

Deciding When to Start Drawing Your Social Security Retirement Benefits

By Marni Walker, CPA

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If you or a loved one's 62nd birthday is just around the bend, first of all, happy birthday! In addition to all the other gifts you or your loved one about to receive on your special day, perhaps the best present of all is that you'll be eligible to start cashing in on your social security retirement benefits – assuming, of course, that you paid into social security during your working years.



However, just because you're eligible to start receiving social security checks at the age of 62 doesn't mean you should. The longer you wait, the bigger your checks. You can start receiving checks when you hit that 62-year milestone; at the age of 65 (the traditional age for retirement); or at 67, which is full retirement age (FRA). You can even delay benefits until as late as age 70 (to receive the maximum benefit) or start collecting benefits anytime along that timespan.

Starting benefits as soon as possible may seem like a good idea, and it may be in the right situation. The catch is, your benefits will be reduced by as much as 30 percent if you don't wait until your full retirement age, which is likely around 67 years and change.

The bottom line is that each person's situation is unique. What's right for one, may not be the

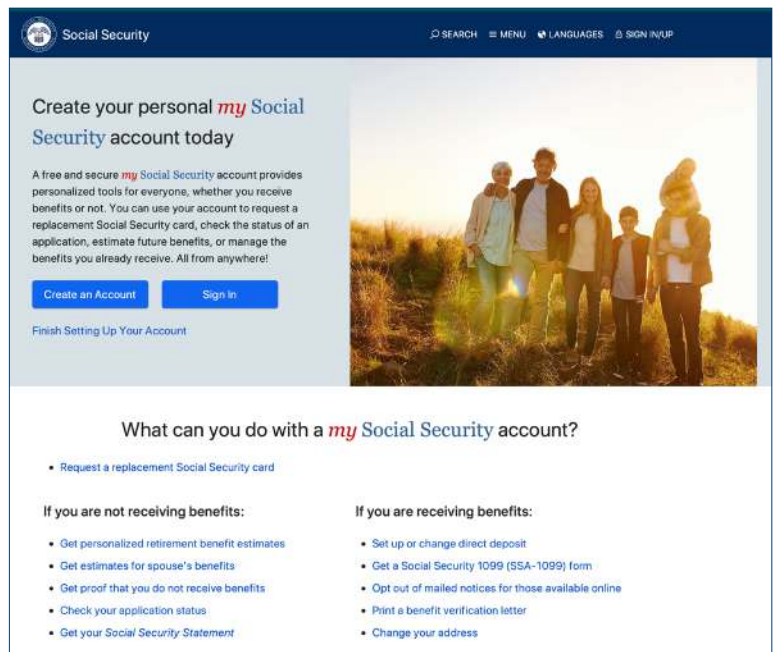
best choice for another. So, what should you do? That's where we come in. The team here at SWC can sit down with you to analyze your situation and help you decide what's best for you and your family.

In this singlette, I explain your options and some of the main factors to consider when deciding the best time to start collecting your social security retirement benefits.

Determining Your Eligibility

First things first. To be eligible to receive social security benefits, you must meet the following criteria:

1. Be a United States citizen or lawfully present alien
2. Be at least 62 years old
3. Have earned at least 40 credits (the equivalent of 10 years working and paying into the system through payroll tax deductions or payment of self-employment tax). The amount of earnings needed to earn a credit is adjusted annually based on national averages; for example, in 2021, workers received one credit for each of \$1,470 of earnings, up to four credits per year.



The best way to determine your eligibility is to review your social security statement online at the [my Social Security](#) website. If this is your first time on the site, you'll need to set up an account. You can then log in to check your earned credits and view estimates of what your future retirement benefits will be. You can also request a copy of your annual statement by visiting a local SSA office or calling (800) 772-1213.

Nine Factors to Consider

The ultimate outcome here is to maximize your retirement benefit. To achieve this, we recommend that you consider the following factors:

1. **How badly you need the money:** If you need the money to live on because you're unemployed or underemployed, you may not have much of a choice. But note that those who take early benefits out of necessity often find themselves in even more desperate straits in later years as they continue to struggle to get by on their permanently reduced benefit.

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2. **Your monthly benefit:** The longer you wait, the bigger your monthly checks (up to the age of 70). Use the Social Security Administration's [*Retirement Estimator*](#) to get a general idea of the monthly payment you can expect to receive depending on when you start collecting benefits. Waiting until your FRA increases your monthly benefit in two ways:
 - You're not penalized for taking payments early.
 - Your cost-of-living adjustments (COLAs) will be based on the larger payments, compounding over time.
3. **Your life expectancy:** Generally, if your life expectancy is less than 12 years after your full retirement age, you're better off taking early, reduced payments. To get a general idea of life expectancy based only on gender and age, use the Social Security Administration's [*Life Expectancy Calculator*](#).
4. **Whether you plan to continue** to work and how much you plan to earn each year. Your work plans can impact your benefits in two ways:
 - If you delay retirement and continue to work and to pay into the system, your benefit is likely to increase. Your retirement benefits are based on your Primary Insurance Amount (PIA), which is a function of your lifetime earnings. PIA is based on your highest earnings during a 35-year calculation period. If you can bump low earning years and replace them with higher earning years, your PIA will increase, which increases your benefits.
 - If you take early retirement and continue to work, you may face a stiff penalty. In pre-FRA years, you lose \$1 of benefits for every \$2 in earnings over the exempt earnings limit (\$18,960 in 2021). In the year you reach FRA, you lose \$1 of benefits for every \$3 in earnings over \$50,520 (in 2021) for the months prior to the month you reach full retirement age. After you reach FRA, your benefits aren't reduced no matter how much you earn.
5. **Whether you plan to spend or invest** the benefits you receive.
6. **Whether you need to continue to work for health insurance.** Although you can start to receive social security retirement benefits at 62, you won't be eligible for Medicare until you reach the age of 65.
7. **Whether you have other tax-deferred accounts:** Drawing early social security benefits may allow you to leave tax-deferred retirement accounts untouched and growing for longer periods.
8. **Whether you have minor dependents:** If you have dependents under age 18, they may be eligible for benefits if you're receiving social security benefits.

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9. **The effect on your spouse:** Choosing to start receiving social security benefits before reaching full retirement age may also affect your spouse's benefits. A spouse, who is not fully insured and who waits until his or her full retirement age, is eligible to receive 50 percent of the worker spouse's retirement benefit.

Deciding When to Begin Collecting Your Benefits

Deciding when to begin collecting retirement benefits is no easy feat, and you don't get a second chance. Make the wrong decision, and you could be leaving money on the table for years to come. Your primary considerations are how badly you'll need the money when you reach the age of 62 and how long you think you'll live, but a number of other factors can influence your decision.

As your tax planning and tax-smart financial strategy firm, nobody's in a better position to help you meet this challenge than we are here at SWC. My team and I understand your overall financial situation and can help you decide what's best for you and your loved ones. Please [contact us](#) to help walk you through how the various Social Security-related scenarios might play out for you or your loved ones.

About the Author: *Marni Walker, CPA, is a founding partner of SWC — an independently owned tax planning and financial strategy advisory firm for small-business owners, real estate investors, and high-net-worth individuals. With a background in accounting and banking and a focus on analyzing new and proposed tax laws and regulations, Marni is SWC's leader for accountant education, tax procedure, and legacy planning.*

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