

SOCIAL SECURITY: COLLECT BENEFITS AT AGE 62 OR WAIT?

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If you're like many Americans, you want to draw your Social Security as soon as you're eligible to do so. After all, you've worked hard all your life—you're ready to start enjoying your retirement benefits.

But while collecting Social Security benefits early makes sense for some people, that doesn't mean it makes sense for you. Why? Because there's one major drawback to consider: If you start collecting your benefits early, your monthly retirement benefit is usually permanently reduced. That's why it's so important to check out all your options and weigh the pros and cons of committing to this move. You'll soon discover this important decision is not quite so cut and dried.

Ultimately, deciding whether to take benefits early with a smaller monthly amount for more years or waiting to take it down the road and receiving a larger monthly benefit over a shorter timeframe depends on lots of factors—your current cash needs, health situation, and family longevity, for starters.

Let's take a closer look at some of the key considerations that might influence your decision.

CONSIDER THESE FACTORS

Benefit amount. Your Social Security monthly benefit is calculated on the amount you would receive at your full retirement age (based on your lifetime earnings). But the actual monthly amount you get is based on your age at the time you decide to begin receiving benefits.

You can start receiving your benefits from age 62 up until age 70—the longer you delay, the higher your monthly benefit amount. You receive an additional 8% per each year to delay. Remember, this choice is usually permanent and sets your basic monthly amount for the remainder of your life. (However, you will get annual cost-of-living adjustments and may get higher benefit amounts if you continue working.)

For example, let's assume the following: (average benefits are higher than this)

- You turn 62 years old in 2021.
- SSA considers your full retirement age is 66 years and 10 months.
- Your monthly benefit starting at your full retirement age is \$1,000.

WHEN SHOULD YOU BEGIN RECEIVING SOCIAL SECURITY?

The Social Security Administration (SSA) says there's not a single "best age" to start collecting benefits—it's your choice to make, hopefully based on informed decisions and your individual circumstances. However, if you decide to begin your benefits at age 62, you'll be in good company. According to the SSA, approximately 67% of Americans elect to receive their Social Security benefits before their full retirement age.¹ To find out your full retirement age, visit www.ssa.gov/benefits/retirement/planner/ageincrease.html.²

If you begin getting benefits at age 62, your monthly benefit will be reduced by 29.2% to \$708 to account for the longer amount of time you'll receive benefits. But should you choose to delay receiving benefits until the age of 70, your monthly benefit would increase to \$1,253 (about 77% more for a difference of \$545 per month).²

Expected lifespan. SSA estimates that about one out of every three 65-year-olds today will live at least until age 90, and one out of seven will live until at least age 95—and most women live longer than men.²

This is a hard one to predict—however, many of us will live much longer than we expect, outliving the “average” retiree. If you live longer than your “break-even age” (usually about 12 years from your full retirement age), the overall value of your retirement benefits taken at full retirement age will begin to outweigh the value of reduced benefits taken at age 62.

Deciding when to begin receiving benefits is more complicated when you're married. The age at which you begin receiving benefits may significantly affect the amount of lifetime income you and your spouse receive, as well as the benefit the surviving spouse will be entitled to upon your death. If you are the higher wage earner, and you delay starting your benefits, you will receive higher monthly benefits for the rest of your life—and higher survivor protection for your spouse if you die first.²

For many individuals, what really counts is how much they'll receive each month, not how much they'll accumulate over the years.

Income level. Another important part of the equation is to determine the amount of income you'll need in retirement, based in part on your projected retirement expenses. If there's a large gap between your projected expenses and your anticipated income, waiting a few years to retire before you start collecting Social Security benefits may improve your financial outlook.

If you continue to work and wait until your full retirement age to start collecting benefits, your Social Security monthly benefit will be larger. What's more, the longer you stay in the workforce, the greater the amount of money you'll earn and have available to put into your overall retirement savings. Another plus: Social Security's annual cost-of-living increases are calculated using your initial year's benefits as a base—the higher the base, the greater your annual increase.

Working in retirement. Another key factor in your decision is whether or not you plan to continue working after you start collecting Social Security benefits at age 62. That's because, generally, income you earn before full retirement age may reduce your Social Security retirement benefit. Specifically, if you are under full retirement age for the entire year, \$1 in benefits will be withheld for every \$2 you earn over the annual earnings limit (\$18,960 in 2021).

When you reach full retirement age, SSA recalculates your benefits and gives you credit for months you didn't get a benefit because of your earnings. As long as you continue to work and receive benefits, SSA checks your earnings record each year to determine whether your benefit should increase.

OTHER FACTORS

In addition to the factors discussed above, other financial considerations may influence when you should start collecting Social Security benefits and should be discussed with your financial planner or team of professional advisors:

- What are the tax characteristics of my investment accounts?
- How will your income taxes be affected? Are there any tax management strategies that will work better if I delay Social Security?
- How do other sources of retirement income factor in?

- Do you plan on traveling, volunteering, going back to school, starting your own business, pursuing hobbies, or moving to a new location?
- Do you have multi-generational family members you will need to help support?

Social Security rules can be quite complex. Before you make any decisions, it's in your best interest to visit www.ssa.gov for more information and to take advantage of online services and calculation tools. Or, you can speak to a representative by calling Social Security toll-free at 1-800-772-1213 or at 1-800-325-0778 (TTY) if you're deaf or hearing impaired.

WE'RE HERE TO HELP

Feeling confident that you're financially prepared for the potential impact of your decisions surrounding receiving Social Security benefits during your retirement years is important. Commerce Trust Company will listen to your concerns and talk with you regarding any current or future financial issues that may require adjustments to your portfolio and retirement plan. Contact us today to learn more about how we can help protect your financial well-being down the road.

¹ Source: Social Security Administration, SSA Annual Statistical Supplement, 2020, accessed February 19, 2021).

² Source: Social Security Administration, Publication No. 05-10147, "When to Start Receiving Retirement Benefits," January 2021, ssa.gov.

The opinions and other information in the commentary are provided as of March 02, 2021. This summary is intended to provide general information only, and may be of value to the reader and audience.

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David is a financial planner with Commerce Trust Company. He is a member of the financial advisory services team, a dedicated financial planning practice within Commerce Trust that provides objective financial advice to clients. Following a thorough assessment of a client's unique situation and thoughts regarding wealth, David develops holistic and coordinated plans to help clients meet their short-term and long-term goals as well as take full advantage of various planning, tax, and investment strategies along the way. His areas of focus includes planning for financial independence, retirement, divorce, executive compensation, estate preservation, and business succession. David joined Commerce in 1995 and has held positions in private banking, credit analysis, commercial business development, and retail sales. David received his bachelor of science degree in business administration from Southeast Missouri State University. He holds both the CERTIFIED FINANCIAL PLANNER[™] and Certified Divorce Financial Analyst[™] designations. Additionally, David is a member of the Financial Planning Association and the Institute for Divorce Financial Analysts.



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