

Don't Make This Social Security Mistake!

by Eric Coffman MBA, CFP®, AIF®

Perhaps the most serious social security mistake is to begin taking retirement benefits prior to considering how various filing strategies may impact your financial plan. The considerations below may help.

❶ **The Benefit of Waiting Until Full Retirement Age (FRA).** After years of paying into the social security system it can be tempting to file at the minimum age of 62.

In some situations, however, it may be appropriate to file early. For instance, if the primary earner is unable to work and the household has not saved enough for retirement. Another situation would be if an individual's poor health condition may result in the likelihood of a shorter than normal life expectancy.

For most of us, however, beginning to take benefits prior to FRA may result in leaving tens of thousands of dollars in benefits on the table – over the course of our, and if married, our spouse's lifetime.

Your starting retirement benefit will be substantially less by not waiting until FRA. Let's assume you were born in 1960 or later, therefore your FRA is 67.

As follows is a list, from the Social Security website, illustrating the *reduction in beginning benefit*, for an individual whose FRA is 67, assuming a beginning date at various ages:

- 62 – about 30%
- 63 – about 25%
- 64 – about 20%
- 65 – about 13.3%
- 66 – about 6.7%
- 67 – No reduction



Your cumulative lifetime benefits may be substantially less by filing early. Let's consider some hypothetical projections. At 62, Jason is projected to have a beginning benefit equal to \$15,542. Should Jason live through age 90, he would receive \$450,723 in lifetime benefits (using a 1.50% annual benefit increase).

However, if Jason had waited until his FRA of 67 to turn on social security his beginning benefit would be \$22,203 and his total lifetime payments would equal \$532,874. *By waiting until FRA, he would have received over \$82,000 more in cumulative benefits during his lifetime.*

Similarly, spousal benefits are reduced when the primary filer files early. The list below shows the *reduction in beginning benefit* amount as a percentage of the primary filing spouse:

- 62 – about 67.5%
- 63 – about 65%
- 64 – about 62.5%
- 65 – about 58.3%
- 66 – about 54.2%
- 67 – about 50% (maximum spousal benefit amount)

For the sake of simplicity and brevity, we will not run through examples of how a married couple's combined benefit would be impacted by an early filing, however the amount of lost benefits would be substantially larger.

② **The Benefit of Waiting Beyond FRA – the Delayed Retirement Credit.** Social Security benefits are increased by a certain percentage (depending upon year of birth) when you delay your retirement beyond FRA. For those born in 1943 or later the percentage, or delayed retirement credit, is 8%. This credit applies each year that you delay taking payments until you reach 70. *By waiting until 70 you can boost your benefit by 32%.*

From our earlier example, had Jason waited until age 70 to begin taking his social security, his beginning benefit would have been \$27,532. Over the course of his lifetime he would have collected \$578,169 in payments. *Approximately \$127,000 more than if he began at age 62 and \$45,000 more than if he began taking payments at FRA (67).*

③ **Other Important Considerations.** Social security benefits are taxed at varying levels so if one is employed it may be a good move to defer taking a benefit until retirement. Also, if one is considering delaying payments, it may be necessary to augment current income with withdrawals from an investment portfolio. Thus, it would be prudent to have a written retirement income plan in place.

④ **Social Security and Retirement Income Analysis.** We invite you to schedule a meeting to review your social security situation as well as your retirement savings and income plan.

(Source: www.ssa.gov)

Consider contacting us for a Social Security Analysis or Retirement Review

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