WHEN SHOULD YOU CLAIM SOCIAL SECURITY?

Shedding Light on this Major Retirement Decision

EMERJ 360

Social Security, retirement savings, any pensions and part-time work are the main sources of income in retirement. Of these, Social Security is one of the most important, as it represents a guaranteed source of income for all retirees: Six in 10 retirees say that Social Security benefits are a major source of retirement income.[1]

Because of the prominent role these benefits play in retirement, it is particularly important to ensure you make the most of them. There are a few key factors in the years leading up to retirement that can influence the amount of your benefit, and it is important to fully understand the overall impact of the choices you make.

[1] EBRI, "2019 Retirement Confidence Survey."

Calculating Your Benefits

Social Security benefits are based on your work history and lifetime earnings. The Social Security Administration (SSA) calculates a monthly income based on your 35 highest-earning years, indexed for inflation. This monthly income is your basic benefit—the amount you receive if you file for benefits at your full retirement age. (See “Your Full Retirement Age.”)

Your Full Retirement Age

Full retirement age is the age at which you will receive your full basic benefit, and it gradually increases for those born between 1954 and 1960.

Birth Year	Full Retirement Age
1943 to 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 and later	67

You can’t always plan how many years you work. However, if you don’t have a full 35 years of earnings, working a year or two more is likely to have a positive impact on your basic benefit amount.

One of the most important decisions about Social Security benefits is when you claim them. While you can claim benefits as early as age 62, claiming earlier than your full retirement age can lead to a permanent reduction in your benefit amount—as much as a 30% reduction for those born in 1960 or later. The reduction is progressive, meaning the closer you are to your full retirement age when you file, the less of a reduction you will experience.

By contrast, your benefits will increase above your basic amount if you wait to claim until after your full retirement age. For every year you delay past your full retirement age, your benefit increases by 8%—until age 70, at which point any additional delays do not result in further increases. For example, someone born in 1960 or later who claims at age 70 would receive 124% of their basic benefit for the rest of their life.

30% reduction for someone born in 1960 or later who claims early, at age 62

24% increase for someone born in 1960 or later who waits to claim until age 70

Your choice about when to claim your benefits may not be entirely in your control. If you need to retire early due to poor health or job loss, you may need the income provided by Social Security regardless of whether the timing leads to a reduced benefit. However, if you do have control over the timing, you can decide when it's most beneficial to claim. This decision will need to balance the added flexibility of a larger lifetime benefit against the fact that you will not receive payments from age 62 to whenever you start claiming.

By calculating the value of the missed payments and comparing it to the value of the larger delayed benefit, you can determine what age you would need to live to in order to break even on your decision to delay.
(See “Calculating Your Break-even Point.”)

Calculating the Break-even Point

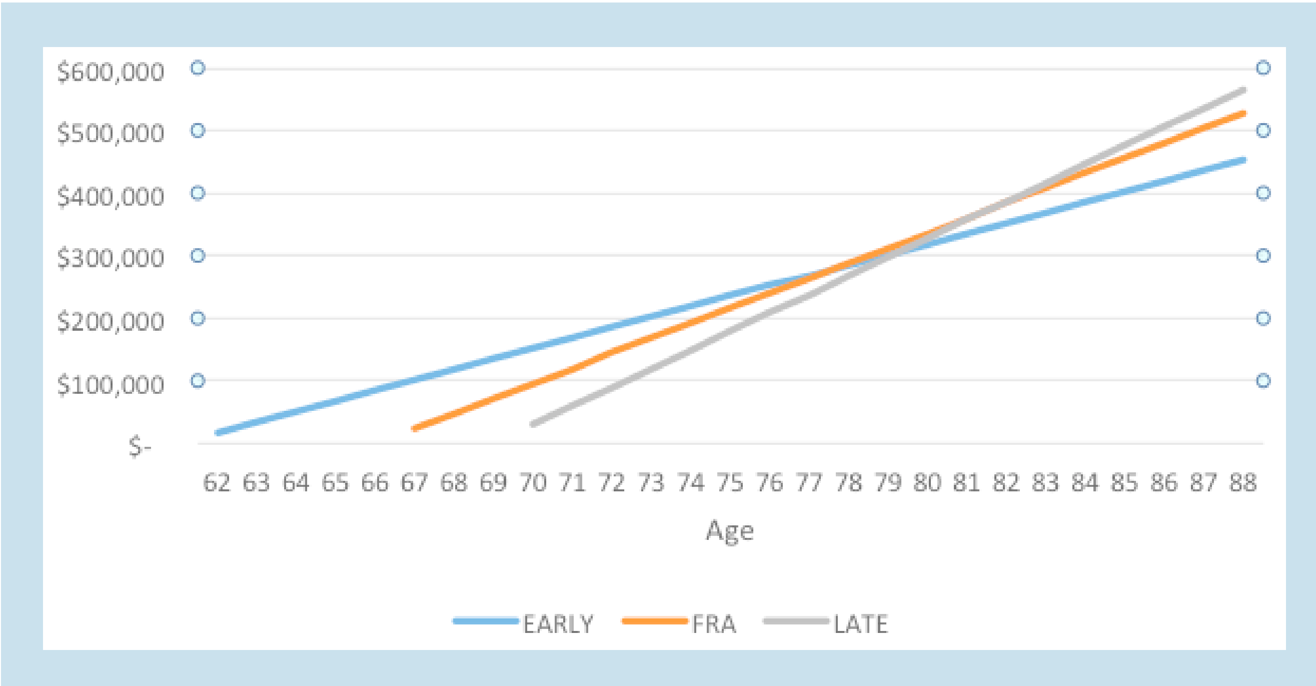
Understand the trade-off between taking Social Security benefits early, at full retirement age or delaying until age 70.

