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Social Security and Retirement Rolly Reed, H&S Companies

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Thinking about early retirement? Government data suggests you're not alone. According to surveys of people aged 55 and older, nearly three million Americans are considering early retirement as a result of the COVID pandemic.

For many, this means collecting Social Security benefits before reaching full retirement age of 66 or 67, depending on their year of birth. Although this might be an easy decision for those with significant retirement savings, many others must seriously consider the impact of a permanent reduction in monthly benefits as a result of collecting early.

If you begin collecting Social Security at age 62, your monthly benefit will be 25-30% less than it would be at full retirement age. However, despite the drawback of a reduced monthly benefit, you could receive more total lifetime benefits as a result of the additional checks received from collecting early.

For example, if you were born in 1960 or later, your full retirement age is 67. If your monthly benefit at full retirement age is estimated to be \$1,000, drawing early at age 62 would reduce your monthly benefit to \$700. If you waited until full retirement age to begin collecting the \$1,000 monthly benefit, it would take around 12 years to reach the break-even point and make up for the additional payments you would have received had you begun collecting the reduced monthly benefit of \$700 at age 62.

Is it better to take reduced benefits at age 62 or full benefits later? The answer depends, in part, on how long you live. Generally, those living past 78-79 years of age will receive more total lifetime benefits by waiting until full retirement age to begin collecting. However, unless you're able to invest your benefits rather than use them for living expenses, your break-even age is probably not the most important part of the equation.

For many people, what really counts is how much they'll receive each month, rather than how much they'll accumulate over many years.

Another key factor in your decision is whether or not you plan to continue working after you start collecting Social Security benefits at age 62. That's because income you earn before full retirement age may reduce your Social Security retirement benefit.

Specifically, if you are under full retirement age for the entire year, \$1 in benefits will be withheld for every \$2 you earn over the annual earnings limit (\$18,960 in 2021). In the year you reach full retirement age, \$1 in benefits will be withheld for every \$3 you earn over the annual earnings limit (\$50,520 in 2021).

In addition to the factors discussed here, other considerations may influence whether you start collecting Social Security benefits at age 62. How do other sources of retirement income factor in? Are you married? How will your income taxes be affected? Every person's situation is unique so consult a CPA or financial advisor and make sure you're asking the right questions.