

Taking Social Security before Full Retirement Age – the Problems & the Solutions

There are multiple reasons why you might want to retire before what social security considers your full retirement age and before you are eligible for Medicare at age 65, but, unless you must retire early, it is generally not a good strategy.

If you're male and retire at age 65, you're likely to live another 21 years, and it's likely that you will need enough money to last 30 years or more. Women are likely to live to age 93 or older and 10% will live beyond age 97. You can gamble that you won't live that long, but you could find yourself impoverished at a time when you're too old and frail to go back to work.

Medicare is not available until you turn 65 - if you retire early, you cannot be covered by Medicare until age 65, so unless you have private medical insurance or health insurance provided through your ex-employer, you are responsible for providing your own health insurance and/or paying for any medical expenses yourself. Don't forget that COBRA benefits are only allowed for 18 months and you are responsible for paying the premiums.

Reduced social security benefits - if you retire as early as age 62, you're locking in a permanent almost 30% lifetime reduction in the amount of your social security benefit. If your spouse is drawing social security benefits based upon your benefit, the spousal benefit is also permanently reduced.

Annual social security inflation adjustments – most years there is an inflation-adjusted increase in social security benefits (COLAs). If you begin collecting your social security early, you're giving up 25% to 33% in additional inflation-adjusted benefits.

One of you dies - if you are married and one of you dies, one of the monthly social security checks stops. The continuing benefit paid to whoever survives is limited to the greater of your social security benefit or your spouse's benefit, but not both. If you retired on a limited budget, that's a pretty significant decrease in monthly income.

Possible Solutions -

If you can, work longer. You have more years to save for retirement, contribute to your 401(k), other retirement plans, or in non-retirement accounts, and you'll have a shorter period of time that you're using your money to support yourself in retirement.

If you can, do not begin taking social security until you're full retirement age. For most of us, that's age 66. For each year you wait beyond age 66, your benefit will increase approximately 8% until age 70.

With the exception of Roth IRAs that grow tax-free, don't forget that you'll pay income tax on every dollar you withdraw from your retirement account. That means there's less you to spend.

If you can, pare down your lifestyle. If you can live on less, spend less. Downsize your house or perhaps you can make do with just one car or no cable.