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SOCIAL SECURITY ADVISOR

Social Security Planning for Retirement

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Crunching the Claiming Numbers, Year by Year

Calculating how much a senior approaching retirement stands to increase retirement benefits by waiting beyond the earliest claiming age of 62 might seem straightforward.

Example 1: Ronan, born in 1960, has a full retirement age (FRA) of 67, when his monthly retirement benefit is now expected to be \$2,000. Starting at age 62, he would get a 30% reduction, to \$1,400 a month.

Okay. *The 5-year head start generates a 30% drop, so that would be 6% (\$120 a month, 6% of \$2,000) for each year of delay? Five times 6% = 30%. Right? No. Not at all.*

First, SSA throws us a curve ball. From 62 to 63 and 63 to 64, Ronan's annual increases are \$100 a month, up to \$1,600 after two years. Then, the jumps to ages 65, 66, and 67 are each 6.7%, or \$133 a month. *What the heck?*

The SSA apparently believes that using a uniformly increasing formula would make life too easy. Instead, the mathematical acumen required to calculate the reduction for claiming prior to FRA or the balancing increase for delaying beyond FRA requires a careful approach to the timing decision. It is true that delaying Social Security, month-by-month, will increase retirement benefits. However, there are quirks in the calculation, so not all increases are created equal.

The 36-Month Separation

Indeed, even Ronan's \$100 monthly increases to age 63 and again to age 64 are not really equal, because \$100 added to \$1,400 is a greater boost than \$100 added to \$1,500, percentage wise. The same is true of the \$133 monthly increases added at ages 65, 66, and 67. *How does this all come to pass?*

Under the SSA rules, in the case of a pre-FRA retirement, a worker's monthly benefit is reduced by $\frac{5}{9}$ (0.55) of 1% for each month a claim is made up to 36 months early. For each month that the benefit is claimed more than 36 months prior to the worker's FRA, the benefit is further reduced by $\frac{1}{12}$ (0.4166) of 1%.

How does this translate to playing the percentages in terms of navigating the timing of a claim? Essentially, the reduction is lower earlier in the countdown and greater closer to FRA, so there is more of a payout with a later claim.

As previously mentioned, Ronan's FRA is 67. Filing at age 62 means a 30% reduction from his FRA benefit (known as his primary insurance amount, or PIA), from \$2,000 to \$1,400, for the rest of his life. If Ronan waits one year and instead claims at age 63, the reduction goes from 30% to 25%, with a monthly income

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