Delaying Social Security Retirement Benefits Isn't Always the Best Option

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The Key Wealth Institute is a team of highly experienced professionals from across wealth management, dedicated to delivering commentary and financial advice. From strategies to manage your wealth to the latest political and industry news, the Key Wealth Institute provides proactive insights to help grow your wealth.

The standard advice to delay Social Security retirement income to age 70 doesn't necessarily apply across the board. Financial decisions are rarely simple, since individual financial circumstances vary. Advice must be personalized; delaying may not be the best financial move for some people.

You can begin receiving Social Security retirement benefits as early as age 62. However, your benefits will be reduced if you start receiving benefits before your full retirement age. For example, if your full retirement age (FRA) is 66 and you take your benefit early at age 62, you only receive about 75% of your monthly benefit. If your full retirement age is 67, starting at age 62 results in 30% smaller payouts. This difference is permanent, meaning that the reduction is for as long as you receive your Social Security benefits. Because of this, waiting until your full retirement age can provide a higher lifetime benefit.

If you haven't reached your full retirement age and continue to work and earn more than the yearly earnings limit, your Social Security benefit payment will be reduced.

The reduction is substantial — they deduct $1 of Social Security benefit for every $2 you earn above the annual limit. For 2023, the annual earnings limit is $21,240.

Social Security has two age milestones: full retirement age and age 70.

Year of Birth	Full (normal) Retirement Age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Note: People who were born on January 1 of any year should refer to the previous year.

Source: https://www.ssa.gov

Full retirement age

From the Social Security Administration's perspective, full retirement age depends on your birth date. For those born Jan. 2, 1960, or after, FRA is 67. When you file for Social Security at your full retirement age, you receive 100% of your benefit.

In addition, once you reach FRA, you can work and earn as much as you'd like without reducing your Social Security benefit payment. In the year you reach your FRA, there are some specialized rules.

Age 70 social security milestone

After you reach your full retirement age, your future benefit amount increases 8% for each full year. Once you reach age 70, there is no advantage to delaying because the benefit amount does not increase.

At first glance, waiting until age 70 seems to be the best decision. However, there are times when taking Social Security at the full retirement age or even earlier is a better choice. There is no definitive answer and each individual's decision is personal to their situation.

Here are five reasons you may want to start claiming Social Security early:

1. You want your funds to go to a beneficiary

When you pass away, your spouse will receive a survivor's benefit. Other than your spouse or an ex-spouse, no other family members can receive Social Security retirement income. If your motivation is to pass assets on to your children or grandchildren, and you aren't relying on Social Security for income, consider taking your Social Security earlier. You can invest the proceeds in an account for your extended family.

You could gift funds to your adult children or grandchildren or set up an investment account with a "transfer on death" or earmark in your estate planning documents.

At whatever age you take your Social Security benefit, there is no obligation to spend it. You can save or invest your monthly benefit and name beneficiaries on those accounts. Taking Social Security earlier may bring you less monthly income but at least you can designate what you've collected to go to someone else.

2. You want to invest in something else

You can always receive your benefit and invest it for yourself if you don't need the income and you aren't earning more than $21,240 a year from working, or you reached FRA. Keep in mind that you would be foregoing the guaranteed 8% increase per year for each year you wait after full retirement age, not to mention the cost of living adjustment (COLA). Just be mindful that you are taking on added risk with investments that also have the potential to decline in value.

Alternatively, instead of drawing down on your investments now, you may want to continue to allow them more time to grow. If claiming Social Security now allows you to delay withdrawals from tax-deferred accounts, then you get a few more years of tax-deferred growth, too. You may want to start your Social Security early so your investments can continue to grow.

3. You can spend it now

Some retirees use the monthly Social Security benefit check to cover the cost of a vacation property or a second home to have a special place for family and friends to gather. You could maximize your resources now and enjoy as much as possible early in retirement because you just don't know what life will look like later. You could still be very active and desire to travel at age 66. At age 80 or 85, your physical activity will not be what it was at age 66. From a quality-of-life viewpoint, you may want the extra money now to supplement your lifestyle.

4. You are single or don't need to maximize your spouse's Social Security income

A spouse receives their own Social Security benefit or half of their spouse's benefit, whichever is higher. In some circumstances, the higher your benefit, the higher your spouse's benefit. There are various strategies for maximizing a couple's Social Security income, so if you are married, you may want to analyze the impact of taking Social Security early or delaying, and the impact on your separate benefits. We recommend discussing strategies with financial and tax advisors before filing for Social Security benefits.

There are also benefits available to your minor children or a disabled child in the event of your death.

However, if no one else can qualify for benefits based on your record, you might want to start early since no one depends on that money and start enjoying that extra income.

5. When you have a short life expectancy

This question is on everyone's mind when waiting to take Social Security with the hopes of getting more income later: How long do I have to live to make it up?

Financial planners often calculate a break-even age for clients' taking Social Security earlier rather than later. Remember, if you want to take Social Security, every month you delay is a month you don't receive the income.

Let's look at an example. Your full retirement age is age 66 and your expected monthly benefit is $1,000 per month at age 66. However, if your benefit at age 62 would be reduced to approximately 75% of your full-age benefit, you would only receive $750 per month. During those four years, you would receive $36,000, not even considering a COLA increase. If you waited until age 66 to begin taking benefits, you'd break even after 12 years. If your health is declining and you don't expect to live until you are 78, you could receive more in benefits during your lifetime if you start claiming as soon as possible.

However, suppose you are married and receive a significantly larger Social Security payment than your spouse. Then you might want to consider delaying so you can leave a bigger survivor's payment to your spouse.

For more information, please contact your advisor.

About the Author

As a Regional Director of Planning for Key Private Bank, Nancy proactively advises clients on the development of a personalized, comprehensive financial plan that creates a financial roadmap so they can make more informed, confident decisions.

Nancy is a highly experienced professional who works closely with the relationship team to understand a client's personal situation and goals and develop an integrated, customized set of strategies to help them reach their objectives. She is also well-versed in sophisticated planning strategies to help clients address complex issues. Nancy is a member of Key Private Bank's Wealth Institute which provides commentary and advice on current topics and issues that impact our clients' wealth management planning. A nationally recognized expert in retirement planning, Nancy has penned a popular personal finance column on Forbes.com since 2012.

Prior to joining Key, Nancy served as Director of a national boutique financial advisory firm, providing retirement planning and tax advice for executives of Fortune 500 companies to provide in-depth analysis of every aspect of the client's financial situation and customized recommendations designed to help each client attain their financial goals in the most efficient manner possible. She has provided guidance and advice to high net worth clients since 2001. Nancy is a cerified financial planner (CFP®), has a bachelor's degree from the University of California, Davis. She is a member of United Way's Women United Organization and the Utah Financial Planning Association.

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