

When Should You Take Social Security?

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Brace yourselves—the baby boomers are retiring! The first member of this massive generation's leading edge applied for early Social Security benefits last fall (submitting her application on the Internet, no less). But, was opting for early benefits the wisest choice?

When it comes to Social Security, you've got three alternatives: Take it early, wait until your normal retirement age or wait even longer. The normal age for receiving Social Security retirement benefits is a moving target (see table below). You can still elect to take benefits early at age 62, or wait as late as age 70. Given the range of choices, as your 62nd birthday approaches, you'll likely be thinking about more than just how all those candles are going to fit on the cake.

Before you consider whether it makes sense to take Social Security benefits earlier or later, let's take a look at some of the rules.

What's the "normal" retirement age?

Normal retirement age (abbreviated as NRA, but sometimes called full retirement age) is when you're eligible to receive full Social Security benefits. The normal retirement age used to be 65 for everyone. However, under current law, 2002 was the last year anyone age 65 could receive full benefits. If you were born in 1938 or later, your normal retirement age is some point after age 65—all the way up to age 67 for those born after 1959.

When can you get your full Social Security benefit?

If you were born in ...	Your "normal" retirement age is ...
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months

1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

You'll get a penalty for starting too early ...

If you choose to start receiving your Social Security check before your normal retirement age, your benefit is reduced by five-ninths of 1% for each month before that age, up to 36 months. If you start more than 36 months before your normal retirement age, the benefit is further reduced by five-twelfths of 1% per month.

For example, if your normal retirement age is 66 and you elect to start benefits at age 62, there are 48 months of reduced benefits. The reduction for the first 36 months is five-ninths of 36%, or 20%. The reduction for the remaining 12 months is five-twelfths of 12%, or 5%. So, in this example, the total benefit reduction is 25%.

... and you'll get credit for delaying

If you delay retirement until after your normal retirement age (prior to age 70), you typically get a credit. For example, say you were born in 1944. Your normal retirement age is 66 but you intend to take your benefits at age 68. By waiting the extra two years, you get a credit of 8% per year, which means your benefit is 16% higher than the amount you would have received at age 66.

If you want to skip the math (and who could blame you?), check out the graph below titled [When Will You Break Even?](#) which shows the [effect of early or delayed retirement](#) on estimated benefits. You can also refer to your annual Social Security statement, which lists your projected benefits at age 62, normal retirement age and age 70. If you need a copy of your annual statement, [request one](#) at ssa.gov.

If waiting seems hard to do, you're not alone. Even though most people would probably be better off delaying benefits, **76% of women and 71% of men took early Social Security.**¹

Factors to consider

Taking the money early might seem attractive, but it means settling for a lower monthly payment over the rest of your lifetime. Here are some factors to consider as you decide when to take the money.

1. Your cash needs. If you're contemplating early retirement and you have sufficient resources (adequate investments, a traditional pension, other sources of income, etc.), you can be flexible about when you take Social Security benefits.

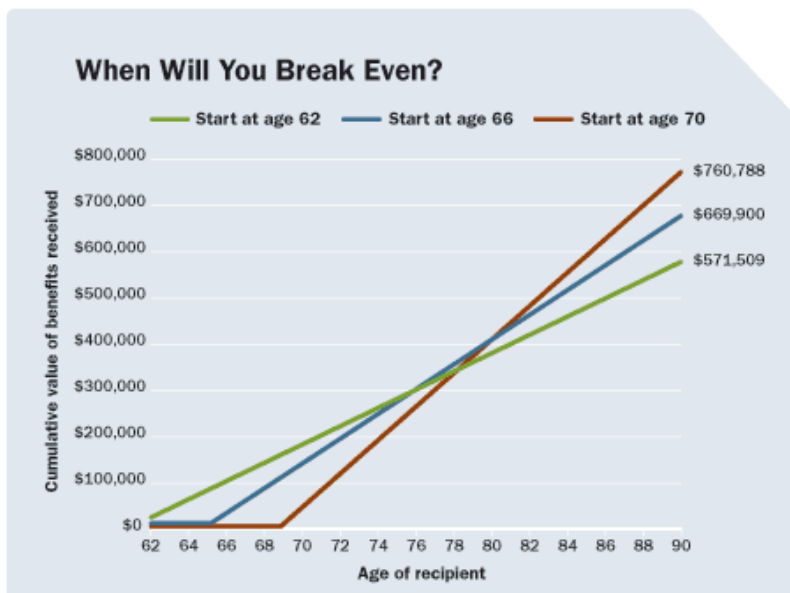
However, if you can't make ends meet without electing for an early, reduced benefit, you may want to consider postponing retirement for a few years until you reach your normal retirement age, or even longer.

2. Your life expectancy and break-even age. Taking Social Security *early* reduces your benefits, but it also means you'll receive monthly checks for a longer time. Taking Social Security *later* results in fewer checks over your lifetime, but credit for waiting means each check will be larger.

