Take or Delay?

Most American workers who have at least 10 years of work history will be able to start taking Social Security benefits as soon as they reach age 62. But should they?

Some years back, there was considerable debate about whether a person was better off receiving the monthly checks early and investing them in the markets, or waiting until full retirement age (currently age 67)—or, alternatively, waiting until age 70 and receiving even higher benefits.

Today, that debate has largely gone away. Most advisors recommend waiting, if you can, at least until full retirement age and, even better, holding off until age 70.

Why? The problem with most of those older calculations was that they were assuming that the U.S. investment markets would follow historical long-term averages—which, as I think most of us have seen—is not guaranteed. What IS guaranteed is that the Social Security benefits will rise with each and every year that a qualified recipient waits to start taking them. For persons born after 1943 (that is, pretty much everybody who is qualified to take Social Security benefits), the “delayed retirement credit” is a whopping 8% a year. Yes, that means that each year you wait means that the monthly check will be 8% higher than it would have been before. You will not get that kind of guarantee from the investment markets.

The Social Security Administration offers a calculator on its website which shows the percentage of your normal retirement age benefits you would receive depending on what age you start taking your monthly checks. For a person born in September of 1960 who decides to turn on the Social Security benefits at age 62, the benefits represent 70.42% of the checks that same person would have received if he or she had started taking benefits at age 67. By waiting until age 70, the same person would receive 124% of the so-called “primary insurance amount.”

But there’s more to the story than simply larger checks. Social Security is the only guaranteed source of retirement income that is protected against inflation, which means offering protected purchasing power. Those larger checks become proportionately larger depending on the inflation rate. That is not the case with annuity checks and most pension accounts—where the amount received will be less valuable with each passing year.

Of course, there are always questions about Social Security’s solvency. The Social Security Trust Fund has been projected to run out of money in 2033, which wouldn’t mean a total loss of benefits, since working taxpayers would still be paying into the system. In a worst-case scenario, those payment amounts would cover 78% of today’s projected benefits. But it seems unlikely that Congress would fail to shore up a system that currently delivers benefits to 69.1 million voters. In fact, the Social Security Enhancement and Protection Act was recently reintroduced in the U.S. House of Representatives; among the provisions is a 5% increase in monthly benefits for all beneficiaries who have been retired for 20 years, and bolstering the Trust Fund by phasing out the Social Security payroll tax cap, which currently applies only to wages up to $142,800. In addition, the payroll tax rate would gradually rise from the current 6.2% to 6.5%.

Sources:

<https://www.ssa.gov/oact/quickcalc/early_late.html>

<https://www.cnbc.com/2021/08/19/bill-in-congress-aims-to-keep-social-security-beneficiaries-out-of-poverty.html>