

Make the Most of Your Social Security Benefits

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Are you better off starting Social Security benefits early or waiting until the normal retirement age? Here's how to find out.

Here's the basic trade-off in Social Security benefits: By starting early, you'll receive a lower monthly payment but for a longer time than if you choose to start at the normal retirement age (NRA), which varies by when you were born. (See the table on page 22 for the schedule of increases in normal retirement age and the percentage of full retirement age benefits that would be paid to someone electing benefits at age 62, depending on year of birth.)

Conversely, if you wait until the NRA, your monthly payments will be higher but will be paid over a smaller number of remaining years. So, one of the obvious factors to consider is life expectancy. If you're healthy and have a reasonable expectation of above-average longevity, you may be better off waiting until the NRA and receiving the higher monthly payments.

Also, consider whether you'll need to use the money sooner — perhaps for daily living expenses or for a special purpose — or whether it might be left to accumulate for later uses.

If you need the money as soon as possible, then the decision is already made, and taking early benefits is the logical choice. But if you don't need the money right away and want to make the most advantageous financial decision, you need to understand what tilts the scale one way or the other. To do that, you should first understand the way the government computes normal and early Social Security benefits.

CALCULATING NORMAL AND EARLY BENEFITS

When you turn 62 years old, the government computes your primary insurance amount (PIA) — the monthly benefit payable under Social Security — from your earnings history and uses that as the basis for determining income benefits at the selected starting date. Inflation adjustments based on the consumer price index (CPI) — a measure of price changes in consumer goods and services such as gasoline, food and automobiles — are made to the

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Research Papers on Social Security

To learn more about factors, such as spousal elections, that can influence when you should start receiving Social Security benefits, go to <http://www.tiaa-crefinstitute.org/FieldSOS/fos2wplst.htm> to read two papers by Walsh: "Electing Normal Retirement Social Security Benefits Versus Electing Early Retirement Social Security Benefits" and "Spousal and Survivor Elections of Normal Versus Early Retirement Benefits."

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Estimate Your Future Benefits

Go to www.ssa.gov/planners/calculators.htm to estimate your Social Security benefits, using different retirement dates and levels of potential future earnings. You can also view estimated disability and survivor benefit amounts.

In addition, you can go to www.ssa.gov/mystatement to request an additional copy of your Social Security Statement, which is mailed each year to workers and former workers aged 25 and older about three months before their birthday.

If you have specific questions about this article, please e-mail us at balance@tiaa-cref.org.

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PIA from age 62 onward. If you choose to start benefits before the NRA, you will receive payments that are reduced by 5/9 of 1 percent per month for the first three years of early retirement and by 5/12 of 1 percent for each additional month beyond the three years. (See table below for more details.)

What are the other factors besides life expectancy and cash needs that go into the decision-making mix? Your tax rate on benefit earnings, the assumed earnings rate on the benefits and the assumed CPI. (The tax rate on the actual payments is not a factor, assuming the rate is the same regardless of the beginning date.) By incorporating all of these assumptions and computing the present value of the benefit payments as of a specified starting date, you can compare the present values of various starting dates and payment amounts, while holding constant the assumptions for tax rate, CPI, mortality and earnings rate.* (Present value is the amount today that a sum of money in the future may be worth.)

Using reasonable economic assumptions, you generally are slightly better off from a financial standpoint waiting until the NRA to start receiving benefits. For example, if your NRA monthly

benefits start at \$1,000, the after-tax present value of expected lifetime benefits is about \$117,000 if you start receiving benefits at age 65½, compared to about \$115,000 if payments begin at age 62. These calculations are based on assumptions of a 9 percent earnings rate, 20 percent tax rate, 3 percent CPI and a better-than-average life expectancy of 23 years (at age 65).

FACTORING IN AFTER-TAX EARNINGS ASSUMPTIONS

Aside from life expectancy considerations, how do the other assumptions affect the outcome? If you can earn a greater after-tax rate of return than that assumed in the above example, you may be better off getting the money sooner rather than later.

It's the combination of the earnings rate and the tax rate that matters: A 9 percent pretax earnings rate translates to an 8.1 percent after-tax rate for someone in a 10 percent tax bracket, but it translates to only 4.95 percent for someone paying taxes at a 45 percent rate. In other words, if you're in a very high tax bracket, you can obtain greater tax deferral benefits by waiting to begin benefits, whereas if you're in a low tax bracket, you get the fuller use of their earnings and, therefore, gain more from starting benefits early on.

Since predicting the returns that you'll earn from investing your Social Security benefits is hazardous at best, particularly if the investment mix includes equities, your marginal tax rate may prove to be a more reliable and useful factor in making the decision. In general, if you're in a relatively high tax bracket during retirement, you'll benefit more from waiting to start benefits. And if you're going to be in a high tax bracket, generally (but not always) you'll be better equipped financially to delay receiving benefits than those in low tax brackets. ☒

*In these examples, it's assumed that you would not lose benefits between ages 62 and 65 because of the Social Security earnings test. TIAA-CREF and its affiliates do not provide tax advice. Please consult your tax advisor.

When Will You Be Eligible To Receive Full Social Security Benefits?

Year of Birth	Normal Retirement Age (NRA) to Receive Full Benefits	Age 62 Benefits As % of NRA Benefits
1937 or earlier	65	80%
1938	65 and 2 months	79½%
1939	65 and 4 months	78⅓%
1940	65 and 6 months	77½%
1941	65 and 8 months	76%
1942	65 and 10 months	75⅕%
1943-1954	66	75
1955	66 and 2 months	74⅙%
1956	66 and 4 months	73⅓%
1957	66 and 6 months	72½%
1958	66 and 8 months	71%
1959	66 and 10 months	70⅕%
1960 and later	67	70