At what age will you break even and begin to come out ahead if you delay Social Security? The break-even age depends on the amount of your benefits and the assumptions you use to account for taxes and the opportunity cost of waiting (investment return you could have made, inflation, etc.). The Social Security Administration has a handy [calculator](#) you can use at [ssa.gov](#). For example, if you're a top wage earner turning 62 this year and your monthly benefits (in today's dollars) at ages 62 and one month, 66 and 70 are \$1,647, \$2,233 and \$3,019, respectively, then your break-even ages are as follows:

- 62 (early) vs. 66 (NRA): Break-even age is 77.
- 62 (early) vs. 70 (late): Break-even age is 79 and 6 months.
- 66 (NRA) vs. 70 (late): Break-even age is 81 and 4 months.

In this example, if you wait until age 66 versus 62 to take Social Security, you'll come out ahead as long as you live past age 76 and 10 months. The break-even age goes up, of course, the longer you wait. See the graph below for an illustration of sample break-even points.



Estimates based on data from [ssa.gov](#), shown in today's dollars.

Clearly, how long you expect to live will greatly influence your decision. Theoretically, it shouldn't matter when you start to receive your checks, provided that you have an average life expectancy. If you think you'll beat the average life expectancy, then waiting for a larger monthly check might be a good deal. On the other hand, if you're in poor health or have reason to believe you won't beat the average life expectancy, you might decide to take what you can get while you can.

A quick note about life expectancy: At birth, our average life expectancy is about 78 years (75 for men and 81 for women), according to the National Center for

Health Statistics. However, if you are lucky enough to reach age 65, your average life expectancy rises to 82 for men and 85 for women. Remember, too, that the average is just that—you might be among those who live longer, in which case you would be glad you waited for a larger benefit.

3. Your spouse. Don't forget to take your spouse's age and health into account as you consider when to begin receiving Social Security, particularly if you're the higher-earning spouse. The amount of survivor benefits for a spouse who hasn't earned much during his or her working years could depend on the deceased, higher-earning spouse's benefit—the bigger that higher-earning spouse's benefit was, the better for the surviving spouse.

4. Whether you're still working. If you take Social Security before your normal retirement age, earning a wage (or even self-employed income) could reduce your benefit. For example, if you're still working and you haven't reached your normal retirement age, \$1 in benefits will be deducted for each \$2 you earn above the annual limit (\$13,560 in 2008).

In the year you reach your normal retirement age, it changes to \$1 in benefits deducted for each \$3 you earn above a higher limit (\$36,120 in 2008), deducted only for income earned before the month you reach your normal retirement age.

Starting the month you hit your normal retirement age, your benefits are no longer reduced no matter how much you earn. That said, keep in mind that Social Security benefits may be taxable, depending on your modified adjusted gross income (MAGI). As your MAGI increases above a certain threshold (from earning a paycheck, for instance), more of your benefit is subject to income tax, up to a maximum of 85%. For more information, see [IRS Publication 915, Social Security and Equivalent Railroad Retirement Benefits](#).

In any case, if you're still working, you may want to postpone Social Security either until you reach your normal retirement age or until your earned income is less than the annual limit. However, in no case should you postpone benefits past age 70.

Don't worry too much about future benefits

If you're skeptical (or downright cynical) about the future of Social Security, you may be inclined to take benefits as early as you can under the assumption that a bird in the hand is better than nothing. Healthy skepticism is understandable, but, according to the Social Security Administration, Social Security is in sound shape until at least 2040 (at which time projected benefits could be reduced by 26%, if no changes are made). For more, see [Frequently Asked Questions About Social Security's Future](#) at ssa.gov.

The bottom line

If you have a choice and are in good health, it's probably best to wait as long as you can to take your benefits (but no later than age 70). There are many factors to consider, and deciding when to take Social Security can be complex. Get some help from your financial planning or tax professional if you need it. To quote that famous baby boomer sci-fi icon, Mr. Spock, whatever you decide, "May you live long and prosper!"

To wait or not to wait? That is the question

Consider taking benefits earlier if ...	Consider waiting to take benefits if ...
You're no longer working and really can't make ends meet without your benefits.	You're still working and make enough to impact the taxability of your benefits. (At least wait until your normal retirement age so benefits aren't further reduced due to earnings.)
You're in poor health and don't expect to make it to average life expectancy.	You're in good health and expect to exceed average life expectancy.
You're the lower-earning spouse and your higher-earning spouse can wait to file for a higher benefit.	You're the higher-earning spouse and want to be sure your surviving spouse receives the highest possible benefit.

Important Disclosures

1. Source: OASDI (Old Age, Survivors and Disability Insurance) Monthly Statistics, November 2007 (released December 2007), Table 3.

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