

When to claim social security benefits

By Gary Case

First a disclaimer, there is no single right answer to this question. My purpose in writing this column is to review aspects of when to claim that many may have overlooked. Much of my thinking regarding this column came from my reading “Rethinking Social Security Claiming in a 401(k) World,” by James Mahaney and Peter Carlson. There are numerous places on the Internet to review these concepts, including www.ssa.gov, the Social Security Administration’s website.

Lots has changed regarding social security retirement benefits. The Senior Citizens’ Freedom to Work Act of 2000 allows married couples to take early benefits for one spouse while not jeopardizing future benefits the couple may enjoy. Additionally, reductions in benefits for taking Social Security Retirement Benefits are now 25% at age 62, vs. 20% in earlier times.

Fewer workers have traditional pension plans, resulting in Social Security assuming a greater role in providing lifetime income benefits to retirees. Further, spousal survivor benefits from pensions have gone away along with traditional pensions. Social Security has a rich survivor benefit, with the surviving spouse receiving no reduction if their benefit is the higher, or actually receiving their spouse’s benefit if it is the higher of the two.

Many people do not realize that they receive Cost of Living Adjustments (COLAs) and Delayed Retirement Credits (DRCs), two automatic increases, by delaying claiming benefits up to and beyond their full eligibility age. Most “break-even” analyses (even the Social Security calculations) ignore COLAs and many ignore the DRCs, which artificially shorten the break even age calculations many people rely on to determine whether to claim benefits at age 62 or delay until later.

Ultimately, the decision to delay claiming benefits has to do with life expectancy. There is an argument with respect to Social Security Retirement Benefits evaporating in the future; however, for those at or near retirement, that argument has less impact. Suffice it to say that, in general, we live longer in retirement than our parents did, and a couple reaching retirement age have a 50% probability of one spouse living until age 90!

While this column is not intended to advocate that we all delay claiming our government retirement benefits, it is intended to make the reader contemplate carefully the consequences of their decision. As always, I recommend consulting a qualified financial planner prior to making the decision to claim benefits early.