

The Question Everyone Asks

When should I take my Social Security benefit?

By Stan Hinden

October 2007

If you're a boomer, you're probably wondering when you should start collecting Social Security. You can do so as early as age 62 or as late as age 70. Your decision will depend on many factors, including your health, wealth, marital status and how long you expect to live.

In the past, most Americans have adopted an attitude of "pay me now, not later." In 2004, 59 percent of women and 53 percent of men took benefits at age 62.

That attitude is likely to change. The erosion of traditional pension plans, rising health care costs and a lack of savings will force many boomers to keep working and postpone Social Security payments. The slow rise in the full retirement age from 65 to 67—which began for people born in 1938—also will encourage people to work longer.

Delaying retirement by even a few years can make a big difference in a future retiree's finances. By staying on the job, workers can add to their 401(k) savings plans and possibly improve their pension and Social Security benefits.

For most people, their total lifetime Social Security benefits will be about the same whether they take them early or later. "Early" means smaller payments for more years. "Later" means larger payments for fewer years.

Let's say you were born in February 1947. You celebrated your 60th birthday this year and, based on your work history, will be entitled to a \$1,000-a-month benefit when you reach 66, your full retirement age. Looking ahead, these are your main options:

- You can take benefits early at 62 in 2009 and receive \$750 a month.
- You can wait until 2013 when you reach your full retirement age of 66 and receive \$1,000 a month.
- You can wait until age 70 in 2017 and receive \$1,320 a month.

Here are some factors that may help you decide:

Reasons to Start Early.

- You need the money now. The extra income will help you make ends meet. And those monthly payments add up. Our retiree born in 1947 who takes benefits at 62 will collect \$36,000 by full retirement age.
- You don't need the money. You are comfortable financially, so you plan to

invest your benefits. Those \$750 payments invested at 4 percent for four years would exceed \$39,000.

- Your health is poor. You don't expect to live into your late 70s or 80s. So it seems wise to take your benefits as soon as you can.

Reasons to Start Later.

- You haven't saved enough. You have enough income to live on now, but when you retire you'll need the largest Social Security payment you can get. By waiting for benefits until 70, you'll get a bonus of 8 percent a year—or 32 percent—for the four years between 66 and 70. Thus, your payment at 70 will be \$1,320.
- You want to avoid the earnings penalty. People who take their benefits between 62 and full retirement age and continue to work must "give back" \$1 in benefits for every \$2 they earn above the Social Security earnings limit. In 2007, the limit is \$12,960. However, in the year in which you reach full retirement age, Social Security will withhold \$1 for every \$3 you earn over the limit of \$34,440. But that limit is in effect only until the month you reach full retirement age. After that, the limit goes away.
- You want to postpone paying taxes. Delaying your Social Security benefits could mean postponing additional income taxes, especially if you're still working. The more you earn, the more of your Social Security benefit can be taxed.
- You are concerned about your spouse's future. Generally, when a spouse dies, a widow (or widower) gets 100 percent of the spouse's Social Security payment. (If her own benefit is larger, then she would choose to take the larger benefit.) If the husband's payment is reduced because he chose to collect at 62, his widow's payment would be reduced, too. But if he received a larger payment at full retirement age or even at 70, his widow would get the higher payment. A spouse who wants to leave his or her partner the largest possible benefit will wait until 70 to begin receiving Social Security benefits.

Stan Hinden is the author of How to Retire Happy: The 12 Most Important Decisions You Must Make Before You Retire (McGraw-Hill, 2006).

Copyright 1995–2007, AARP. All rights reserved.