changes to \$1 for every \$3 for wage earnings over \$33,240 in the year of reaching your FRA. After that point, working has no effect on the amount of your benefit, although it may impact whether your social security benefit will be taxed. By delaying retirement, the higher wages you have today may replace lower earning years in the social security benefit calculation, which could result in higher benefits.

How much do you earn from pensions and other investments? For retirees earning over \$25,000 (\$32,000 for married couples), 50 percent of your social security benefits may be taxed. If you earn over \$34,000 (\$44,000 for married couples), 85 percent of your social security may be included in your taxable income. To determine your income, the IRS looks at wages, self employment, interest, dividends, and even otherwise tax-free municipal bonds income. They add all these to one-half of your social security benefit to determine how much of your benefits are taxable.

Are you in a high tax bracket? Social security benefits may be taxed. So those in the very high tax brackets, and what other sources of income, can benefit from tax deferral by delaying social security.

Are you a spouse of an eligible worker? If both you and your spouse are living, you have a choice of taking your own social security retirement benefit, or 50 percent of your spouse's benefit, whichever is higher. One strategy to consider is to take a reduced spousal benefit as early as age 62 and then switch to a benefit based on your own earning history at FRA. Because rules can vary, consult your local Social Security office about your eligibility for this strategy.

Please note: If your spouse takes benefits early, it affects your potential spousal and survivor benefits.

Are you a surviving spouse? As a widow or widower at FRA, you are eligible for 100 percent of your spouse's benefit or, again, a benefit based on your own earning history. Reduced survivor benefits are available at age 60. Since this reduction is not as severe as if both spouses were living, consider starting social security early.

Will you save or spend your social security benefits? You may be able to earn more on your reinvested payments than you lose by taking a reduced benefit. Your financial professional can calculate an after-tax "break even" interest rate necessary to have this strategy makes sense.

Before you can make a decision about when to take your retirement benefits, check with the SSA to find out what you are entitled to. Verify your earnings history with their records and correct any errors. Based on your social security benefit statement and your recent tax records, your financial professional can run sophisticated financial models to help you make your decision about early retirement benefits. You've worked your whole life for this money. Make sure you get as much of it as possible.

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