WHEN TO TAKE SOCIAL SECURITY?

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My 62nd birthday was in February which means I could take Social Security. But should I take it now or wait? When should my readers take Social Security? Although this is a more complicated subject than the length of my article allows, I thought I would cover what I believe are important considerations.

REDUCTIONS AND CREDITS—REALLY ONE AND THE SAME

My full retirement age is 66. If a person takes their Social Security at the earliest time possible, age 62 or after, but before full retirement age, this is considered claiming "early". If a person delays taking benefits after full retirement age anytime up to age 70 this is considered "delaying". Claiming before full retirement age is considered a "reduction" whereas taking benefits after full retirement age is considered a "credit". A "reduction" seems like a punishment whereas a "credit" seems like a reward. Interestingly enough from age 62 up to age 70, the credit percentage is the same each year (8% more each year from 62 to 70, so the benefit of delaying is the same whether you call it a reduction or a credit. The average benefit for an individual in 2014 is $1294 per month. Someone who receives the average benefit, and begins taking benefits at age 62, would receive 75% of that amount if they choose to take it early. If a person chooses to wait until age 70 he would receive an 8% per year increase each year by waiting. It should be noted that the maximum benefit for an individual in 2014 is $2642. (Payments are based on how much a person has paid in over his or her working career. Social Security contributions to the system are paid on income up to $114,000 in 2014). A spouse can collect on his or her own benefit or collect 50% of the higher earners payment whichever is higher.

THE REDUCTION IN BENEFITS FOR EARNING MONEY IF A PERSON TAKES EARLY IS NOT MUCH OF A PENALITY AFTERALL

It is widely know that if a person takes his Social Security early he is penalized $1 of benefits for every $2 of earnings in excess of $15,480 for 2014 up to $41,400 and then $1 for every $3 dollars of earnings above $41,400. What is not discussed very often is that the reduction in Social Security is not lost. Those reductions are in reality just deferred until full retirement age.

MOST ADVICE NOW IS TO WAIT UNTIL 70 TO MAXIMIZE TOTAL BENEFITS-BUT I'M NOT SURE THAT THIS IS THE BEST ADVICE.

Most advice now says that on a total dollars and sense basis, it makes sense to delay benefits until age 70. The logic is that since Social Security benefits increase 8% per year after full retirement age which is a high rate of return in today's interest rate environment. This, combined with the fact that we are all expected to live longer and with interest rates at historic lows that it makes sense to delay. The other benefit is that the widow's benefit allows a surviving spouse to claim the deceased individual's higher payout if 50% of the deceased payout is greater than their own. If the primary earned died after age 70 the widow's benefit would be maximized if the primary earned had delayed until age 70. When I run the numbers on when to take the funds, full retirement age (66) or delay to age 70, for me, it is not clear which is the best strategy. My life expectancy at age 66 is about 16 years. A female life expectancy at age 66 is 19 years. (It should be noted that life expectancy continues to increase.) If I calculate the total benefit of a higher payout for 12 years, (age 70 to 82) or a lower benefit for 16 years, the total payout of delaying is about 5% higher but with the quicker payout I have the certainty of having the four more years of payments. If I don't live very long, quicker payout makes sense. If I live longer than the average life expectancy chart (which is my plan), the benefit of waiting increases, and as I mentioned, life expectancy continues to increase. If I take the payment at age 66 instead of age 70, I also believe I can earn a higher rate or return on investment money than the average person which can help me make up for any difference. So although, the current standard advice for someone living to normal life expectancy is to delay to age 70, I'm really not sure what I will do at this point.

TWO POSSIBLE RECOMMENDED STRATEGIES:

One strategy that is currently recommended is for the primary earner in a married couple to claim a spousal benefit at age 66 (one half of the spouse's primary insurance amount or benefit) and then switching to his or her own benefit at age 70. Meanwhile the secondary earner claims his or her benefit at age 62. Thus the primary earner can get paid while he waits for his or her benefit to grow. This is complicated but deserves some consideration. A second strategy is to "file and suspend" in which the primary earner files for the benefit at full retirement age or later, but then suspends payment which allows his or her payment to grow until age 70. But by filing and suspending the spouse could take a spousal benefit. (A spousal benefit can't be taken until the primary earner files for payment). If, as an example the primary earner was 66 and the spouse was two years younger, the spouse could take the spousal benefit at age 64. This would be a lower spousal benefit by 8% for two years but the widow's benefit would grow assuming the primary earner lived until age 70 or beyond. It should be noted that there is no credit for delaying a widow's benefit past full retirement age.

CONSIDER THE CHOICES CAREFULLY:

This is a complicated subject so it takes some thought and consideration. The Social Security personal can assist in getting you the facts and there is considerable information on line. But do take time to consider your options carefully.

Remember that every investor's situation is unique and that it is important to review your specific situation with a financial professional.

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