



Sooner or later? When to take Social Security

Most retirees apply early, but patience pays off in a bigger check

By Gayle B. Ronan

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In mid-October Kathleen Casey-Kirschling, a retired Maryland teacher, became the first baby boomer to file for Social Security benefits. Over the next two decades nearly 80 million more will follow after answering the same question she did: Should I file for benefits sooner rather than later?

Casey-Kirschling, who turns 62 on Jan. 1, chose sooner.

Most people take their benefits before reaching their full retirement age, according to the Social Security Administration. About 50 percent file at the earliest possible date, three months prior to turning age 62, which is what Casey-Kirschling did.

While 'sooner' is a popular choice, it is not always the right choice, especially in the face of increasing life spans, says Michael Astrue, commissioner of Social Security.

The reason? It reduces the monthly benefit for the rest of the filer's life. Given a long enough life — extending into one's 80s or beyond, for instance — not waiting for full retirement benefits produces a smaller total payout. This could be especially harmful to those who may have undersaved for retirement and lack other sources of income, such as a pension to see them through.

The early benefits choice is also more punishing than it used to be.

Previous generations attained their full-benefits at age 65. However, it will be 66 for those born in 1954 or earlier and gradually increases to 67 for those born in 1960 or later.

Previously a person whose full retirement age was 65 would have received 80 percent of their full benefit if they filed at age 62. Today's 62 year-old will only receive 75 percent of their benefit. For someone entitled to full benefits at age 67 the reduction will fall to 70 percent if taken at the earliest possible date.

Spousal benefits are even more severely impacted by early filing. Filing at 62 used to reduce them by 25 percent, now they will be lowered by 30 percent and ultimately by 35 percent.

"People tend not to make the filing decision rationally," says Alicia Munnell, director of the Center for Retirement Research at Boston College. "They just grab their benefits without thinking about how filing early will affect them down the road or about how the surviving spouse, typically the wife, will then have to live off a potentially reduced benefit the rest of her life."

Yet for some 'sooner' can make sense.

"Obviously [sooner is for] those where pure financial need is a factor," answers Dan DeKeizer, a vice president and actuary with MetLife Retirement Strategies Group in New York. "Many of us, however, are either still able to work or have other sources of income to meet our living expenses until we reach 66." Also, for those still working, benefits are reduced at a rate of \$1 for every \$2 earned over \$12,960 in 2007. For many in their 60s and still working full-time, the reduction makes filing pointless, wiping out their benefit.

"We start our retirement planning consultations with clients by asking about their health," says Lisa Kirchenbauer, a certified financial planner with Kirchenbauer Financial Management & Consulting in Arlington, Va. "If they have any health [or longevity] issues, they probably are better off taking benefits sooner rather than later."

A study Munnell conducted with Mauricio Soto also found that some married women can safely file for their

benefits at age 62. This is the case for those expecting a benefit similar to their husband's or where there is an age difference — older husband, younger wife. But for this to be the case, the husbands need to wait until their late 60s to file for their benefits in order to realize the optimal benefit to the household.

A household with a late-life parent also can benefit from early filing. The child benefit, which is typically associated with circumstances involving a disabled or deceased parent — or disabled child — is also available to the dependent children of retirees. Children have to be under the age of 18 — or 19 if they are still in high school — and may receive benefit payments of up to 50 percent of their parent's, subject to a household benefit cap. Household income is not a factor.

When Richard Anderson, a former banker living in Chicago, crunched the numbers for different filing-age scenarios, he found that it made sense for his wife to file at age 62, while he held off until he qualified for full benefits. "We were not talking about a lot of money," he said. "Waiting would not have increased her payment substantially enough to make a difference financially." But having a young child still at home and entitled to receive a benefit if his mother 'retired' made the decision even easier.

"There is a bit of art in the science of predicting what the most beneficial moves will be," says Kirchenbauer. "Unfortunately, we only know if we have made the right choices in retrospect."

"Waiting to take benefits at age 66, for example," offers DeKeizer, "leads to a break-even age of about 78." Meaning a person who lives beyond 78 was justified in holding off. One who dies at 76 technically loses the financial gamble, among other things.

What is the likelihood of living that long? DeKeizer says a 62 year-old male has roughly a 75 percent chance of living to 78. For a 62 year-old female, the probability rises to about 85 percent.

"Because of increased life spans, the increased opportunity for earned income, the disappearance of pension income and better health, maximizing the benefit will probably be the best choice for most people going forward," predicts DeKeizer. This would be the opposite of the 'a bird in hand is worth two in the bush' rule of thumb previous generations used as their default.

While Kirchenbauer advises people seek help from financial professionals when weighing all the factors affecting their personal situation, she also recognizes the wisdom in going directly to the source for analysis: "It makes sense to let Social Security crunch the numbers for you. These are the folks who will be cutting the checks."

Whether in person or by phone, Social Security representatives will walk anyone through the calculations necessary to maximize the benefits an individual or family is entitled to.

What-if scenarios can also be worked through online at the Social Security Administration's Web site, stresses Astrue. "Americans will soon be reaching eligibility for benefits at a rate of 10,000 per day. There are only 1,300 field offices," he explains. The Web site, of course, is open 24/7 and can help recipients get up to speed on retirement concepts, crunch numbers and even file for benefits.

For most in the coming wave of boomers, deciding when to file could be more complicated than it was for previous generations. Worse, it is not just a decision one lives with for the rest of one's life; it is a decision that could determine how well one lives. It is a decision that justifies the extra effort needed to get it right.

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