LEVERAGING *Social Security Benefits*

Key Factors to Consider When Deciding When to Begin Benefits

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While your Social Security benefit is pre-determined by the complex government formula applied to your work history, it is somewhat within your control since you have the ability to determine when you begin payments.

While we can't go over all the specific ins and outs of the Social Security benefit system here (spoiler alert: it's VERY complicated!), I do want to identify a couple of key factors to consider when you're deciding when to begin benefits.

Realize that all eligible participants of Social Security begin with a full benefit based on the amount that the participant has contributed, how long the contributions have been made and the participant's age when benefits begin. The current wave of retirees will see their Full Retirement Amount (FRA) between age 66 and 67 depending on year of birth. Anyone born in 1960 or after, will be see full benefits at age 67.

You probably already know that you can start your benefit as early as age 62; however, this will incur a reduction in monthly payment for this opportunity, so the question will be: Is the smaller monthly amount that you have available at age 62 worth taking, relative to the larger monthly amount you will get by delaying your decision?

Determining Your "Break-Even" Point with the SSA Calculator

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The Social Security Administration has a calculator available on its website (ssa.gov) to help you determine the "break even" point of this decision.

By break even, I mean the point at which the lower amount you can collect starting at age 62 will equal the amount you would have collected at the higher monthly amount if you had waited until your FRA age. Interestingly, the breakeven point differs depending on whether you spend your Social Security benefit each year or whether you invest it.

In the case of spending all your Social Security each month, the breakeven point is age 79 (at 2% inflation). This means, up until age 79, you will be better off collecting Social Security sooner rather than later, since you will have more money in your pocket. After, age 79, you will be better off to have waited until your full benefit age (FRA). However, if you have longevity in your genes, then waiting to access Social Security until the last moment (age 70), would work out best. If you were to collect at age 70 and live to age 85 or older, then you would maximize your Social Security benefits.

Social Security Breakeven vs. Full Retirement Age at 66

Starting Age	Breakeven if Spend All with 2% COLA (Cost of Living Adjustments)	Breakeven if invest money at 5% growth
62	79	87
63	80	86
64	81	89
65	81	87
66	NA	NA
67	81	86
68	82	88
69	83	90
70	85	92

The calculations are somewhat different when you factor in a different element.

What if instead of spending your Social Security, you simply saved and invested it? Would that make a difference in your decision making? The results may be surprising. Assuming a 5% return on investment, the breakeven point between starting Social Security at age 62 and at FRA jumps to age 86 and waiting until age 70 only becomes profitable by age 90.

Of course, we will only know what would have been optimal for you in hindsight; your decision, however, must be made in the present

Two Other Factors that Help Make the Decision

It's clear then that how long you might live is indeed a crucial variable. Because we really do not know how long you will live, there are two other factors that help make the decision.

The first has to do with your current work situation. In any year where you plan to work full time, there is rarely a reason to even worry about the decision. Unless your annual income cannot support you, there is no good reason to start Social Security benefits. If you are working part-time, you should be aware that there is a threshold level of earned income that triggers a penalty on your Social Security if you have not yet attained your FRA.

Earn an unlimited amount without jeopardizing any Social Security payment

If you make more than $18,960 per year (in 2021), then you will begin to lose Social Security benefits at the rate of $1 of benefit for every $2 of income over the $18,960 limit. So, if you make $20,000 while collecting benefits, you will lose $520 of Social Security benefits ($20,000 income less $18,960 limit = $1,040 excess.

For every $2 over the limit, the penalty is $1, or $520). Once you reach FRA, this threshold limit goes away and you can earn an unlimited amount without jeopardizing any Social Security payment.

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Making Necessary Lifestyle Choices

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The second issue is more of a lifestyle choice than an economic computation. When is the money more valuable to you (not in a monetary sense, but from a retirement lifestyle standpoint)?

When will you likely best enjoy the money? Is it possible that additional income beginning at age 62 (even if it is less than waiting until a later age) will be truly meaningful to you as a new retiree?

Put another way: is the money worth more when you are young, relatively healthy and you have things you want to do as a new retiree? Or, is the money more valuable to you when you may be in your 90's? I recall my 95-year-old grandfather living a very pleasant life.

He had a garden, a dog, and a place to take walks. That's all he needed. He did not need a bigger Social Security check. In fact, he couldn't even spend his Social Security check every month let alone the pension check he was still receiving. For him, taking the money earlier in his retirement was more valuable than having a higher Social Security check in old age.

My point is that the decision on Social Security may be more based on lifestyle rather than pure economics. No computer program can quantify that difference - *only you can.*

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