

RETIREMENT

Social Security: Take Benefits Early—Before It Goes Broke?

Is Social Security doomed as some 10,000 Baby Boomers become eligible for benefits per day, slowly draining the system dry? And if so, should you take your benefits as early as possible (age 62 for most people) to ensure getting a full payout?

Social Security Isn't Going Away

Yes, the Social Security system is being strained by an aging population, lower birth rates, and increased longevity. For the first time in decades, the reserves underpinning the system may well need to be tapped next year—and every year thereafter. If so, those reserves may be depleted by 2034.

But even if the reserves are emptied, FICA tax payments will continue to funnel into Social Security, which should fund 75-80% of future benefits. And Congress would almost surely step in before that point and restore solvency to the system. Their options are many, and they've done it before. In 1983, for example, they raised the "Full Retirement Age" (FRA) a bit—the age, which varies by birth year, when recipients are entitled to their full benefits—and they began taxing a portion of the benefits for recipients above certain income levels. There are no guarantees, but we agree with the policy analyst at a prominent think tank who said, "Even if it comes down to the eleventh hour, they'd fix it."

Not everyone is so sanguine, though. According to a recent Transamerica survey, 80% of millennials worry that Social Security won't be around for them—and apparently most Gen Xers feel the same way. Many baby boomers tend to be of the opposite, similarly extreme, mindset. One survey suggests that 45% of the cohort have saved \$0 for retirement and may be depending wholly on Social Security.

When Should I Take My Benefits?

If Social Security isn't disappearing, when should you start claiming benefits?

- The rule of thumb is to postpone taking payments as long as possible, since for every year you wait between ages 62 and 70, your monthly check will increase. If you were born between 1943 and 1954 inclusive and start benefits at 62, you'll get 25% less than if you began at your full retirement age (FRA) of 66. After 66, you'll earn "credits" of 8% per year until you reach 70, when

your benefits stop growing. So if you were entitled to a monthly benefit of \$1,000 at your FRA, you would actually receive between \$750 and \$1,320, depending on when you drew the first check.

- Postponing benefits can make sense if you're still working or have sufficient retirement income from other sources, if you expect a long life, or if you're trying to maximize the survival benefit for your spouse. (Spousal benefits are complicated; see an advisor.)



Is time running out?

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- On the other hand, starting payments early may be necessary if your other income is inadequate, or advisable if you're in poor health, because ...
- ... it takes time for the total amount from larger payments that started later to surpass smaller payments that began accumulating earlier. It can take until your mid-80s for postponing to come out ahead—which isn't unreasonable, since so many of us are living into our 90s.
- Starting benefits at any age between 62 and 70 can be optimal for you, depending on your needs and wants.

The Bottom Line

In our view, Social Security isn't going anywhere. The worst case is that benefits may be reduced 15 or 20 years in the future, and it's worth preparing for that unlikely possibility. Also, remember that Social Security is a complex system; at People's United we're prepared to help you navigate the waters.

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