When to Claim Social Security

Nearing retirement age? Then you’re probably wondering when to retire and start claiming Social Security benefits. You’re eligible for Social Security, which is the largest source of income for most retirees, at age 62, but many people wait until later and some even wait until they are nearing 70 to claim their benefits. Retiring early may have its appeal, and in some cases can’t be avoided, but the longer you wait to claim Social Security, the higher your benefits will be.

Choosing when to retire is a personal decision, one in which factors like how long you want to work, how much money you have in savings and your family circumstances have to be considered. Social Security gives almost all Americans a guaranteed, life-long source of retirement security income that keeps pace with inflation. On average, however, Social Security benefits amount to only 40 percent of pre-retirement earnings. This percentage could be more or less depending on your earnings while you worked and at what age you claim Social Security.

But Social Security alone is probably not enough for you to live on in retirement. Any additional money you may need in retirement has to come from personal savings and retirement funds. The good news is that when you retire you might not need as much income as when you worked. That’s because you’ll no longer have to save for retirement, you might not be contributing to Social Security through payroll taxes and if you’re lucky, your mortgage might be paid off or be close to being paid off. Experts say you will need income equal to about 75 percent of your earnings to maintain your current lifestyle in retirement.

Qualifying for Social Security

In order to qualify for Social Security you have to have worked for 10 years or more (it could be as few as 10 years depending on how much you earned in the years you worked) or be married to an eligible worker. The amount of your benefits is based on your 35 years of highest earnings. You can start collecting retirement benefits from Social Security as early as age 62 (the earliest eligibility age), but your benefits will be substantially lower than if you had waited until your full retirement age. The full retirement age is based on the year you were born. For example, if you were born between 1943 and 1954, your retirement age is 66. If you were born between 1955 and 1959, your full retirement age is 66 years and some months depending on the year of your birth, and if you were born in 1960 or later, your full retirement age is 67. Use the government’s Social Security age chart at www.ssa.gov to look up your specific full retirement age. See the AARP tip sheet “Social Security for Married Couples” to better understand eligibility and the claiming decision in two-benefit households.

Claiming Early

Retiring early may be a lifelong dream. But if you haven’t saved enough for retirement and can delay claiming Social Security benefits, you might want to defer the dream for a while longer. That is because you could end up losing as much as 30 percent of your earned benefit by claiming benefits early at the age of 62 instead of at your full retirement age. When you claim benefits before you have reached your full retirement age, your benefit is reduced by a fraction of a percent for each month before
your full retirement age. And for each month that you wait to claim Social Security after your full retirement age, your benefits will increase all the way up to age 70. The key here is that the longer you wait to claim Social Security, the higher your monthly benefit will be for the rest of your life.

Here is a look at the monthly benefits of a person born in 1952, whose full retirement age is 66, and who made $40,000 a year and began to collect benefits at age 62, 66, and 70.

<table>
<thead>
<tr>
<th>Age of Retirement</th>
<th>Monthly Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>62</td>
<td>$900</td>
</tr>
<tr>
<td>66</td>
<td>$1,200</td>
</tr>
<tr>
<td>70</td>
<td>$1,584</td>
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To see how your benefits would be impacted by waiting to retire, visit AARP’s Social Security Benefits Calculator at www.aarp.org/socialsecuritybenefits.

For some, health status or the stress and physical demands of their job, may be simply too much to enable them to postpone retirement beyond age 62. Employment may not be readily available for others who want to work. But for each month and each year you can delay claiming Social Security up to age 70, you will receive a higher benefit for the rest of your life. Choosing to claim benefits early or making a decision to wait is a highly personal choice. No one decision is right for every person. But do make an informed decision.

In addition to your health status, the amount you have saved for retirement, your current economic needs and whether you are able to remain in or find employment, you should also consider the lifestyle you want to have in retirement. Think about your necessary retirement expenses. What portion do you expect Social Security to help cover and what will be covered by other retirement savings? For more than 60 percent of Americans age 65 and over, Social Security provides more than 50 percent of retirement income, and the average monthly retirement benefit received in 2010 was $1,164. Keep in mind that your financial needs in retirement may change as you age. While Social Security benefits do keep up with inflation, a benefit amount that seems adequate when you first retire may not be adequate a few years from now, especially if your health needs change or some of your other retirement income sources run out. Plus, you’ll need money in reserve for medical emergencies, unexpected home repairs and other unplanned expenses.

**Work and Social Security**

You can also continue to work and collect Social Security, but if you are younger than your full retirement age and if your earnings exceed the annual limit of $14,160 in 2011, then $1 in benefits will be deducted for each $2 in earnings above that amount. In the year you reach full retirement age (66 or 67), your annual limit is $37,680 as of 2011, and your benefits will be reduced $1 for every $3 you earn over that limit until the month you reach full retirement age. These benefit reductions are not lost, however. When you reach full retirement age, Social Security automatically recalculates your benefits to account for the benefits you lost while you worked.

After you reach your full retirement age you can earn as much money as you’d like without a reduction to your benefit. For more information on how work can impact your benefit, read the AARP tip sheet, “Social Security and Work.”

**Using Savings for Retirement**

If you retire earlier than your full retirement age, it doesn’t mean you have to start claiming Social Security benefits. For example, you may want to postpone collecting benefits and consider using your savings to fill the gap. By using your savings, and perhaps some combination of part-time work if needed, you will be allowing your Social Security benefit to grow.

Yes, this could mean that your savings will be depleted faster, but waiting to claim means that you are guaranteed a higher benefit that will be paid to you each month for the remainder
of your life. Unlike investments or other retirement savings, your Social Security benefit is guaranteed and lasts a lifetime. In addition, Social Security is inflation proof, which means that as the prices of goods and services increase, so does your benefit.

**Claiming After Full Retirement Age**

Waiting to claim Social Security beyond your full retirement age has its rewards. If you postpone receiving Social Security until after your full retirement age you’ll receive delayed retirement credits, which give you an increase in benefits for each month you wait after your full retirement age. For example if you were born in 1943 or later, you get an 8 percent increase for each year you delay until the age of 70.

Waiting until your full retirement age to claim benefits also has its advantages if you are married. Special rules guarantee the lower earning spouse half of what the higher earner would get at full retirement age (this is called the spousal benefit). But, spousal benefits, like worker benefits, are reduced if claimed before full retirement age.

**Your To Do List:**

- Create a plan to reach your retirement goals, whether it means learning new skills to stay employed longer, saving more money for retirement or possibly downsizing. AARP’s Ready for Retirement? Tools to Achieve Peace of Mind™ can help you get started: www.aarp.org/readyforretirement.
- Estimate how much retirement income you and your family will need and how much of that income needs to be guaranteed. Visit www.aarp.org/retirementcalculator.
- Determine when you would like to start claiming benefits and use AARP’s Social Security Benefits Calculator at www.aarp.org/socialsecuritybenefits to see how your benefits will be affected by different claiming scenarios.
- Contact the Social Security Administration at 1-800-772-1213 or www.ssa.gov when you decide to claim or for additional questions.