

3 Reasons to Take Social Security at Full Retirement Age

My Comments: I have some reservations about Sean Williams since he's not yet old enough to understand the emotional side of financial decisions when it comes to retirement income.

However, the headline resonates with me as someone who has taught workshops on Social Security Benefit planning. Your first choice of when to claim Social Security benefits for yourself should be when you reach what is known as Full Retirement Age.

That's a function of when you were born. But there are sometimes legitimate reasons to claim early and to claim after your FRA. But we won't go into them here. Just know under normal circumstances, you should wait and not file early.

by Sean Williams \ Dec 13 2018

If there was ever any question about the value of Social Security income to seniors, a recent analysis from the Center on Budget and Policy Priorities (CBPP) hits home on the program's importance. The CBPP found that the elderly poverty rate would be more than four times higher than it is now without the guaranteed monthly income provided to eligible retired workers. By "eligible," I mean workers who've earned the prerequisite 40 lifetime work credits needed to qualify for a retirement benefit.

Of course, what a retired worker will be paid during retirement is mostly in their own hands.

When calculating a worker's retirement benefit, the Social Security Administration (SSA) takes four prime factors into account. The first two, earnings history and work history, are inextricably tied at the hip. The SSA will factor in your 35 highest-earning, inflation-adjusted years when determining your Social Security benefit, which suggests that you should work at least 35 years (if not more) and earn as much as you can in the years you do work in order to maximize what you'll receive from the program.

The third factor is your birth year, which we have no control over. Your birth year determines your full retirement age (FRA), or the age at which the SSA deems a retiree eligible to receive 100% of their monthly payout. You can use this handy table to locate your unique FRA. In simple terms, claiming your benefit at any point before reaching your full retirement age will result in a

permanent reduction in your monthly payout, while waiting until after your FRA can actually lead to an ever larger monthly payment.

The fourth factor, and arguably the one with the most bearing on your monthly and lifetime payout, is your claiming age. Though eligible recipients are free to begin taking Social Security income as early as age 62, a dangling carrot exists that's designed to entice folks to wait. For each year a worker holds off on claiming benefits, their eventual payout grows by about 8%. All things being equal -- i.e., work history, earnings history, and birth year -- a worker claiming at age 70 could receive as much as 76% more per month than a claimant at age 62.

Taking Social Security at 70 is obviously the smart move, right? Well, not always. The smarter move might be a middle-ground approach where folks claim their benefit at full retirement age. Here are three reasons that could be a wise decision.

1. No exposure to the retirement earnings test

Possibly the best reason to wait to claim benefits until your full retirement age is that you won't be exposed to the retirement earnings test, or RET.

The RET allows the SSA to withhold some or all of your Social Security benefit if you earn over a certain income threshold each year and you're receiving benefits prior to reaching your full retirement age. For example, if a retired worker has chosen to claim benefits early and they won't reach their full retirement age in 2019, the SSA will withhold \$1 in benefits for each \$2 in earnings above \$17,640. For current Social Security recipients who will reach their full retirement age in 2019 but may not do so until late in the year, the SSA can withhold \$1 in benefits for every \$3 in earnings above \$46,920.

The silver lining here is that withheld benefits aren't necessarily lost. Barring an early passing, you'll get these withheld funds back in the form of a higher monthly payout once you hit your full retirement age. However, the point is that if you were to wait until your full retirement age in the first place, then you wouldn't have to worry about the SSA withholding a red cent.

2. A higher monthly payout to account for increased longevity

A second astute reason to be patient is our increasing longevity. Even though American life expectancies have edged ever-so-slightly lower over the past three years, the average life span is higher by approximately nine years since

1960. Further, we're witnessing more people than ever reach the eligible claiming age for Social Security of 62.

By waiting until your full retirement age, you're guaranteeing yourself a monthly income that isn't reduced, which could come in handy as medical care and pharmaceuticals push life expectancies higher. You could certainly choose to wait even longer if you're in excellent health, have longevity in your immediate family, or simply don't need the money as a result of good saving and investing habits. But the key point here is that waiting means a higher monthly payout that, with longer life expectancies, could be crucial to helping seniors make ends meet.

3. In order to protect your loved ones

A third and final advantage of waiting until your full retirement age to take Social Security is that it could protect the ones you love. If you're married and especially if you're the breadwinner of the household, your claiming age can have a big impact on the earning potential of your partner if you pass away first.

If, for instance, you had significantly higher lifetime earnings than your partner but claimed Social Security benefits at age 62, your spouse's potential survivor benefit will be permanently reduced, as well. Comparatively, by waiting until your full retirement age to claim Social Security, you're giving your spouse an opportunity to receive a full survivor benefit.

It's time to ask yourself: Is claiming Social Security at full retirement age right for me?

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