

Start Social Security at 62, 66, or 70?

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Some people feel they have enough resources to consider retiring before or when age 62. Since it's much harder to get a good job, especially one with good retirement benefits, when you have passed sixty, your retirement decision is pretty much final. With the exception of some part-time possible employment, you must learn to restrain retirement spending within the confines of the financial resources that remain.

One of the key decisions for early retirees is when to start taking social security. Virtually all of the financial references recommend that you and your spouse take the payments at 62 instead of delaying to an older age. They make a financial analysis to find a "break-even" age where your investment balances are the same whether you retire at age 62 or, say, 66. Usually the break-even age is somewhat over 80 (82 in the figure) depending on the returns assumed for the investments.

The federal government was no fool when it chose the 25% reduction in Full Retirement Age (FRA) benefits for the mass of those who now don't reach their FRA until age 66. That makes 62 and 66 roughly financially equivalent for an average man's life expectancy. But the availability of early payments encourages people to retire early, so tax revenues come sooner from very early IRA or 401(k) withdrawals.

The main reasons for selecting age 62 are as follows:

- You believe you will die early in retirement.
- You have not saved enough to even consider taking social security at a later age.
- You believe that the government will soon default on future payments.

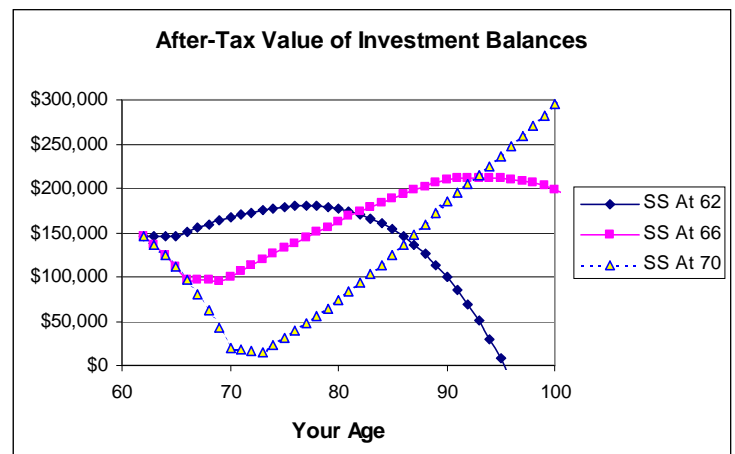
I have a different view. This stems from the fact that I associate with many people who have lived longer than the average person. After all, you must keep in mind that life expectancy, by definition, is the age where half of the population will live longer and half will die sooner. Roughly speaking, you have about the same chance of outliving the breakeven age as you do of not reaching it.

But, even if the chances weren't approximately even, if you or your spouse live longer than that break-even age, you are a lot better off if you waited and took larger social security payments. You must ask yourself whether you think you could survive with, say, 25% less social security. We know a number of people who can only buy a part of their doctor-ordered prescriptions so that they have enough money for food. The extra 25% would do wonders for them.

To even consider whether you can wait until you are 66 requires that you have amassed enough savings to support you in those intermediate years. As a crude

measure, this could be more than \$50,000 for a single person and \$100,000 for a married couple where only one spouse had any social security credits, but the actual amount will vary depending on your circumstances. Waiting till 70 could take over \$150,000. (See chart below for a couple.) You can use a computer program from www.analyzenow.com or elsewhere to determine whether going beyond age 62 without social security is feasible with the savings you've accumulated at age 62.

If your spouse has earned very few social security credits, then the argument for delaying until age 66 is more compelling. That's because the chances of one or the other, if not both of you, outliving the breakeven age is too high to ignore. After death, the surviving spouse gets 100% of whichever benefit was larger. The figure below illustrates the dramatic difference by showing the histories for savings balances when taking social security at 62, 66, and 70. If you don't live to benefit from waiting till age 66, your heirs will. But waiting till age 70 is pretty risky.



Source: Early Retirement Assistant.xls, www.analyzenow.com

Obviously, the chart above is dependent on a lot of assumptions*, not the least of which is that social security will remain viable for more than two decades. Still even with a wide variation, the conclusions are the same. Give serious consideration to my uncommon view that you should delay social security if:

- There is a reasonable chance that you will live longer than the average person.
- You have saved at least enough to finance your spending between the ages of 62 and 66 without social security payments.
- Your spouse's social security is dependent on your working credits.

* Key assumptions: Non working spouse age 59 when working spouse 62. Inflation = 3.5%. Return = 5.7%. FRA benefit = \$1,200/mo. Both spouses born within 1943-1954. \$65,000 taxable investments. \$90,000 IRA. Fixed pension = \$833/mo. COLA pension = \$500/mo. \$2,740/mo. inflation adjusted spending. Age for working spouse to die = 90. Surviving spouse spending at 67%. Net tax rate = 10%. 50% of social security is taxable.