“On The Money Report”

Should start taking Social Security at age 62 or 65?

There is no one-fit answer to this important question, however if we can isolate the important points, it will help you to make the correct decision. Whether you are single, have an average life expectancy or will continue to work, among other things, will have a bearing on your decision. But don’t despair, it’s not that difficult to determine.

Let’s break it down to a couple of categories.

Singles

In a recent paper published in the American Association of Individual Investors (AAII) Journal, it was determined that for individuals with average life expectancies, there is no long-term financial difference in taking benefits at age 62 or waiting for age 65.

I other words, the benefit of getting less money sooner by taking income at age 62 is the same as getting more money later at age 65.

There are, however, some reasons to delay taking your Social Security benefits. Remember that benefits are based on the highest 35 years of “Social Security” earnings. If you are currently age 62 and earning a larger amount relative to previous “Social Security” earnings, it may in better to keep working in order to boost your benefits at age 65. You also need to be aware of something called the **earning’s test**. If you make over $11,250.00 in 2003, and are below age 65, your monthly benefit will be reduced $1.00 for every $2.00 you earn over the earning test’s amount.

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The decision for singles rest on three basic factors:

Life Expectancy: If your have an average life-expectancy, there is no advantage in taking your benefit at age 62 or waiting until age 65. If you think you have a longer than average life-expectancy, waiting until age 65 might be the better solution. If you have a reduced life-expectancy, taking your benefit sooner is probably better.

The Earnings Test: As stated above, if you're still working and making over $11,250 in 2003, waiting may be the better alternative.

Raising your "Social Security" earnings: If, by working a few more years, you add to your benefit over the rest of your lifetime, it will be better to keep working. Of course, this only assumes that you can afford to do so.

Couples

The process for couples is a bit more complicated because we are dealing with two life-expectancies instead of one.

Spouses get some special treatment under social security regulations. Under the current rule, the spouse is entitled to 100% of his or her own benefit or 50% of the spouse's benefit—whichever is **higher**. So, if $700.00 per month is 100% of one spouses benefit but $800.00 per month is 50% of the other spouse's benefit, one can take the higher amount. This works well for spouses of the same age who retire together, but what if one spouse retires before the other?

A spouse can take reduced benefits based on her own earnings record. Furthermore, in an exception to the rules, a spouse who begins taking benefits based on her own record while the husband continues to work can switch to benefits based on the husband's earnings record when the husband retires, if it is beneficial to do so.

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Let's say that the wife's benefit would be higher based on 50% of her husband's earnings. If the wife retired early and the husband continued to work, the wife could begin receiving a check immediately and still benefit from the higher spousal payout once the husband retired.

Here's another spousal wrinkle that you need to be aware of: we know that if an individual continues to work past full retirement age, he will accumulate additional retirement credits until age 70. However, there is no parallel increase in spousal benefits. If the spread between 100% of her own earnings and 50% of her husband's earnings is narrow, therefore, there may be instances where the wife would want to work additional years and take benefits based on her own earnings record.

For Couples, Here Are Some Guidelines:

The Applicability Of The Earnings Test. Those subject to a benefit reduction under the test should postpone benefits.

Both Spouses Have Eligible Earnings. "If either member of the couple has a long life expectancy, the higher-earning member should postpone the beginning of benefits based on his or her earnings record until after full retirement age".

Both Spouses Have Eligible Earnings, But One Has Earned Less. Under the same scenario as above, when the lower-paid spouse is entitled to a benefit based on her own earnings, it usually pays to take the benefits sooner rather than later, and certainly not later than full retirement age.

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February, 2003

Source: Horsesmouth.com