

# *Sy Accountancy Corporation*

Member, American Institute of CPAs

704 Mira Monte Place, Pasadena, California 91101

Tel (626) 744-0200 • Fax (626) 744-0300 • vsy@victorsycpa.com • www.victorsycpa.com

## WHEN TO START RECEIVING SOCIAL SECURITY BENEFITS

By Victor Sy, CPA, MBA

Any individual who has worked and contributed to the FICA/Social Security System for 10 years (40 quarters) can start receiving Social Security Retirement benefits at age 67. You may elect to start receiving your SS benefits as early as age 62. You permanently lose about 30% of benefits if you retire early at 62. You gain about 8% per year up to age 70 if you retire late. Whether it is better to claim your benefits early depends on several factors, some of which are clearly subjective. The objective of this paper is to analyze several issues and instances when it is better to retire early or wait.

### Here are your choices:

1. Early retirement at age **62** reduces benefits to about 70% of full retirement - permanently.
2. Full retirement at age **67** entitles you to full benefits.
3. Delayed retirement permanently increases your benefits by about 8% per year through age 70.

### The question, therefore, is when do you begin drawing Social Security benefits? Let's discuss 3 scenarios:

1. If you **cannot or do not want to leave your full-time job** prior to age 67, wait. If you want to work part-time after you retire, wait. This is particularly important especially if your earnings will exceed the threshold for current year earnings.
2. If you do not have any earned income at age 62 or have **very little means to support yourself**, then you may not have a choice. Start drawing early.
3. Then there are those of you who want to retire early but do not really need the Social Security income to live on. This is tougher than the prior two scenarios. The answer depends primarily on your life expectancy and your expectations as to where interest rates are headed during your retirement years.
  - A. Your **family history, health and lifestyle** all come into play. If after going through a series of computations, it appears unlikely that you will live past a certain computed age then you are better off taking reduced benefits at age 62 rather than wait for age 65. You may not live long enough to collect your benefits. ☹
  - B. You also have to make assumptions about **future interest rates**. You need to make some computations on **break-even point** in absolute dollars as well as the present values of your future benefits and choosing an appropriate discount rate to compute the break-even point. The higher the discount rate, the longer you must live before receiving benefits that would be normally received at age 65. In this case, it is better to start early at age 62. Another variable to consider is what future Social Security cost of living increases might be. The smaller the increases, the longer you have to wait until age 65 becomes a good choice. Conversely, the larger the expected increases, the more likely that you should wait until age 65 before receiving benefits. These computations are not easy and I suggest that you consult your financial planner or seek assistance from Social Security Office personnel.

**In conclusion**, the decision to retire early or to wait depends on several factors including your desire to stay on the job, to work part-time, the availability of funds when you retire, your life expectancy as a result of family history, health, and lifestyle as well as your own perception of future interest rate changes. Scenarios one and two are quite easy to decide on. It is scenario three where you have to make a more complicated decision. Use this article to guide you in your decision. Good luck.