

Robert Powell's Retirement Portfolio

How to claim Social Security at the right time

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By [Robert Powell](#)

Some people who take Social Security early are misinformed and impatient



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Many people claim Social Security earlier than the age at which they would receive 100% of what they are entitled to receive. In fact, roughly 50% of all working men claim at age 62, and nearly 70% have

claimed before full retirement age.

And they do so for several reasons, according to Neha Bairoliya, an assistant professor at the University of Southern California and co-author of a recent [paper](#) that examined Social Security claiming decisions.

[Read: Your retirement is years away. Can you count on Social Security?](#)

What are those reasons and what can those entitled to Social Security do to claim their benefits at a more optimal age? There are some legitimate reasons why someone might claim early. Some people might be unemployed and unable to find work again. Some might be in bad health. And still others might just want to kick back and enjoy their grandchildren.

But often, those who claim early are simply misinformed and impatient.

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There's a penalty?

Age matters when claiming Social Security benefits. But many – according to Bairoliya and her coauthor’s research – don’t know that claiming before one’s full retirement age (the age at which someone is entitled to 100% of their benefit) results in a permanently reduced benefit. And for those whom it applies, early claimants receive a permanently reduced spousal benefit.

In fact, Bairoliya and her co-author estimated that 22% of noncollege educated workers and 9% of college graduates believe there is no penalty for claiming Social Security benefits early. “They think that claiming at age 62 is the same as claiming at age 65,” she said.

But there is a penalty, and it can be severe. According to Social Security, a benefit is reduced 5/9 of 1% for each month before full retirement age, up to 36 months. If the number of months exceeds 36, then the benefit is further reduced 5/12 of 1% per month.

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And worst case, those who claim Social Security early at age 62 may find their benefit reduced by as much as 30%. “That’s a very big penalty,” said Bairoliya. “And if you look at the life expectancy in retirement and how long Americans expect to live...and you do a present value calculation based on your life expectancy, it does not make sense to apply a 62 and take this (30%) penalty.”

Rather, in terms of maximizing the present value of your Social Security benefits, it makes sense to delay claiming to age 70.

According to Social Security, starting to receive benefits after full retirement age may result in larger benefits. And because of something called delayed retirement credits, a person can receive his or her largest benefit by claiming at age 70. “What we find is that for most individuals it makes sense to delay claiming Social Security to at least their (full) retirement age,” said Bairoliya. “That’s what common sense tells us.”

[Read: Social Security could be insolvent ‘within 8 years,’ economist warns](#)

Over and underestimating chances of survival

Another reason why some individuals are claiming early? Individuals aren't correctly estimating their longevity, which can vary greatly by marital status, education and income. "All those things go a long way in determining when and how soon you're going to die," she said.

In fact, Bairoliya and her co-author also discovered that college-educated workers are more likely to underestimate their chances of survival at older ages while those without a college degree overestimate their longevity. And given that, many are claiming Social Security at less-than-optimal ages. "We find that some individuals are pessimistic about their mortality, their survival chances," said Bairoliya. "But there is no reason for college graduates to be pessimistic about their mortality."

A recent [study](#), for instance, examined how many years a given 25-year-old could expect to live up until the age of 75. And what the researchers found was this: In 2018, American adults with a bachelor's degree could expect to live 48.2 years out of a possible 50, while those without a college degree could expect to live 45.1 years.

[Read: I'm 62, live in Missouri but work in Florida and have \\$1.8 million — 'have I positioned myself well?'](#)

How to counter the misinformation

To be fair, this trend of people not claiming Social Security at optimal ages has been going on for a long time, long before COVID-19, according to Jason Fichtner, vice president and chief economist of the Bipartisan Policy Center. "Now, with millions of older Americans out of work, many might think about claiming earlier, providing them access to cash now but jeopardizing their retirement security down the road," he said. "Faced with this high-stakes decision of when to claim benefits, it is more important than ever that people understand the consequences of their claiming age on their financial security."

How might one do that?

1. By computing the effects of claiming early or after full retirement age at this Social Security [website](#).

Joe Elsasser, a certified financial planner with Covisum, suggested looking not just at the monthly reduction in benefits but the reduction in the lifetime value of the benefits. "The monthly presentation doesn't 'feel' as significant as the total when it is projected over a lifetime," he said.

Fichtner also said calculating the adverse effect of claiming early is especially important for those without a college degree as well as those with lower lifetime earnings and retirement savings. "They would greatly benefit from delayed claiming and receiving a higher monthly Social Security payment that lasts the rest of their lives," he said.

For the record, the average age at which individuals are claiming Social Security is rising. In 2020, it was 65 for men, up from 64.1 in 2000, according to [Social Security](#). But the data also show that nearly one in four men (23.5%) claimed Social Security early in 2020.

2. By reading Social Security Administration's new brochure, [When to Start Receiving Retirement Benefits](#), which provides valuable information to help people think through when the best time is to claim. "Just getting this two-page information document in front of people could have a major impact on when people claim Social Security retirement benefits – a decision that has major financial implications for the retirement security of millions of Americans," said Fichtner.

3. Social Security could perhaps do a better job of showing would-be beneficiaries how life expectancy varies by gender, marital status, and the like. "If Social Security could show what an average person in this particular category expects to live, maybe this would help people inform themselves about their own mortality as well," Bairoliya said.

4. Experts recommend not using [Social Security's life expectancy calculator](#), which shows the average number of additional years a person can expect to live, based only on the gender and date of birth. In other words, it's the standard life table. At present, men in the U.S. aged 65 can expect to live 18 more years on average while women aged 65 years can expect to live around 20.7 more years on average, according to Statista.

