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The Savvy Investor

Social Security Penalty for Starting Benefits Early

Starting Early

You can start Social Security before your Full Retirement Age (FRA) but you will incur a penalty on the amount received. How much is the penalty? The penalty increases for each month you start early; and it depends on what year you were born. If you were born between 1943 and 1954 and start your benefits at age 62, the earliest possible age, your retirement benefits are reduced 25%.

If you delay claiming Social Security past your FRA of 66, your Social Security benefits increase 8% per year until age 70. The four year delay increases your benefits 32%. There is no benefit in postponing Social Security past age 70.

Look at the Advantage

Rather than looking at the *penalty* for starting Social Security early, you can look at the advantage gained by delaying starting Social Security past age 62 and also your FRA.

You increase your retirement benefits almost equally for every year you delay claiming Social Security, regardless of whether it is before or after your FRA. In fact, you gain 33% by deferring your benefits in the four years between ages 62 and 66. And you gain an almost equal amount of 32% by postponing benefits for four years past your FRA until age 70.

Without going into the details here, there are other advantages in waiting until your FRA to claim retirement benefits. The greatest one is that if you are married, it gives you additional flexibility to develop more complex strategies to maximize your benefits for life.

Bottom Line

When should you start your benefits? It's a complex topic and as you know depends on how long you and your spouse will live. Unfortunately, my birth certificate didn't come with an expiration date and probably yours didn't either.

We specialize in helping people plan and invest for retirement