The break-even point of Social Security benefits claiming strategies is an important dynamic to understand when deciding whether to claim benefits early, at full retirement age, or to delay them. Say your full retirement age is 67 and your monthly benefit is $2,000 ($24,000 per year). If you claim early, that benefit would be reduced to $16,800 per year—a 30% reduction. Meanwhile, delaying until age 70 would increase your annual benefits to $29,760—a 24% increase.

By adding the annual value of the benefits a person receives under each strategy, they can calculate when each one would “break even,” meaning the point at which they would receive the same amount of lifetime benefits under each approach. Put another way, this approach allows people to see how long it will take until receiving a delayed higher benefit amount potentially outweighs receiving smaller payments right away.

In the simple example on the next page, compare the lines for “early” and “FRA” to see when the benefit of waiting until full retirement age to claim kicks in. The lines cross at age 78—meaning a person needs to live until 78 to receive the same total amount of benefits from filing at FRA than they would if they’d claimed early. Meanwhile, it takes until age 82 to break even on delaying until age 70 versus claiming at full retirement age.

Chart hed: Break-even Points of Different Claiming Strategies



Working while Claiming

Another factor that impacts your benefit amount is whether you continue to work while receiving benefits. If so, your benefits may be reduced based on your income. The amount of the reduction depends on when you claim your benefits and how much you earn. If you claim before full retirement age and are still working, your benefit will be temporarily reduced if you earn more than $18,240 (the limit in 2020). For every $2 you earn above that income threshold, the Social Security Administration will reduce your benefit by $1. However, once you reach full retirement age, your benefit amount will return to what it would have been normally regardless of your income. Note that any reduction for claiming early will still apply.

Coordinating with your Spouse

Couples should coordinate their plans to make the most of their Social Security benefits. Married couples should consider the following strategies:

Survivor Benefit

Survivor benefits are often overlooked during Social Security planning. A surviving spouse at full retirement age can receive 100% of their deceased spouse's benefit if it is larger than their own benefit. This is a potentially valuable benefit given the 50% probability that at least one spouse in a couple aged 65 will live until age 92.[2] To maximize the spousal benefit, the higher-earning spouse should delay their benefit until age 70, if possible, while the lower-earning spouse can claim as needed. This strategy starts generating income for the household early on, while preserving the highest possible benefit in the future for whichever spouse survives.

Spousal Benefits

Spouses can claim a benefit of up to 50% of their higher-earning spouse's benefit once that spouse has claimed. This strategy is only valuable if the lower-earning spouse's benefit is less than half of the higher-earning spouse's benefit. In this strategy, the lower-earning spouse claims the benefit from their earnings record whenever they want, and then files for the larger spousal benefit once their spouse has filed.

To be eligible for spousal benefits, you need to have been married for at least one year before applying. If you are divorced and you wish to file on the earnings record of your ex-spouse, your marriage must have lasted for 10 years or more; the divorce must have been final for at least two years; and you must currently be unmarried.

[2] American Academy of Actuaries and Society of Actuaries, Actuaries Longevity Illustrator. http://www.longevityillustrator.org/. Accessed 9/29/2020; values based on non-smoking husband and wife of average health, both born 9/29/1955 and retiring at age 65.

Make the Most of Your Benefits

There is no one-size-fits-all strategy for how and when to claim your Social Security benefits. If you have flexibility in your timing, know there are options for how to maximize your benefits. Take a look at your situation and that of your spouse to gauge what strategy makes the most sense to boost your household's financial security.

Sources

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