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Should You Take Social Security Early and Invest Your Checks?

What's the best way to maximize your Social Security benefit? While the answer may vary based on your needs, life expectancy and other factors, waiting until age 70 will result in the highest monthly payment.

But some might wonder: Could I come out ahead by claiming Social Security at age 62—the youngest age benefits can be claimed—and investing the money?

It's an intriguing idea, but a number of variables can make this goal difficult to achieve. The underlying decision of when to claim Social Security will affect your finances for the rest of your life, so it's well worth getting it right.

How Social Security Timing Works

The longer you wait to claim Social Security, up to the maximum age of 70, the larger your checks will be. For example, a 56-year-old single person born in October 1967 who is earning $200,000 a year will be entitled to a monthly check of $2,794 if he starts drawing benefits at age 62, according to AARP.[1]

If he waits until full retirement age, which is 67 for most people, his monthly check will be $3,992; by age 70, it will be $4,950.[2] There are legitimate reasons to start taking Social Security before age 70—it can make sense if you have a shorter life expectancy, for instance. However, if you can wait, your monthly check amount will increase 8% for every year between full retirement age and age 70. Not only will your checks be significantly larger, but Social Security's periodic cost-of-living increases also will translate into more dollars in each check.

It's important to note that waiting until age 70 to claim Social Security is just one claiming strategy, and it may not be the right one for you. The success of this strategy and others is largely dependent on your life expectancy. For example, one could claim benefits at age 62 and earn substantially more over their lifetime than they would if they claimed at age 70 and died prior to the breakeven point.

Trying to "Beat" Social Security

But let's look at a hypothetical scenario that illustrates how "beating" Social Security by claiming early and investing could be difficult. We'll assume the two fictional individuals below are both likely to live until at least age 90.

The first person, "Retiree A," claims his benefit at age 62 and invests his $2,794 check each month. If his investments return a steady 8% annually, he'll have an impressive $361,796 after eight years.[*]

That's an impressive total, but over time, drawing a bigger Social Security check could be more lucrative. Let's say "Retiree B" waits until age 70 to claim her benefits. Her monthly checks are $2,156 larger, which translates into a $25,872 edge over Retiree A each year.[3] This means that Retiree A's $361,796 advantage will disappear within 13 years. By age 90, Retiree A would trail Retiree B by $181,104.

What Could Go Wrong

But Retiree A's outcome would be worse if he gives in to the human predilection to spend rather than save. If he fails to invest each Social Security check or dips into his investment account now and then, his compounding power will decline and his earnings will suffer. In addition, Retiree A's ending balance of $361,796 assumes that his investments earn exactly 8% each year for eight straight years. In reality, a down year or two could result in a much lower ending balance.

It's also important to note that many individuals are uncomfortable investing retirement money as aggressively as is required to come out ahead: They know that more aggressive portfolios can also be more volatile with more risk. Those who do invest aggressively may lose their nerve and sell their investments when they dip in value—locking in losses and hurting their chances of success.

Making a Thoughtful Decision

Again, waiting until age 70 to claim Social Security may or may not be the right strategy for you. If you're tempted to try to come out ahead by starting benefits at age 62 and investing them, just keep in mind that there's no guarantee of success and a number of variables that could make it difficult to achieve that goal. Your wealth advisor can help you decide which Social Security claiming strategy is best for you based on your unique situation and goals.

For more information visit: **mariner.com**

[1-3]"AARP Social Security Calculator"

[*]The hypothetical example is provided for illustrative purposes only and it is not intended to be representative of any actual results or any specific investment, which will fluctuate in value. The determinations made by this example are based on varies assumptions. No taxes, fees or expenses are included in the calculations, which would reduce the figures shown. Please keep in mind that it is possible to lose money by investing, and actual results will vary.