

Retirement Planning

Social Security benefits: Start early or delay receipt?

By Robert Ahearn, JD, LL.M., CFP®, CLU®, ChFC®, CRPC®



For many U.S. workers, Social Security benefits will be a critical component of their retirement income, and for most of those workers, their primary retirement income source. Deciding when to claim benefits, however, can be a confusing exercise, making the ultimate decision very difficult.

Although U.S. workers eligible for Social Security may begin accepting benefits as early as age 62, Social Security will pay 100% of benefits to which a worker is entitled only if he/she waits to file a claim until attaining full retirement age (FRA), an age that varies among workers based upon year of birth.

If benefits are claimed earlier than FRA, then Social Security will reduce the benefit paid, often as much as 30%. (Social Security calculates a worker's monthly FRA benefit using a complex formula that averages his/her greatest

35 years of income, adjusted for inflation annually according to the National Average Wage Index for each year among the greatest of those 35, and then reduces that average at specific income markers referred to as bend points.) To obtain the greatest monthly benefit possible, a worker must delay taking Social Security benefits up to age 70.

Age is relative

As referenced earlier, 100% of a worker's benefit will be paid only if he/she waits to receive Social Security at his/her FRA, and FRA will vary based upon birth year. If a worker was born during 1937 or earlier, his/her FRA is 65. If born during 1938 but before 1943, his/her FRA ranges from age 65 and 2 months to age 65 and 10 months. (Since these persons have all already attained age 70, this article does not pertain to them.)

If a worker was born during 1943 and before 1954, his/her FRA is 66, and if he/she was born during 1955 but before 1960, FRA ranges from between age 66 and 2 months and age 66 and 10 months. If born during 1960 or later, his/her FRA is 67.

If a worker retires at FRA and makes his/her claim, then he/she will receive 100% of the amount he/she is due in Social Security benefits. If, however, he/she elects to claim later than FRA, then he/she could receive up to almost one-third more due to what are known as delayed retirement credits.

The exact amount in extra benefits that will be received from Social Security is dependent upon the number of months receipt is delayed. The exact benefit increase is equal to two-thirds of 1% for each month receipt is delayed past FRA, up until age 70.

If the worker was born during 1943 or after, then these monthly increases calculate to an 8% annual increase in that worker's Social Security payment. A guaranteed 8% annual return is most certainly attractive.

For example, if a worker was born during 1943 and before 1954, by waiting until age 70 to claim Social Security benefits, that worker would qualify for 4 years of delayed retirement credits at 8% per annum. Therefore, if his/her monthly full retirement benefit was \$1,500, waiting would result in a monthly increase of \$480.

If instead he/she was born during 1957, then his/her FRA is age 66 and 6 months, and he/she can accumulate only 3½ years of credits by age 70, and therefore, his/her monthly full retirement benefit of \$1,500 would be increased only \$420 per month by waiting.

Finally, if he/she was born during 1960 or later, he/she can accumulate only 3 years of credits by age 70, and his/her monthly full retirement benefit of \$1,500 would be increased only \$360 per month by waiting.

Benefits available at age 62

Social Security can be claimed as early as age 62, but there exists a substantial penalty in the form of a lower monthly benefit if done.

The exact amount in benefits received when claim is made at age 62 is dependent upon how many months prior to FRA benefits are received. The benefit is reduced by five-ninths of 1% for each month the claim is made prior to FRA, up to 36 months. If the claim is made earlier than 36 months, then the benefit is reduced by an additional five-twelfths of 1% per month. For example, if a worker who was born in 1960 decides to retire at age 62 instead of at 67 (which is his/her FRA), then his/her Social Security claim is made 60 months early and, according to the percentages set forth above, his/her payment would be 30% less at age 62 than at age 67.

Comparison shoppers

Some argue that by claiming early, benefits are received for a longer period. While this is true, at some point receiving a greater benefit, even over a shorter period, will result in greater overall benefits received. This point in time is referred to as the flip point.

