When Should We Begin To Take Social Security Benefits?

One of the more confusing decisions for couples is when they should begin taking Social Security benefits. While at first this would seem to be easy given the concerns for the *long-term* financial stability of the program, it is more complex when applied to a specific family's decision. The goal of this article is to shed some light on the factors to consider in maximizing the present value of a family's lifetime benefits.

The General Rules and Assumptions

Social Security does not take into account gender and has both a reduction for taking benefits prior to Full Retirement Age (FRA) and an increase for delaying benefits past FRA up to age 70.

Full Retirement Age is currently a sliding scale: Age 66 for those born between 1943 to 1954, while increasing incrementally to age 67 for individuals born 1960 or later. For those born in the immediate Post World War II period, the reduction for early benefits is a maximum of 25% if you began at age 62 and the increase for delaying benefits is 8% per year past FRA.

The reduction or increase is actuarially calculated to provide the same amount of lifetime benefits for the *average person* with the *average life expectancy*. Additionally, if you continue to work prior to reaching FRA and begin receiving benefits, you will see your benefit further reduced $1 for every $2 in earnings above $14,160 (2009 value). Thus it almost never makes sense to begin benefits if you are still working.

Your monthly benefit is a function of what is called your Primary Insurance Amount (PIA), which in turn is derived from your Average Indexed Monthly Earnings (AIME). The AIME calculates your lifetime monthly earnings, adjusts them for inflation and then averages your 35 years of highest earnings. It is possible that if you were out of the work force for a period of time, some years with zero earnings may be included in your AIME, reducing it and thus your PIA.

Possible Benefit Outcomes For Married Couples

Spouses who qualify for benefits on their own can begin reduced benefits at age 62 (for those born in 1943, the reduction is 25%). When the other spouse begins receiving benefits, the he/she will receive the ***higher*** of their own benefit or the benefit equal to 50% of the spouse's benefit (this will be reduced if she took early benefits). Finally, the surviving spouse will receive 100% of the deceased's benefit if it is higher than her own upon the passing of the working spouse.

The Factors To Consider In Making Your Decision

Since the benefits are calculated under gender neutral conditions AND based upon average life expectancy, the following factors must be considered:

- **Your current health and family history**. Both impact whether or not **your** life expectancy is less than, approximately equal to or greater than the average. If you have good cause to believe you will live longer than the average person, it pays to delay beginning benefits.
- **Your spouse's age compared to yours**. Women live longer than men and if the wife is several years younger than her husband, she can expect to have an extended period of survivorship. Therefore, if

a wife is four or more years younger than her husband, the impact of higher delayed benefits when they turn to survivor's benefits is substantial.

➢ **Your spouse's earnings history vis-à-vis yours**. If your spouse earned either significantly more or less than you over your career, the spouse with the lower lifetime earnings should begin reduced benefits at age 62 while the high earner waits until 2-3 years past FRA.

Recent Research Implications

Recently in the *Journal of Financial Planning,* Alicia H. Munnell and Maurico Soto analyzed a hypothetical couple whose FRA for the husband was age 66. Their results (shown below in Table 1) considered the factors discussed above and draw the following conclusions: for most households, the lower AIME wage earner should claim their own benefits at the earliest possible age and the higher AIME wage earner should delay 2-3 years past FRA before beginning benefits.

Table 1

Optimal Ages To Claim Social Security Benefits by Relative Earnings and Age Difference

Retirement Ages (Male, Female)

	PIA of Wife as a % of PIA of Husband		
Age Difference	**0-30%**	**30-40%**	**40-100%**
0	**66, 66**	**67, 66**	**69, 62**
1	**67, 66**	**67, 66**	**69, 62**
2	**68, 66**	**68, 65**	**69, 62**
3	**68, 65**	**69, 62**	**69, 62**
4	**68, 64**	**69, 62**	**69, 62**
5	**68, 62**	**69, 62**	**69, 62**
6	**68, 62**	**69, 62**	**69, 62**

Source: Journal of Financial Planning

Table 1 shows the respective ages for beginning benefits as a function of Primary Insurance Amount and the age difference between the spouses. In 62% of the scenarios (blue and yellow colored cells), **total family benefits** are maximized with a combination of early benefits for the (assumed) wife and delayed benefits for the husband.

The reason for this is the greater actuarial longevity of women. They can expect to live an average of three years longer than men. If they are several years younger, they can expect an eight or more year period of survivorship during which the higher benefit is of great value.

Your Bottom Line

It is impossible to make an informed decision without both spouses' Statement of Benefits, which is mailed to you annually (on or around your birthday). Once real numbers for your situation are available, don't hesitate to contact us to help analyze your choices and make a more informed decision.

Useful Websites

Social Security Administration: www.ssa.gov &
Social Security Retirement Chart: www.ssa.gov/retire2/agereduction.htm#chart