

Social Security: now or later?

By Michael Slotopolsky

THERE ARE NO EASY ANSWERS.

Deciding whether to collect your Social Security benefits sooner rather than later is so confusing it can cause a financial headache. Under present law, you can claim Social Security any time from the age of 62 to 70. The math is pretty simple: the longer you wait, the larger your monthly pay check. And forget about old retirement ages; today, retirement age is based on when you were born. If, for example, you were born before 1937, normal retirement age (NRA), *aka* full retirement age, is 65. That's what it used to be for everyone. Under current law, 2002 was the last time anyone age 65 could receive full benefits. If you were born after 1938, your NRA is some time after age 65 and goes up to incrementally to 67 for those born 1960 or later.

So how does when you draw your money affect how much you get? Let's say you're set to receive \$1,000 a month at your full benefit age of 65+, but want to collect early, at age 62. If you opt for an early pay out, you'll collect just \$750 a month, but if you wait until you're 70, your checks are \$1,320 a month.

Continuing the scenario, if you collected early you would have received \$9,000 a year, or \$36,000 from 62 to 66. So is it worth starting at 62? There are many factors to consider including when you stop working, how much savings you have, whether you're healthy, and if your spouse earns more than you. Of course, it may be impossible for some families to wait for benefits if a working spouse has lost his job or is unable to work because of health issues. It might also make more sense to collect early if it prevents you from accumulating debt.

Some experts like the idea of collect-

ing earlier since you can, theoretically, then invest the money and make it work for you, accumulating more now than waiting later to collect. This makes sense when you factor in compounding. Additionally there may be a tax reason to draw early benefits since under IRS rules a certain portion of benefits are taxable depending on adjusted gross income for the year.

If you can wait to collect then your benefit is like an annuity that pays higher future returns. If you live longer, you'll have more money to add to your savings. Those who defer benefits until 66 generally take about 12 years to collect as much as those who started receiving checks at 62; the break even point is about 78. So if you live past 78, your decision to hold off was smart. It's smarter to wait and collect if you're financially set and can do without this added benefit.

It's often easier to advise singles when to draw benefits since they don't have to worry about how their actions affect a spouse. For singles it usually pays to wait until full retirement age if you're able to support yourself until then. For people with significant savings who expect to live well into their 80s, it even makes sense to wait until 70.

Planning for married couples is more complex because of age differences, varying retirement dates, earnings, and a myriad of other factors. In most cases it makes sense for the higher earning spouse to delay benefits until 70 while the lower earner begins collecting at 62. This ensures that the surviving spouse will end up with the maximum amount of benefits for the rest of his life. Even if the higher earner died before 70, the survivor's benefits would be bumped up to what the deceased spouse would have received. Clearly, how long you expect to live should greatly influence your decision.

If you've already started receiving benefits but wish you waited, you're

As the baby boomers start to retire in droves, the question of when to take those Social Security benefits looms large for millions. Take it an early 62? Wait until the normal retirement age of 65? Or wait as late as 70?

allowed to give it back and start over. You will probably have to pay back more than you actually received since Medicare premiums and income taxes may have been deducted.

No one ever said waiting was easy. Even though most folks would probably be better off delaying benefits, 76% of women and 71% of men take early Social Security benefits. Taking the money may seem very enticing, but it means settling for a lower monthly payment over the rest of your lifetime.

To get a more precise idea about how to maximize your benefits, go to the Social Security retirement estimator (www.ssa.gov/estimator) which uses your actual earnings in this calculation and allows you to see how retiring at different ages affects your benefits. AnalyzeNow.com offers calculators that help determine the best time for singles and couples to draw Social Security benefits. Of course, it's always smart to have a financial planner or CPA run the analyses for you. It may be the best money you'll ever spend. □

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