Instead, use a calculator that considers a wide number of factors that could increase or decrease life expectancy, such as current health, lifestyle, and family history. Examples include Some of the best life expectancy calculators include: [Livingto100](#); [Blueprint Income](#); [LifeSpan Calculator from Northwestern Mutual](#); and [John Hancock Life Expectancy Calculator](#).

5. Whatever you do, don't use a break-even calculator. "It is a common place to start when making the claiming age decision to think of the decision in terms of the 'break-even,'" said Heather Schreiber, founder of HLS Retirement Consulting. "In other words, 'how long do I have to live to make waiting and foregoing monthly payments now a better choice than starting earlier, albeit at a reduced rate?'"

The challenge with using break-even as a guidepost exclusively, particularly in the case of married couples, is that the combined life expectancy of the couple is sometimes considered because it may be harder to conceptualize, said Schreiber.

Instead, using a tool like the one found on www.longevityillustrator.org can show the likelihood of a couple of various ages and health histories, living to advanced ages. "The reality is that people tend to underestimate how long they will live and, in so doing, how long they will spend in retirement," she said.

6. Think household. Schreiber also noted the importance of making the Social Security claiming decision a household decision. “Social Security, for most, is the foundation of a solid retirement income plan,” she said. “Making the wrong choice can be disastrous to the longevity of both income and the other assets earmarked for retirement.

This becomes particularly crucial when working with couples in which there is a marked disparity in income benefits.

“The claiming age choice of the higher earner will have lasting effects on the surviving spouse and couples often don’t understand the complexities of Social Security enough to consider the effect of an early/reduced claim on survivor income,” she said. “Even if the higher wage earner has compromised health, it may still make sense to consider waiting until at least full retirement age to file, even to age 70 if possible, and instead, consider having the lower wage earner file earlier to supplement retirement income.”

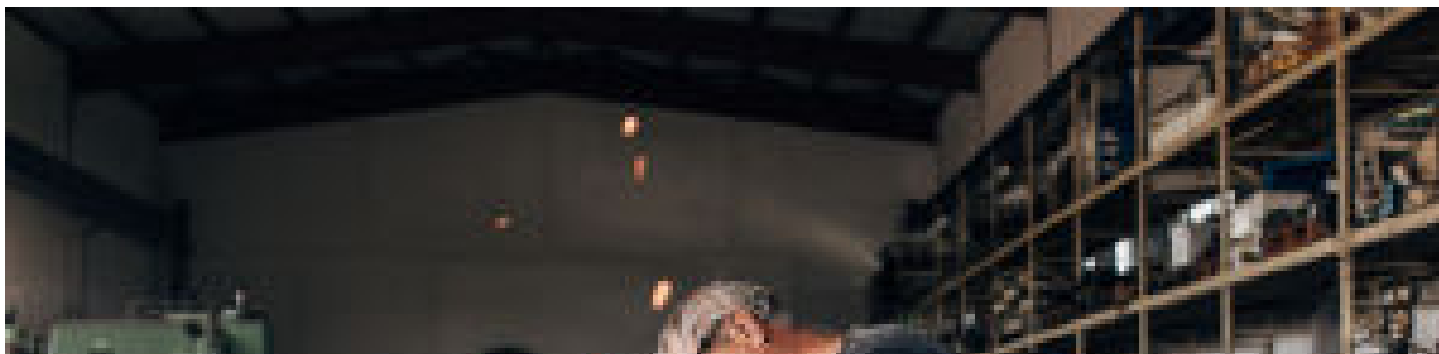
This strategy, Schreiber said, would provide for a modest Social Security income benefit while preserving the higher wage earner’s monthly income for the survivor.

One-size does not fit all

Not everyone is not the same and people have different financial challenges, health, and retirement goals, as well as different marital status, education, and income.

“Some people may benefit from early claiming, such as those in poor health, while others would benefit financially for delaying claiming until age 67 or as late as age 70, especially those who have longer life expectancy,” said Fichtner.

Bairoliya is in complete agreement; “There would still be a small fraction of people for whom it would make sense to claim before their normal retirement age, not 62 though,” she said. “It does not make sense.”





Why I won't wait to take Social Security



Robert Powell

Robert Powell writes about retirement issues. Follow Bob on Twitter: @rjpii.

What is Your Retirement Score?

Age

47

Annual Income ⓘ

\$ 110,000

Retirement Savings to Date ⓘ

\$ 400,000

Monthly Retirement Savings ⓘ

\$ 1,200

Retirement Age ⓘ

65

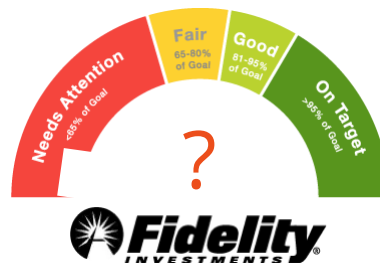
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Growth With I...

60% Stocks 35% Bonds 5% Short-Term ⓘ

Get Your Score

Your Fidelity Retirement ScoreSM ⓘ



We think you'll need about

\$ -----

per month in retirement

You could have about

\$ -----

per month in retirement
(\$ ----- from Social Security)

Methodology

Take the next step

The Planning & Guidance center provides you with a comprehensive view of how much you may need for retirement, a clear view of how you are tracking toward that goal, and different ways you could improve your outlook.