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# When to Take Social Security Retirement Benefits

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Research by the Federal government indicates that Social Security retirement benefits typically make up more than one-third of the income of Americans age 65 or older.<sup>1</sup> Thus, the decision as to when to begin to take Social Security retirement benefits is an important one. Once you decide to begin receiving Social Security retirement benefits, the initial benefit will generally serve as the “base” amount for the rest of your life, subject only to adjustment for increases in the cost of living.

The question is made a little easier to answer if you separate when you want to retire from when you want to begin receiving Social Security retirement benefits; these two events don't necessarily have to occur at the same time. An understanding of how your benefits are calculated, how they are taxed, and what happens if you continue to work after beginning to receive benefits, is also important.

## “Normal” Retirement Age – “Full” Benefits

For many years, normal retirement age (NRA), the age at which “full” benefits – 100% of an individual's Primary Insurance Amount<sup>2</sup> (PIA) – are available was set at age 65. This is still true for those born in 1937 or earlier. However, for those born in 1938 or later, NRA gradually increases until it reaches age 67 for those born in 1960 or later.

## Early Retirement – Reduced Benefits

Age 62 is generally the earliest age that someone can begin to receive Social Security retirement benefits. However, if retirement benefits begin before the “normal” retirement age, the benefit paid is reduced to reflect the income that will be paid over a longer period of time. The amount of the reduction varies with the year of birth. For example, an individual born in 1937 (NRA = age 65) who began receiving benefits at age 62 had his or her retirement benefit reduced to 80% of what it would have been had they chosen to wait until NRA. However, for a worker born in 1962, for who NRA is age 67, choosing to receive retirement benefits at age 62 results in an initial benefit reduced to 70% of what it would have been had the individual waited to age 67.

## Delay Retirement – A Bigger Benefit

What happens if you decide to wait and take your retirement benefits later than your NRA? You get paid for waiting, in the form of a larger retirement benefit. For each year beyond your NRA that you delay receiving retirement benefits, up to age 70, your benefit is increased by a specified percentage of the PIA. The amount of the credit for each year of delay beyond NRA will vary depending on the year of birth. For example, an individual born in 1935 who delayed receiving benefits until age 70 had his or her benefit increased by 6% for each year (five years in this case) beyond the NRA of age 65. For those born in 1943 and later, delaying retirement increases their benefit by 8% per year for each year they wait beyond their NRA.

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<sup>1</sup> See, “Income of Americans Aged 65 and Older, 1968 to 2008.” Congressional Research Service, 7-5700, RL33387, November 4, 2009, Table 7.

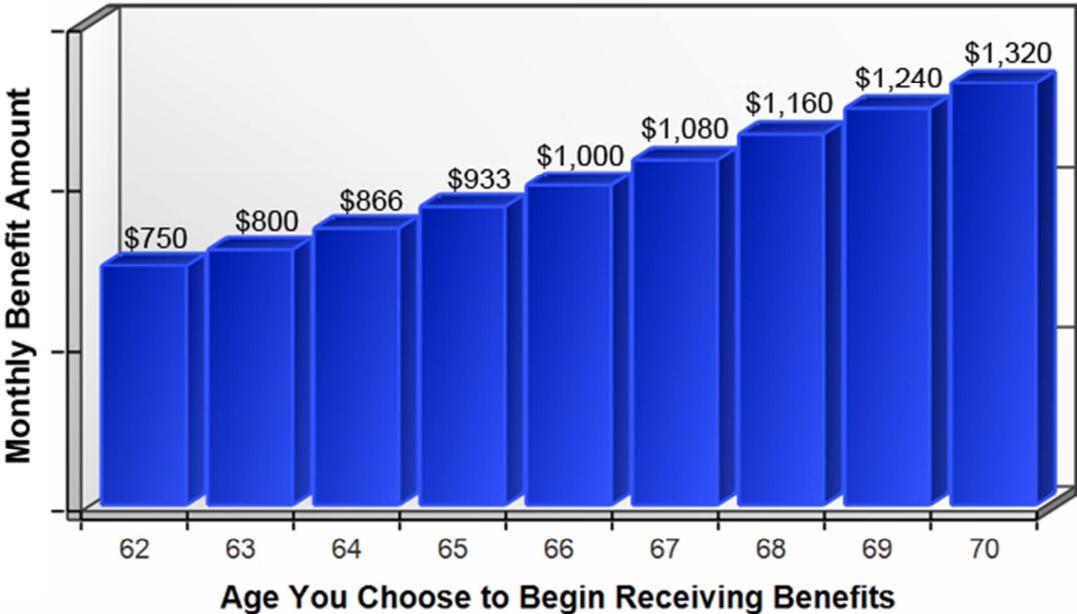
<sup>2</sup> The PIA is calculated by the Social Security Administration based on a person's lifetime earnings record.

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## Which Is Better? – Early or Late?

One way to answer this question is to perform a “break-even” analysis which estimates the age at which the total value of higher benefits (from delaying retirement) is greater than the total value of lower benefits (from starting retirement early).

If you expect to live longer than this break-even age you would likely benefit from delaying the start of Social Security retirement benefits. If you are in poor health, or if members of your family tend to die at relatively young ages, you will likely receive a greater benefit by beginning your benefits early.



This example assumes a monthly benefit of \$1,000 at a full retirement age of 66.

## Federal Income Taxation of Social Security Benefits

Under federal law, Social Security benefits may be subject to income tax. If one-half of your Social Security benefits plus your “modified adjusted gross income” (often the same as adjusted gross income) exceed certain limits, then a portion (up to 85%) of your benefits is taxable. For married couples filing jointly this threshold is \$32,000; for all others it is \$25,000.<sup>1</sup> State or local tax treatment of Social Security benefits can vary.

<sup>1</sup> The threshold is \$0 for those who are married filing separately and who lived with their spouse at any time during the year.

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## If You Continue Working

If you begin taking Social Security retirement benefits early and also continue working, your retirement payments will be temporarily reduced if your earnings exceed certain limits. For this purpose, “earnings” generally include wages received as an employee or the net income received from self-employment. The amount of the reduction will vary:

- **Under NRA:** One dollar of benefits is lost for every two dollars you earn over \$14,640 (\$1,220 monthly).<sup>1</sup>
- **The year you reach NRA:** One dollar of benefits is lost for every three dollars you earn over \$38,880 (\$3,240 monthly).<sup>1</sup>

Once you reach NRA there is no reduction in your retirement benefits, regardless of how much you earn.

## Seek Professional Guidance

The decision as to when to take Social Security retirement benefits is an important one. A wrong decision can cost a retiree literally thousands of dollars. The guidance of financial professionals, to insure that all relevant issues are considered, is highly recommended.

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<sup>1</sup> 2012 value. These “exempt amounts” are subject to adjustment for inflation each calendar year.