When Should I Start Taking Social Security?

For many of us, Social Security represents a significant part of our retirement income. The Social Security Administration (SSA) reports that roughly half of beneficiaries age 65 and older rely on Social Security for at least 50% of their retirement income and one in four rely on it for 90% or more. Depending on when you start taking it, the amount can vary significantly. Thus, the decision of when to start taking Social Security is critical.

If you haven't started receiving Social Security yet, keep in mind that it can make sense to wait to receive a larger amount down the road. Unfortunately, this is the opposite of what most people do, even if from a financial standpoint, it makes a lot of sense. According to Social Security's 2019 Annual Statistical Supplement, 69% of retired workers are receiving reduced benefits for collecting early.

The SSA calls the age when you can receive your full retirement benefit amount your "full retirement age" or FRA. If you were born between 1943-1954, your FRA is 66. If you were born after 1954 but before 1960, your FRA will increase in two month increments for each year after 1954. For example, age 66 and 2 months is your FRA if you were born in 1955. For those born in 1960 or later, FRA is age 67. Age 62 is the earliest you can start your retirement benefit. Your benefit amount will be higher each year you delay between the ages of 62 and 70.

By postponing your decision to take Social Security by just one year, you give yourself a 5-8% raise. If your full retirement age is 66 and you postpone claiming until age 70, the amount you receive will be 32% higher. What if you decide to take it early? If you were born in 1954 or earlier, by receiving Social Security at age 62, you are locked into a permanent 25% reduction. For example, if your monthly Social Security payment is $1,500 when you begin benefits at FRA (age 66), by delaying until age 70, your payment would increase to $1,980. If you begin benefits at age 62 instead, it would reduce your monthly payment to $1,125.

Because FRA is increasing, the impact of receiving benefits early for those of us born after 1954 is even more dramatic. For example, if you were born in 1960 or later, the decision to take Social Security at age 62 rather than FRA (age 67) will cost you 30% and would reduce a $1,500 benefit amount to $1,050.

The impact these reduced amounts make to your retirement income is compounded over our longer life expectancies today. A lower amount paid for someone who starts receiving Social Security at age 62 and dies at age 72 is much different than for an individual who begins at age 62 and dies at age 90 (and if you are married, there is a 49% chance that one of you will live to age 90). That is a long time to receive a reduced amount.

Some individuals determine when they will take Social Security based upon when they retire, starting their first payment when their salary ends. Because of the factors discussed above, this shouldn't be the only determinant. You can retire and rely on other income sources such as a pension or investment income and still turn on Social Security later. Keep in mind also that enrolling in Social Security and enrolling in Medicare are not the same. Medicare enrollment begins at age 65 regardless of when you elect to begin Social Security.

None of us can predict when we will die, so we are left looking at life expectancies and running analyses to determine what is best for our individual circumstances. If you are married and both you and your spouse are eligible for Social Security, there should be some coordination around the timing of which spouse takes it and when. There are other individual factors such as family health history, when you will stop working, asset level and income need that play into deciding the best strategy. Studies have been done to examine how long you need to live to "breakeven" on your decision to delay taking Social Security. Depending on your longevity, your breakeven point could be in your late 70s or early 80s.

To determine the best decision for you, consider your individual circumstances and Social Security estimate. Your financial advisor can help you run some illustrations to examine your numbers. At a minimum, before you make a decision that impacts what could be 20 or more years of retirement income, remember the following:

1. If possible, don't claim early.
2. Know your full retirement age.
3. Know your numbers—your income, your expenses and your Social Security benefit amount.
4. Married couples should evaluate the timing of their claiming strategies together.

As you can see, there is a lot to think about when it comes to which Social Security strategy is best for you. Contact your Benjamin F. Edwards financial advisor for more information and illustrations to help you with this decision. ■