Social Security Benefits: When to Start Them

By PAUL KATZEFF, INVESTOR'S BUSINESS DAILY
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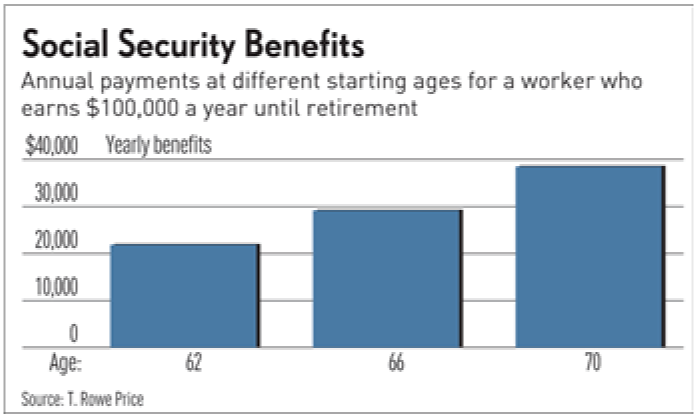

When should you start taking your Social Security benefits? Timing matters.

You can start as early as age 62. But waiting can boost the amount you receive over the rest of your life in retirement.

"For every year that you wait, you get about 8% a year more up to age 70," said Judith Ward, a senior financial planner for T. Rowe Price.

Someone earning $100,000 a year who starts to collect at age 62 would get $21,879 in 2014, according to the T. Rowe Price online calculator. That bumps to $29,172 a year if he starts at age 66. It peaks at $38,507 if he does not start until age 70. You can use online calculators to help you crunch numbers and compare different starting dates.

Understanding the pros and cons of each major scenario will help you decide which route to take.

Starting early may still be your best bet if your life expectancy is short or you must have the income.

"Generally it does not make sense to start early, but there's no one-size-fits-all answer," said Elena Voronina, a financial planner for STA Wealth Management in Houston.The first thing to understand is Social Security jargon.

Full retirement age (FRA) does not refer to the age at which your benefits peak in size. If you were born between 1943 and 1954, for instance, your FRA is age 66. That's the age bracket for the person in the T. Rowe Price example above. His benefit at age 70 is higher than his benefit at age 66.

Full Retirement Age

What FRA does refer to is the age at which your benefits will not be cut even if your earned income from work exceeds a limit specified by law. In 2014, you generally lose $1 in benefits for every $2 you earn above $15,480.

Some types of income — such as interest, dividends, pensions and annuities — are exempt from that penalty.

One of the most appealing strategies is the spousal benefit. This approach is designed to help someone who did not work or whose spouse has a much higher earnings history.

This can work several ways. The most effective approach is this:

When the higher earning spouse reaches FRA, he files to begin benefits but immediately suspends his claim before receiving any checks.

This spouse will delay the real start of benefits as long as possible, perhaps until age 70. By doing that, his benefits get bigger. Meanwhile, when the lower earning spouse reaches FRA, she files for spousal benefits.

Check The Right Box

She must make sure that she specifies that she is filing for spousal benefits and not her own benefits.

"This strategy maximizes lifetime benefits, not necessarily your monthly benefits," says AARP.

When both spouses turn 70, they can file for their own retirement benefits. This two-step process maximizes the monthly benefit for the couple.

Why does this work? The spousal benefit is 50% of the higher earning spouse's benefit.

"This strategy is for couples where one spouse's benefit is less than 50% of the other spouse's," Ward said.

If the lower earning spouse's own benefit is more than 50% of her spouses, there's no point to the strategy.

If the lower earning spouse acts before FRA, her benefits can be permanently cut.