



Client Newsletter

Social Security: What Should You Do at Age 62?

February 23, 2011

Is 62 your lucky number? If you're eligible, that's the earliest age you can start receiving Social Security retirement benefits. If you decide to start collecting benefits before your full retirement age (which ranges from 65 to 67, depending on the year you were born), you'll be in good company. According to the Social Security Administration (SSA), approximately 74% of Americans elect to receive their Social Security benefits early. (Source: SSA Annual Statistical Supplement, April 2009)

Although collecting early retirement benefits makes sense for many people, there's a major drawback to consider: if you start collecting benefits early, your monthly retirement benefit will be permanently reduced. So before you put down the tools of your trade and pick up your first Social Security check, there are some factors you'll need to weigh before deciding whether to start collecting benefits early.

What will your retirement benefit be?

The exact amount of your Social Security retirement benefit is based on the number of years you've been working and the amount you've earned. Your benefit is calculated using a formula that takes into account your 35 highest earnings years. If you earned little or nothing in several of those years (if you left the workforce to raise a family, for instance), it may be to your advantage to work as long as possible, because you'll have the opportunity to replace a year of lower earnings with a higher one, potentially resulting in a higher retirement benefit.

Each year, you'll receive a Social Security Statement from the SSA that summarizes your earnings history, and estimates the benefits you may receive based on those earnings.

If you begin collecting retirement benefits at age 62, each monthly benefit check will be 20% to 30% less than it would be at full retirement age. The exact amount of the reduction will depend on the year you were born. (Conversely, you can get a higher payout by delaying retirement past your full retirement age--the government increases your payout every month that you delay retirement, up to age 70.)

However, even though your monthly benefit will be 20% to 30% less if you begin collecting retirement benefits at age 62, you might receive the same or more total lifetime Social Security benefits as you would have had you waited until full retirement age to start collecting benefits. That's because even though you'll receive less money per month, you might receive more benefit checks.

The following chart shows how much an estimated \$1,000 monthly benefit at full retirement age would be worth if you started taking a reduced benefit at age 62.

| Birth Year | Full Retirement Age | Benefit |
|-------------------------|----------------------------|----------------|
| 1937 and earlier | 65 years | \$800 |
| 1938 | 65 years, 2 months | \$791 |
| 1939 | 65 years, 4 months | \$783 |
| 1940 | 65 years, 6 months | \$775 |
| 1941 | 65 years, 8 months | \$766 |
| 1942 | 65 years, 10 months | \$758 |
| 1943-1954 | 66 years | \$750 |
| 1955 | 66 years, 2 months | \$741 |
| 1956 | 66 years, 4 months | \$733 |
| 1957 | 66 years, 6 months | \$725 |
| 1958 | 66 years, 8 months | \$716 |
| 1959 | 66 years, 10 months | \$708 |
| 1960 and later | 67 years | \$700 |

Source: Social Security Administration

Have you thought about your longevity?

Is it better to take reduced benefits at age 62 or full benefits later? The answer depends, in part, on how long you live. If you live longer than your "break-even age," the overall value of your retirement benefits taken at full retirement age will begin to outweigh the value of reduced benefits taken at age 62.

You'll generally reach your break-even age about 12 years from your full retirement age. For example, if your full retirement age is 66, you should reach your break-even age at 78. Note: we have found this break-even to be closer to the early 80's when factoring in the time value of money in financial planning projections. If you live past this age, you'll end up with higher total lifetime benefits by waiting until full retirement age to start collecting; otherwise, collecting benefits at age 62 may be better.

Of course, no one can predict exactly how long they'll live. But by taking into account your current health, diet, exercise level, access to quality medical care, and family health history, you might be able to make a reasonable assumption.

How much income will you need?

Another important piece of the puzzle is to look at how much retirement income you'll need, based partly on an estimate of your retirement expenses. If there is a large gap between your projected expenses and your anticipated income, waiting a few years to retire and start collecting Social Security benefits may improve your financial outlook.

If you continue to work and wait until your full retirement age to start collecting benefits, your Social Security monthly benefit will be larger. What's more, the longer you stay in the workforce, the greater the amount of money you will earn and have available to put into your overall retirement savings. Another plus is that Social Security's annual cost-of-living increases are calculated using your initial year's benefits as a base--the higher the base, the greater your annual increase.

Do you plan on working after age 62?

Another key factor in your decision is whether or not you plan to continue working after you start collecting Social Security benefits at age 62. That's because income you earn before full retirement age may reduce your Social Security retirement benefit. Specifically, if you are under full retirement age for the entire year, \$1 in benefits will be withheld for every \$2 you earn over the annual earnings limit (\$14,160 in 2010).

***Example:** You start collecting Social Security benefits at age 62. You continue working, and your job pays \$30,000 in 2010. Your annual benefit would be reduced by \$7,920 (\$30,000 minus \$14,160, divided by 2).*

***Note:** If your monthly benefit is reduced in the short term due to your earnings, you'll receive a higher monthly benefit later. That's because the SSA recalculates your benefit when you reach full retirement age, and omits the months in which your benefit was reduced.*

Are you eligible for retiree health benefits?

Even if you start collecting Social Security benefits at age 62, keep in mind that you still won't be eligible for Medicare until you reach age 65. So unless you're eligible for retiree health benefits through your former employer or your spouse's health plan at work, you'll probably want to pay for a private health policy until Medicare kicks in.

Other considerations

In addition to the factors discussed here, other personal considerations may influence whether you start collecting Social Security benefits at age 62. Is your spouse already retired or planning to retire early too? Do you plan on traveling, volunteering, going back to school, starting your own business, pursuing hobbies, or moving to a new location? Do you have grandchildren or elderly parents whom you want to help take care of? Every person's situation is different.

Also note that On Dec. 8, 2010, the Social Security Administration published final regulations that limit the time period for beneficiaries to withdraw an application for retirement benefits to within 12 months of the first month of entitlement. The agency said it is changing its withdrawal policy because recent media articles have promoted the use of the current policy as a means for retired beneficiaries to acquire an "interest-free loan" from Social Security. The removal of this "do over" provision makes it even more important to make an informed decision about early retirement benefits.

For more information

The nuances of Social Security can be complex. For more information about Social Security benefits, visit the Social Security Administration website at www.ssa.gov, or call (800) 772-1213 to speak with a representative. You may also call or visit your local Social Security office.

As always, we welcome the opportunity to discuss this or other planning matters with you or others that you believe we can help.

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