Should You Take Social Security at 62?

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If you can wait a few years or more, you can boost your benefits—and your spouse's.

Taking Social Security as soon as you're eligible is tempting. After all, you've likely been paying taxes into the system for your entire working life, and you're ready to get your benefits. Plus, you would get a boost from the guaranteed monthly income.

But there's a trade-off. Claiming your retirement benefit when you turn 62 can be a pretty costly decision. Some of the costs are associated with the rules of the program and others with retirement planning in general, so it's important to understand them fully.

If you can afford it, waiting is often the better option. Ideally, you want to evaluate your decision on when to take Social Security based on how much you've saved for retirement and your other sources of income. While most people would benefit from waiting to, say, age 67, to take payments, others could risk running out of money too soon and may have fewer options.

The costs of taking Social Security early

For starters, you'll forfeit future increases in your monthly income if you take Social Security early. Suppose you're 62 and eligible for $1,200 per month. If you wait until your full retirement age (FRA) of 66 to start claiming benefits, that amount will rise 33% to approximately $1,600 per month. Claiming at 62 reduces your benefit approximately 25% below your FRA amount. If you delay taking benefits until you are 70, your benefits will jump another 32% to $2,112 per month. