BUSINESS

Road to Retirement: When should you start taking Social Security?

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As people approach the age of 60, many start thinking about how and when to access their Social Security benefits. The basic rule is that you can start to receive Social Security as early as age 62 or you can delay taking benefits until age 70. This creates confusion because most folks don't know if it's better to wait or access benefits early.

The general rule is that for each year you wait, your benefit payment goes up by about 6% to 8%. The adjustment depends on whether you start before or after your normal retirement date, which today is 66 for people born between 1943-54. You can get an estimate of your payments for each year from 62 to 70 from Social Security. You'll notice the longer you wait, the more you get. But you also will get benefits for a shorter period of time.

When it comes to choosing when to start, the good news is that on paper it doesn't matter. The actuaries who work for Social Security have crunched the numbers, and on average, the benefit payment options are designed to be actuarily equivalent. That means if you took a group of 10,000 retirees and analyzed all their choices, on average, they would receive roughly the same benefits, regardless of when they start receiving Social Security.

Here's why. Of those who choose to take benefits early, some will die early. In that case, they were better off taking benefits early, as opposed to waiting. If they waited, they may not have received any benefit payments. Conversely, there are those who will wait until age 70 and live to 100, and they'll get more than was projected because the actuaries assumed they'd be dead well before age 100. And then there are some who will wait until 70 and die at 73, they would have been better off starting early.

The bottom line is that determining which benefit is best all depends on when you die because that's when the payments stop. And since you don't know when that will be, it's basically impossible to figure out whether taking it early or late will result in a higher total payment to you. I think a better way to approach the issue is to figure out which risks you are more concerned about, and then choose a strategy that helps you manage that risk.

For instance, let's say you are afraid of living a long time and running out of money. In that case, waiting until age 70 gives you the best hedge against that risk. Your annual benefit will be roughly 30% more than if you took benefits at 66. And if you happen to live to 100, then you'll have a lot more in Social Security benefits to support you as you age.

But what if you are concerned about Social Security getting cut and Congress rewriting the rules? Well, if that's a risk you want to hedge against, you'd likely be better off starting earlier. That way, if benefit formulas are changed to your detriment, you received years of benefits under the more favorable formula.

Or, let's say you retired at age 63, and a year after you retire the financial markets tank. Now you are looking at your portfolio and it's worth 30% less than it was when you retired. Maybe you can't really afford to take out less from your retirement plan, but you haven't taken your Social Security benefit yet. Well, this might be a good time to start. If you can access benefits, you can reduce the amount of distributions you are taking from your portfolio, and may give your portfolio critical time to recover.

What if you aren't worried about Congress cutting benefits or bear markets, but just want to travel and do things while you are healthy. In that case, taking the benefit earlier may be a good choice because it boosts what you have to spend while younger and likely in better health.

In short, here are my basic suggestions for thinking through when to start Social Security:

- If you are worried about living a long time and running out of money, waiting is likely the best hedge.
- If you are worried about Congress cutting benefits for people like you, then taking it earlier may be better.
- If you are worried about bear markets and think they might cause you a big problem, then if a bear market hits, start taking your Social Security (benefits generally start within a few months of when you apply). Otherwise, you can wait.
- If you want to maximize what you can spend while younger and presumably in better health, then you may want to take the funds earlier.

Each strategy has benefits and burdens, and as I mentioned, on paper there is no wrong answer because financially they are all designed to deliver roughly the same benefit to retirees as a group. Thus, it really comes down to the risks you want to manage for your individual circumstances. Decide what those are, and that's the "right" choice for you.

Charlie Farrell is a CEO of Northstar Investment Advisors LLC. This article is for information and education purposes only. Past performance is no guarantee of future returns, and all investing involves the permanent risk of loss. Consult your individual financial adviser for guidance specific to your circumstances.