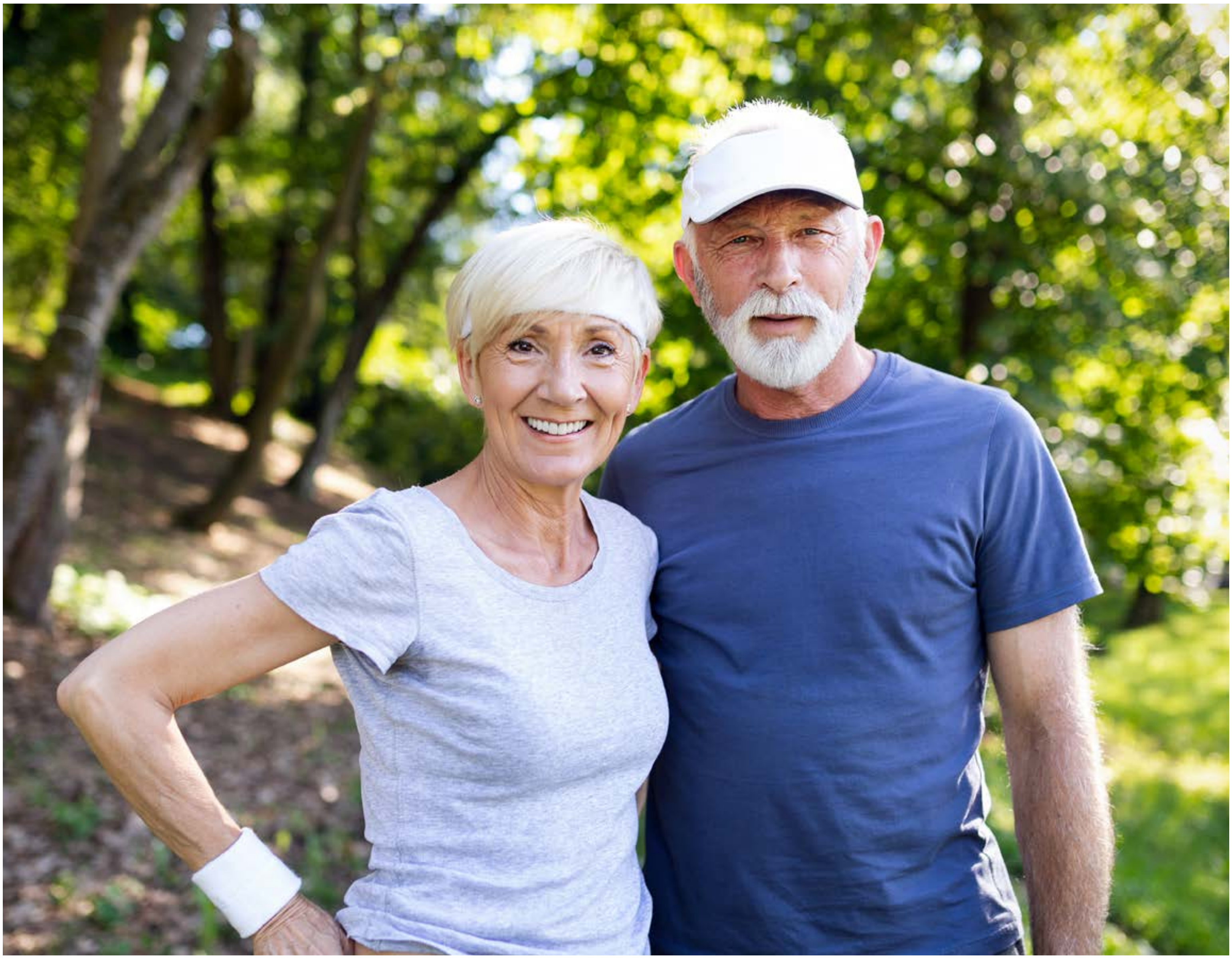
When to Take Social Security?

By Arvind Ven



The origins of the program can be traced back to the Great Depression. When Social Security was established in 1935, its main purpose was to provide a minimum floor of income support for all eligible workers. At that time, the average life expectancy of the working male was approximately 62 years so the government set retirement at 65 years of age.

Times have changed. Now, the life expectancy for a working male is 84 years old and statistically, women live longer than men. At current rates, Social Security has enough money to pay out in full to every recipient until 2033.

That may be too soon for many readers. Reports and numbers indicate that without any overhaul or income added into the system--from 2034 to 2077—the payout will be close to 75 percent of what is paid in.

This is because the system is funded by employee payroll deductions. One portion of the relevant tax consists of an equal amount of employee income paid by the employee and employer. Self-employed people, (freelancers, contractors, and Uber drivers, among others) pay both the employee and employer portions. These benefits are calculated according to the 35 highest-earning years in the workforce and adjusted for inflation.

Fortunately, the US government has many options at its disposal in order to keep Social Security fully functional. They can increase the full retirement age or raise the income amount subject to the tax, among other things. It depends on what the government sees as the role of Social Security.

When Should You Take Benefits?

Just because you turn 62, however, does not mean that you should start income right away. For every year that you wait after age 62 to collect Social Security, you get approximately a 6 percent bump up every year until age 70. There is no further advantage to waiting beyond age 70. Where else can you find such an annual risk-free raise on your income and from the government no less?

It pays to wait, if you can. Be warned, however. Social Security benefits may be diminished if you go back to work after age 62 and until Full Retirement Age (FRA) after starting benefits. You can also check your benefits online by creating your own account at www.ssa.gov.

Contrary to popular belief, electing Social Security benefits is not a simple matter. There are literally hundreds of ways to elect benefits and these choices have significant impact over the course of the retirement years. Talk to your financial advisor and ask him/her to run a social security income analysis for you.

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The United States is undergoing the largest 'graying' of its workforce. More than 10,000 Baby Boomers are retiring each day for the next 15 years. These are people born between the years 1946 and 1964. Over 50 million of them are nearing retirement. *(Source: Insurance Research Institute, April 2018, Pew Research 2010)*

They will join the approximately 54 million people who are currently receiving benefits, 74 percent of which are retired workers and their dependents. *(Source: Social Security administration, Sept 2017)*

Types of Benefits

Social Security provides four types of benefits.

1

RETIREMENT BENEFITS for those who have worked in covered employment for many years. They are eligible to receive retirement benefits beginning at age 62.

2

MEDICARE HEALTH BENEFITS are for the spouse and minor children of any retired or disabled worker who qualified for benefits.

3

INCOME BENEFITS are for the survivors of a deceased worker covered by Social Security. The surviving spouse is entitled to receive benefits until the youngest child turns 18.

4

DISABILITY BENEFITS for workers who make regular contributions but are disabled mentally or physically before reaching the retirement age.