

MFS wins 2011 Lipper Fund Award

#1 Overall Large Company

over 3 years across asset classes

LEARN MORE

MFS Fund Distributors, Inc. 21986.1 AWARD DETAILS

Prism Money

Shedding light on personal finance

» [SEE ALL ANALYSIS AND OPINION](#)

Take Social Security now or later? Answer not so simple

MAR 28, 2011 09:39 EDT



Recommend

12 recommendations. Sign Up to see what your friends recommend.

[INCOME](#) | [IRA](#) | [RETIREMENT](#) | [SOCIAL SECURITY](#)



It's a no brainer that your retirement will be better funded if you delay it. Work longer, and you (1) earn more money; (2) reduce the number of retirement years you have to cover; and (3) boost your [Social Security](#) benefits doubly, by delaying them (unclaimed, they'll grow roughly 7.25 percent a year), and by adding new earnings to the formula by which they are calculated.

But here's a question that's far tougher: What if you can't work longer, because you lost your job when you were 59 or 60? Should you start taking Social Security as early as possible (when you are 62) or defer it as long as you can?

That's not a theoretical question. Almost half of current retirees were forced to retire before they were ready, according to [new findings](#) from the Employee Benefit Research Institute. Many of them are drawing down their family savings and waiting for their 62nd birthday, when they can begin taking Social Security benefits. But would they be better off continuing to tap their family savings while deferring their benefit longer?

Here's [the basic math](#): A retiree who starts benefits at 62 will get a benefit that is roughly 25 percent smaller than their full retirement benefit. Those starting benefits will increase every year that they are deferred. A woman who expects a \$1,000 monthly benefit at age 66 would be able to start at 62 with a \$750 monthly benefit. Alternatively, she could wait until she turns 70 and get \$1,320 a month. Whatever benefit she starts with would be adjusted annually for inflation.

The conventional wisdom now is that she should delay the benefit as long as possible. Letting your Social Security benefits grow, uncollected, is like buying an annuity yielding 7.25 percent. That income stream will last the rest of your life, and grow with inflation. And if you plan or expect to live beyond 80, most [when-should-I-start-my-benefit calculators](#) will tell you to wait as long as possible.

But, I wonder about that. The woman who defers her benefit from 62 to 66 is giving up \$36,000 in benefits right at the start of her retirement, not counting cost of living increases. Presumably, she'll have to take that \$36,000 out of her retirement account to live on. What if it's all taxable? She will have to take extra out for the tax. She'll give up income she would have earned on her own investments, too.

Search

MFS wins 2011 Lipper Fund Award

#1 Overall Large Company

over 3 years across asset classes

LEARN MORE

MFS Fund Distributors, Inc. 21986.1 AWARD DETAILS

Prism Money



Linda Stern

Linda Stern is an award-winning personal finance journalist who loves to write about how the big picture affects your pocketbook. A former contributing editor at Newsweek magazine and a long-time Reuters columnist, Stern covers everything from credit cards to retirement planning to investing. As a Washington-based correspondent, she sneaks in as much tax and economic policy as her editors will allow. She tweets at www.twitter.com/LindaStern

» [View Profile](#)

Follow Prism Money

[Subscribe to all posts via RSS](#) (What is RSS?)

Tag Cloud

401k asset allocation bonds budget capital gains charitable giving credit cards debt deficit economy estate tax

So I asked a couple of financial pros for advice...now or later? And here's what I discovered: Even very smart people, armed with the best spreadsheets Microsoft Excel can produce, can have very different answers.

"You're better off giving your portfolio a chance to grow, as long as you are comfortable that you can earn at least 2.7 percent a year on it," says Mark Tepper, with Strategic Wealth Partners, in Seven Hills, Ohio. "I completely disagree with anyone who says you should defer your Social Security payments."

That would include Chris Abts, a retirement planner with Cornerstone Retirement Group in Reno, Nevada. "We're just going to have more income if we delay," he says. "If we compare someone who takes it at 62 to someone who takes it at 70, the difference in benefits is 80 percent or more. What's the chance they can increase the income from their investments by 80 percent over those eight years?"

Abts argues that because the Social Security benefit is guaranteed, and it is guaranteed to keep up with inflation, letting it get as big as possible is the better choice. Furthermore, he notes that many well-to-do retirees who are also going to have other taxable income will see as much as 85 percent of their Social Security benefits subject to income tax. (That happens, for a single person, when their income and half of their benefits adds up to \$34,000 or more.)

And so, both planners worked up spreadsheets for a hypothetical retiree with \$500,000 in assets, showing how starting benefits early, or delaying them, would work out. Tepper's spreadsheet shows the person needing \$60,000 in income from the start, delaying their Social Security benefits until age 70, and then running out of savings by age 73, at which point their benefits alone provide \$43,000 a year in income. Abts shows the same person growing their savings and their benefits forever.

What were the differences? Tepper assumed a very low rate of investment return, 2.7 percent, and high initial withdrawals of \$60,000 a year. Abts assumed the retiree would live on withdrawals starting at \$21,120 until her Social Security benefits started. He assumed 6 percent investment growth. (He also advises new retirees to live as lean as possible their first few years and use that time to transfer funds from tax-deferred retirement accounts to tax-free Roth IRAs. That's a compelling strategy that will provide fodder for a future article.)

So, what's the takeaway? Here are a few thoughts.

* There's no answer that is right in all situations. There are a lot of variables, including (1) How much you have in savings; (2) Your expected investment rate of return; (3) Your tax rate, and the expected percentage of your retirement income that you'll be withdrawing from tax-deferred accounts; (4) Whether you have a spouse who can defer his benefits until much later; (5) How long you expect to live; and (6) What other assets or income streams (such as a fixed pension or a house) could you fall back on.

* You should crunch your own numbers. Try the "Should You Start Social Security Early" online calculator, created by Henry Hebel, a former top Boeing executive. Or hire a smart numbers person — a CPA or actuary or independent financial adviser — to do some spreadsheets that are specific to your own situation.

* Don't let the "the Social Security program going to disappear soon so I should take my benefits ASAP" argument sway you. Even the most hawkish anti-entitlement politicians aren't talking about taking benefits off the table for anyone within 10 years of retirement.

* Bottom line? If you have a short lifespan or a spouse who will be taking a much bigger benefit later, it's probably better to start benefits early. If you have a lot of money and other assets, it probably doesn't matter much which choice you make. If you expect to live long and are depending on every penny, all of those other factors probably will determine what you choose, and you'll have to go to the spreadsheets.

ETFs **family finances** Fidelity
financial advisers financial literacy foreclosure healthcare
healthcare reform holiday housing housing market
insurance **investing** IRA IRS kids lipper
Managing healthcare costs Medicare money
mortgages mutual funds real estate
retirement saving saving for college
savings shopping Social Security spending
stocks **taxes** tax reform Vanguard

Archives

Select Month

Recent Posts

[Retirement: 3 problems with automated 401\(k\)s](#)
[Paperless tickets: Is Ticketmaster hurting consumers?](#)
[You're the boss now. Here's how to deal Google work-from-home scammers to pay \\$1.6 million settlement](#)
[How to go solar and save](#)

[« Previous Post](#)
[Next Post »](#)

COMMENTS

11 COMMENTS SO FAR |

 [COMMENTS RSS](#)