Don't rush to collect Social Security benefits

Baltimore Business Journal
Feb 26, 2015, 6:33pm EST

Social Security benefits are an essential part of most people's comprehensive financial plan to fund retirement.

One common misconception is a belief that the staff at the Social Security Administration will help you determine the best-possible financial strategy for you and your family. Unfortunately, this is not in their realm of responsibilities. Their role is to process your paperwork. I cannot stress enough the importance of doing your homework — and visiting with a financial expert — before you sign on the dotted line at the Social Security Administration office.

What few people know is this simple fact: the decision to start receiving or defer Social Security benefits is one of the biggest decisions a person can make as part of a comprehensive financial plan. The choice could build — or reduce — your retirement funds by hundreds of thousands of dollars over time.

Marylanders can start to collect Social Security as early as age 62; at your full retirement age, which depends on when you were born; or as late as age 70. Many people find it enticing to take Social Security as soon as possible. But as I tell anyone who is considering this move, there may be financial advantages to waiting.

Every year you defer your benefits past your full retirement age, your benefit increases by 8% each year until age 70. This so-called "delayed credit" can help boost your retirement income over time.

What's the financial impact? I have two clients, both age 66, who were thinking about claiming Social Security benefits. He is a dentist and she is an administrative lead at the office. We ran the numbers. If they filed now at age 66, their combined benefit would've been about $4,600 per month. If they defer until age 70, their monthly benefit would total more than $6,072.

How many of us wish we had an extra $1,500 every month during our retirement years? Think of the family vacations, bucket list wishes and charitable gifts — and of course, health care costs – that could be funded with that kind of income.

Another common strategy that couples often consider is called "Apply and Suspend."

Coincidentally, it's the approach my two clients mentioned above chose. In their case, the husband was the primary wage earner and had reached his full retirement age. He applied for his Social Security benefits, but suspended them as well. Why, you ask, would he do that? Because the "apply and suspend" strategy enabled his wife to take her husband's "spousal benefits" (Social Security benefits that a spouse is entitled to) instead of applying to receive her own benefits. In doing so, some Social Security benefits start flowing in the door – even while they're both still deferring, and growing, their own benefits 8 percent per year until age 70.

The goal is to maximize retirement income as much as possible as part of a financial plan. But of course, there's no one-size-fits-all financial solution for any of us. If you need your payments to start before age 70 to fund your lifestyle, health care needs or other priority, don't wait.

But if you can, it literally pays to defer your Social Security payments. Take a moment to consider those financial rewards.

Howard D. "Buddy" Goldman III is a Northwestern Mutual Wealth Management advisor in Baltimore. He can be reached at buddy.goldman@nm.com.