



FINANCIAL ADVISORY

You Should Take Your Social Security Distributions as Soon as You Can

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I received my Social Security Statement today and learned that I am eligible to start receiving monthly social security checks at age 62. If I wait until age 70 to start getting checks, however, my checks will be 79% larger.

As an investment advisor, I am well aware of the first law of the time value of money: Cash flows coming sooner are more valuable than those coming later. Also, I have been subsidizing retirees all my life with social security withdrawals from my earnings and am eager to start seeing some benefit for myself.

I have already decided that I'm taking the money as soon as I can. Is this a wise financial decision? I created an Excel spreadsheet, did some research, and did some calculations to evaluate the situation. This month, we will review my findings.

WHAT KIND OF BENEFIT CAN I EXPECT?

According to the Social Security Administration, in December of 2023, the average monthly check for a benefit recipient was \$1,767. That's not enough to live on here in Southern California, but it is certainly a nice boost: everyone would like an extra \$1,700 per month.

For my calculations, I've chosen a sample investor who was born in 1964 and is 60 years old. If he begins taking his social security benefits in at 62 in 2026, he will receive \$1,400 monthly. If he waits until age 63, he'll receive \$1,500. Receiving nothing until 64 will get him \$1,600, \$1,720 at 65 and \$1,850 at 66. The Social Security Administration calls 67 "full retirement age," and he would start at \$2,000 monthly then. As an incentive to wait longer, our investor is offered \$2,120 at 68, \$2,280 at 69, or \$2,470 at age 70 – the age when he MUST begin taking distributions.

Remember that an extra \$1,000 per month sounds nice, but that you'll need to give up 8 years of monthly checks to get there. During those 8 years, your monthly checks will increase annually as well.

ANNUAL CPI INCREASES FOR SOCIAL SECURITY BENEFITS

Back in 1975, Social Security began applying annual cost-of-living (or COLA) adjustments to benefit checks. These COLA adjustments aren't as large as I expected: Since 1975, they have averaged 3.8% annually. The average increase between 2000 and 2020 was 2.1%, and 2021 to 2023 saw a 5.9% average. For my calculations, I have used the historical average of 3.8%.

These annual increases are very important in our calculations: If I start taking my distributions at 62, my amount will very likely rise every year. This will decrease any benefit we see from waiting longer for a bigger payout. For example: payments beginning at \$1,400 at age 62, escalated by 3.8% annually, will become \$1,566 by age 65. If our investor waited until then to begin payments, he'd be receiving \$1,720 per month. Was the three-year wait worth the extra \$154 / mo. of income? I don't think so – particularly as he has missed out on \$52,300 of income in the three years he was waiting.

The opportunity cost of waiting for higher distributions is a lot of missed income. If our investor waits until age 70, he can collect \$2,470 per month: over \$1,000 per month more than if he began 8 years prior. The 8 years of income he has missed, however, would total \$153,700!

THE BREAK EVEN POINTS FROM WAITING MAY BE LATER THAN YOU THINK

A retiree waiting until 70 for that higher payment may

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do so because he feels that he'll earn more income by living longer and collecting the higher amount. This could be true, but he may find that it is taking longer than expected. If our senior delays receiving his benefits until age 70, he will reach the break even point of \$680,000 total benefits during his 86th year. According to the Brookings Institute, college-educated Americans have a life expectancy of 83 years. I would argue that this applies to my readers, since the term "college-educated" is more a measure of wealth than a measure of time spent in classrooms. Therefore – age 86 is certainly a possibility for us. We did not, however, seek to "break even" as investors – so we wouldn't want to on social security either. By age 95, our collections from 33 years of social security would total \$1,129,110 if we began at age 62 and \$1,276,960 at 70. A total of \$147,000 extra after 25 years (\$5,880 per year) really isn't a substantial amount.

WHAT IS THE NET PRESENT VALUE OF THESE CASH FLOWS?

My "you should take Social Security as soon as you can" closing argument hinges on the Net Present Value calculation. The Net Present Value is a financial metric that allows us to value a series of cash flows by using a "discount rate." The discount rate should be the long-term return that you expect on your investments. I like to plan conservatively, so first I'll run the numbers using an 8% return.

If our investor is 62 today, the Net Present Value of his distributions to 80 years old is \$211,740 if he starts taking distributions today, \$174,220 if he starts at 67 and \$134,814 if he starts at age 70. At age 90, the numbers are \$273,382, \$238,795 and \$215,514. At 100, they are \$314,841, \$291,580 and \$269,789.

The NPV Values are higher in each case if our investor begins his distributions at 62. This tells us what I already suspected: a series of cash flows – even if it is a smaller amount - is more valuable if there are more cash flows and if they begin sooner.

If an investor gets 12% consistently from his investments, then a series of cash flows is worth even more to them the sooner it starts. At age 62, the cash flows to 80 years of age would be worth \$156,561 if he starts taking distributions today, \$117,056 if he starts at 67 and \$82,734 if he starts at age 70.

TAKE THE MONEY AS SOON AS YOU CAN!

In conclusion, the time value of money concept shows us that it is best to start receiving social security distributions as soon as you are eligible. Why wait until you are 70 for an extra \$580 per month? The government has been taking money from your paychecks and giving it directly to seniors for your entire life. You should start enjoying those benefits as soon as possible. My office number is (877) 313-1868.



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