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Social Security Benefits: Should You Begin Drawing at Age 62?

If you are one of the 78.2 million U.S. baby boomers, you may soon have to decide at what age you wish to begin drawing your Social Security benefits. You could be eligible when you turn 62 for a “reduced” benefit; you could wait until you turn 66 for a “full” payment; or you could wait until age 70 for an “enhanced” benefit. There are a number of factors to consider before making your decision.

First, let’s recap some general Social Security rules. You become fully covered under Social Security when you work 40 quarters and receive at least \$1,090 per quarter (2009). The amount of Social Security you receive depends on your average lifetime income, indexed for inflation. Spouses have the same test applied to earnings, but spousal benefits must be at least one-half of the worker’s benefits. Divorced spouses are eligible for the same amount as if they were married to the worker, provided that they were married for 10 years and never remarried.

While you may start receiving Social Security benefits the year you turn age 62, full retirement benefits are not given until you reach normal retirement age (NRA). For people born in 1946 this age is 66. Starting with people born in 1955, NRA increases by 2 months for every year until 1960 where normal retirement age is 67. Should a retiree choose to take Social Security early, their benefit is reduced by 5/9 of 1% per month before NRA. Spouses and qualifying divorcees are also forced to take a lower amount when the higher income spouse elects early retirement.

The most critical factor in choosing whether or not to start taking Social Security payments is life expectancy. If genetic factors or health risks make it unlikely that you will live much past

your retirement age then starting payments at age 62 will almost always make sense. On the converse, those that expect to live longer than average may want to delay benefits until their NRA.

The other critical factor is when the applicant will stop making earned income. If the retiree chooses to take Social Security earlier than their normal retirement date — for every \$2 of earned income over \$14,160, benefits will be reduced by \$1. If the retiree waits for their NRA, but begins benefits before their birthday, the reduction is \$1 for every \$3 earned. Starting the month full retirement age is attained, there is no limit on earnings.

But what if circumstances change before age 70? Many people who think they want to retire early end up coming back into the workforce not long after they begin taking Social Security. When this happens, recipients of Social Security who do not wish to have their benefits cut, and want to receive the greater amount of money as if they had waited, may choose to return their benefits. This is done using a form SSA-521, and giving back any money received, including amounts deducted for Medicare payments or taxes withheld.

Let’s look at an example. John Doe is about to turn 62 years old (born February 1, 1948) and wants to know if he should take his Social Security early. He has stopped working, and plans to stay retired. John is in perfect health and does not see any reason why he would die before the average life expectancy (around 75 years according to the Centers for Disease Control), but nor does he have any reason to believe that he will live particularly longer than most. His indexed earnings from prior years are \$150,000.

He would be eligible for Social Security payments of \$21,886 annually if he retired at age 62. If he waits until his NRA he will get \$32,843 annually (assuming a 3% annual benefit inflation rate), and if he waits until age 70 he can collect \$48,794. The chart and graph below map out Joe's options, assuming an inflation adjustment of 3% per year. This does not include the time value of money, or any rate of return from investing.

As between taking payments at 62 or 66, the benefits will break even during age 76. As between ages 62 and 70 benefits break even at age 79. The difference between 66 and 70 would not even out until sometime during Joe's 81st year. Since the odds are John will die before age 76, whether or not John should take Social Security relies upon the age old existential question posed by Clint Eastwood in Dirty Harry: "Do I feel lucky?"

If we knew how long someone was going live, the decision on when to begin Social Security benefits would be easier. Since we don't know this vital factor, we must rely on an educated guess to make this decision.

Another factor to keep in mind is that the inflation rate for benefit payment increases will impact when the breakeven occurs. If the rate is lower than the 3% we used for our illustration, then the breakeven will come at a later age. A higher inflationary rate will cause the breakeven to occur sooner.

We hope this article helps clarify the Social Security decision for you. If not, please call us so we can help you decipher this information and make your choice.

Age	62	Cumulative	66	Cumulative	70	Cumulative
63	21,886	21,886				
67	24,633	116,196	32,843	32,843		
71	27,725	222,342	36,965	174,368	48,794	48,794
76	32,140	373,951	42,853	376,508	56,566	315,620
77	33,105	407,056	44,138	420,646	58,263	373,882
78	34,098	441,154	45,462	466,109	60,010	433,893
79	35,121	476,274	46,826	512,935	61,811	495,703
80	36,174	512,448	48,231	561,166	63,665	559,369
81	37,259	549,708	49,678	610,844	65,575	624,944
82	38,377	588,085	51,168	662,012	67,542	692,486

Cumulative Value of Social Security Payments at Key Ages

