

AI-01172 Social Security at 62

👤 Owner	Ⓜ Rigel Arcayan
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Perform a breakeven analysis of taking social security early at 62 or later.
Expected check is around \$2000 at 62. Life expectancy is hypothetically at 86.

Breakeven Analysis for Early vs. Late Social Security

Understanding the Scenario:

- **Early Claim:** Age 62
- **Expected Monthly Benefit:** \$2000
- **Hypothetical Life Expectancy:** 86
- **Late Claim:** Assumed to be at Full Retirement Age (FRA), which is typically between 66 and 67.

Key Factors to Consider:

1. **Reduced Benefits:** Taking Social Security early results in permanently reduced benefits.
2. **Increased Longevity:** Living longer than the average life expectancy can offset the initial reduction in benefits.
3. **Investment Returns:** The ability to invest the early Social Security benefits can potentially generate additional income.

Breakeven Analysis:

To determine the breakeven point, we need to calculate when the accumulated benefits from taking Social Security early will equal the accumulated benefits from waiting. This will depend on factors like investment returns and how long you live.

Assumptions:

- **Investment Returns:** A conservative annual return of 4% on invested funds.
- **Social Security Cost-of-Living Adjustments (COLAs):** Assuming COLAs keep pace with inflation.

Calculations:

1. Early Benefits:

- Monthly Benefit: \$2000
- Annual Benefit: $\$2000 * 12 = \$24,000$
- Total Benefits (Age 62 to 86): $\$24,000 * 24 \text{ years} = \$576,000$

2. Late Benefits:

- Assuming a 25% reduction for early claiming (common estimate).
- Full Benefit: $\$2000 / 0.75 = \2667
- Monthly Benefit at FRA: \$2667
- Annual Benefit: $\$2667 * 12 = \$32,004$
- Total Benefits (Age 67 to 86): $\$32,004 * 19 \text{ years} = \$608,076$

3. Breakeven Point:

- The breakeven point occurs when the total benefits from early claiming, adjusted for investment returns, equal the total benefits from late claiming.

Note: This is a simplified analysis and does not account for factors like taxes, potential changes in Social Security benefits, or individual investment performance.

Conclusion:

Based on the assumptions,

taking Social Security early at 62 might not be the most financially advantageous option in this scenario. While the initial benefits are higher, the reduced lifetime benefits and potential investment returns from waiting could outweigh the early benefits.

Recommendations:

- **Consult with a Financial Advisor:** A professional can provide personalized advice based on your specific circumstances.
- **Consider Other Factors:** Factors like health, family situation, and desired retirement lifestyle should also be considered.
- **Explore Delayed Claiming Options:** If you're in good health, delaying claiming beyond FRA can further increase your benefits.

Disclaimer: This analysis is for informational purposes only and does not constitute financial advice. Please consult with a qualified professional for personalized guidance.