For example, assume the worker from the example above could receive a \$1,500 monthly benefit at his/her FRA, but instead elects to begin receiving benefits at age 62. With a modest annual cost of living adjustment of 1%, at what age would waiting until his FRA of age 67 have resulted in greater overall amount received? For the worker above who was born in 1960, his/her flip point will occur before his/her 80th birthday. (See table 1.)

If the worker lives just six additional years to age 85, then that worker will receive almost \$35,000 more in Social Security benefits, and if benefits are postponed until age 70, the amount is even greater. (See table 2.)

Pay now, receive later

Policymakers refer to Social Security as a pay-as-you-go system, in the sense that current Social Security recipient benefits are funded by payroll taxes on current workers, which means there's no individual account at the Social Security Administration in a worker's name.

Rather, the worker has a promise that benefits will be paid to him/her in the future. Furthermore, payroll taxes only apply up to a certain amount of income, set annually. To illustrate, the maximum taxable earnings limit in 2020 was \$137,700. No credit is given for any earnings above the taxable limit when Social Security determines the retirement benefit amount.

Thus, regardless of income, there exists a maximum amount that can be received in Social Security benefits. For a person who attained age 70 during 2020, the maximum benefit amount he/she can

TABLE 1

Age	Cumulative Benefit		
	At age 62	At FRA	At age 70
62	\$ 12,600		
63	25,326		
64	38,179		
65	51,161		
66	64,273		
67	77,516	\$ 18,000	
68	90,891	36,180	
69	104,400	54,542	
70	118,044	73,087	\$ 22,320
71	131,824	91,818	44,863
72	145,742	110,736	67,632
73	159,799	129,844	90,628
74	173,998	149,142	113,854
75	188,338	168,633	137,313
76	202,821	188,320	161,006
77	217,449	208,203	184,936
78	232,224	228,285	209,106
79	247,146	248,568	233,517

TABLE 2

Age	At age 62	At FRA	At age 70
80	\$262,217	\$269,054	\$258,172
81	277,439	289,744	283,073
82	292,814	310,642	308,224
83	308,342	331,748	333,626
84	324,025	353,065	359,283
85	339,866	374,596	385,196

receive in benefits if he's at the maximum taxable earnings limit and waits to claim until age 70 is \$3,790.

If, however, FRA was attained during 2020, which is age 66 for someone born during 1954, then that someone could elect to receive \$3,011.

Bridge planning

Every worker's situation differs from that of another. Many factors determine the proper time for an individual's retirement, including health, income sources, and expenses.

It cannot be ignored, however, that a person born during 1943 and before 1955 who is at the maximum taxable income limit could collect approximately 65% greater annual benefit by waiting until age 70 to claim rather than claiming at age 62. That difference can be significant, and consideration must be given to delaying Social Security benefits until age 70.

If Social Security benefits are delayed until age 70, then it is possible to bridge the gap from FRA to age 70 by utilizing short term trust planning, such as funding a grantor retained income trust or a charitable remainder trust with assets, or through term-of-years annuities.

Carefully review your options with a financial professional to determine the best plan for your situation.



Robert Ahearn, JD, LL.M., CFP®, CLU®, ChFC®, CRPC®, joined The Nautilus Group in 2016 following time as the senior planning consultant of a major life insurance company. Robert's substantial business, legal, and tax experience helps Nautilus member agents with the development of advanced planning strategies for their clients. As an estate and business planning attorney, Robert worked extensively with high net worth individuals, closely held businesses, farmers and ranchers, private foundations, and public charities. He earned a B.S. in Business Administration from the Boston University School of Management, a J.D. from the Suffolk University Law School, and a LL.M. in Taxation from the Boston University School of Law. Robert is a member of the state bars of Arizona, California, and Massachusetts, and he holds the FINRA Series 7 and 66 licenses. Robert is a member of the Estate Planning Council of North Texas.