

Tapping Social Security Benefits Early Can Cost You

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The old saying suggests a bird in the hand is worth two in the bush. However, when talking about social security benefits, the two in the bush could be worth a lot more. Taking social security benefits before attaining full retirement eligibility age can cost you dearly.

Full retirement eligibility (FRE) occurs between the age of 65 and 67, depending on the year you were born. For those born between 1943 and 1954, the FRE occurs at age 66. However, the law allows most people to begin drawing their benefits at age 62. Some seniors have no choice but to begin collecting benefits at this age. If you are 62 and have been laid off or have health problems and have no income and have bills to pay, taking early benefits may be your only option. But for those who are healthy, able to work or have enough savings to live on without drawing social security the better option might be to wait.

For each year prior to attaining FRE the social security benefit amount is reduced between 5% and 6.67%. A person with FRE at age 66 will have his benefit reduced by 25% if he decides to draw benefits at age 62. An annual FRE benefit of \$30,000 at age 66 will be reduced to \$22,500 by electing to start benefits four years early. While this may seem like a reasonable trade-off, let's take a look at the cost of this decision.

Let's assume the individual above lives to be 85 years old. By starting benefits at age 62 he will receive a total of \$540,000 during his lifetime. However, if he waits to age 66 he will receive a total of \$600,000 during his lifetime. And if he is able to wait until age 70 to start benefits, this story gets even happier. The FRE benefit amount increases by 8% for each year past the age of 66. Therefore, the individual in this example would receive an annual benefit of \$40,000 by waiting until age 70 to draw benefits. In this case he will receive a total of \$640,000 over his lifetime – almost 19% more compared to starting benefits at age 62.

This is one of the most difficult things for consumers to understand. Getting the most out of social security benefits has taken on added importance because most retirees can no longer rely on a traditional pension to provide a lifetime source of income. And numerous studies have shown that most workers haven't saved enough in their 401(k) plan and other savings accounts to last their post-retirement lifetimes.

It is important to bear in mind that social security benefits pass to a surviving spouse until their death. So the decision of when to lock in the amount of your social security benefits will also impact the amount of social security benefits you are leaving to your surviving wife or husband.

It is also important to realize that you can apply for social security benefits any time after you reach age 62. If you choose not to apply at age 62, you don't have to wait until FRE age. If you want or need benefits at age 64 you can apply then, subject to applicable pre-FRE reductions at that age. The same holds true if you wait until after FRE age to apply for benefits. If you choose not to apply for benefits at FRE age you do not have to wait until age 70. You can apply at anytime and receive the applicable

benefit adjustment at that age. There is no “right” age to begin receiving social security benefits. The important thing is to analyze what is best for your particular situation and make an informed decision.

Some seniors who are capable of working longer may feel compelled to file for Social Security anyway, because they're afraid benefits will be reduced as part of a Congressional deficit-reduction deal. While there are no guarantees on this, most of the proposals to reduce benefits or change the way they are calculated would not affect Americans who are approaching retirement age or are currently receiving benefits. Such changes would be phased in for younger generations.

At Pile Wealth Management we have expertise, tools and calculators designed to help you get the most out of Social Security. We can also work with you to develop a retirement savings and spending plan to increase the odds that you won't run out of money during retirement.