

Money Talks

By Kevin Bourke

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I'll be eligible to take social security soon. But I know that the earlier I start, the smaller my check will be. When should I start taking my social security retirement benefits for maximum benefit?

Max in Las Vegas

Dear Max,

Social Security, like most government programs, can be confusing and seemingly contradictory. Thankfully, the [Social Security Administration's Web site](#) is more user-friendly than most government sites, providing brochures, articles and some useful calculators. So, start there, spend some time on the site and you will find many common questions answered.



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Your specific question regarding when to begin receiving social security involves many variables, and each person's circumstances are unique, but let's look at some of the basics.

The nature of your question suggests to me that you really don't need the money now. If you needed the money now, you'd take it, right?

Your first step then will be to get an idea of what your benefits will be. Each year, approximately three months prior to your birthday, the Social Security Administration sends a detailed accounting of your lifetime earnings and an estimate of what you can expect to receive under different scenarios.

If you do not have your social security statement, and do not want to wait until you receive it next

year, you can [visit this site and request one](#). Note that if you request a statement now, you will not receive your next statement automatically.

Now that you have this information in hand, figure out your "break-even age." This is the age at which the dollars received, if taken at age 62, equal the dollars received if taken at a later date.

Let me illustrate: A social security statement might say that a person will receive \$800 per month if Social Security payments begin at 62. However, if postponed until age 70, the payments becomes \$1,300 per month (these numbers are purely hypothetical and do not relate to any specific individual).

Now determine the break-even point. Which for this example is age 82 years and 10 months.

We will ignore the Cost of Living Adjustment (COLA) for the sake of this exercise.

We've done the easy part since this number is easily quantifiable. Now comes the hard part.

We have to start asking questions. How is your health, and that of your spouse? How reliable are your other income streams?

What about taxation? At a relatively low income level, as much as 85 percent of your Social Security income can be taxed. What about taking part time work? Does that appeal to you? How will that affect your cash flow?

Assuming again that you don't need the income to live on, what about taking the Social Security income stream and investing it? Might that make sense? In the scenario offered above, \$800 per month, invested over an eight-year period, earning a hypothetical 5 percent annually would exceed \$94,000, assuming annual compounding (This does not consider taxes, inflation, or the costs of investing which would decrease this figure.) This money would be available to fund other goals after age 70.

Perhaps the toughest question is "How long do you expect to live?" Family longevity is sometimes the only factor that matters to individuals. If the break-even age for you is somewhere in your eighties, do you want to bet on living past that age?

As you can see, there is no one-size-fits-all answer, but by considering these factors, you will be able to make a decision. And remember, even if you decide not to begin payments immediately, you can always change your mind at a later date.

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