

When Should You Take Your Social Security Retirement Benefits?

As you approach retirement, you must decide when to begin taking your Social Security benefits. You have three options: You may begin taking benefits between age 62 and your full retirement age, you can wait until your full retirement age, or you can delay benefits and take them anytime up until you reach age 70.

More than two-thirds of people take their benefits early. Some of them don't have a choice -- they need the money right away. But for others, it might make more sense to delay benefits, even past their full retirement age. Ultimately it is a personal decision that depends on whether you plan to keep working, your health and life expectancy, your spouse's needs, and the availability of other retirement plans.

If you were born before 1937, your full retirement age was 65. For those born after 1937, the retirement age gradually increases until it reaches age 67 for people born in 1960 or later. If you take Social Security between age 62 and your full retirement age, your benefits will be reduced to account for the longer period you will be paid. If you delay taking retirement, depending on when you were born, your benefit will increase by 6 to 8 percent for every year that you delay, in addition to any cost of living increases.

For example, suppose you are born in 1944 and are eligible for your full Social Security retirement benefit at age 66, but delay taking benefits until age 70. Your annual percentage increase in benefits will be 8 percent. By delaying your benefits by four years, the Social Security check you will receive will be 32 percent higher (4 years x 8 percent per year). If your monthly benefit would have been \$1,000 had you taken it at age 66, the monthly benefit you will receive at age 70 will be \$1,320 (not counting cost of living increases, which are around 4 percent a year).

If you are lucky enough to have the choice of when to take your benefits, consider the following factors:

Whether you plan to keep working. If you plan to work until your full retirement age or beyond, it probably won't make sense to take benefits early, especially if you earn considerable income. Any income you earn above Social Security's income thresholds will be taxed. So not only will you be receiving reduced Social Security benefits, but you will pay tax on the income as well, and the extra income may mean that more of your Social Security benefits will be taxed.

Health and life expectancy. To get the full advantage of delaying

benefits until age 70, you will need to live past age 80 (not taking into account cost of living increases). The average life expectancy for men who reach 62 years of age is around 80, while for women it is around 83. You can't predict exactly how long you will live, but if you are healthy and have a long life expectancy, you may receive more benefits if you delay.

Spouse's needs. Another important consideration is your spouse's needs. An older spouse (and especially if he or she is the only breadwinner), might want to delay benefits as long as possible so as to increase the surviving spouse's survivor benefits and provide additional protection to the surviving spouse. Note: Even if you delay taking your benefits past your full retirement age, your spouse can still take his or her spousal benefits anytime after age 62 (while you are still alive, your spouse is entitled to one-half of your full benefit if it would be greater than what he or she would receive from his or her own earnings).

Other retirement plans. Experts disagree on whether it makes sense to take benefits early and defer using other retirement plans. Some claim that if you are going to get a higher rate of return on a tax-deferred retirement plan than you would get by waiting to take Social Security, you should take Social Security early. On the other hand, other experts argue that letting a retirement account build up could create greater tax obligations. If your retirement account and Social Security combine to put you above the income thresholds, you will have to pay taxes on the Social Security. Delaying Social Security may reduce the taxes by providing you with more Social Security income (which is at most 85 percent taxable) and less retirement-account income (which can be 100 percent taxable).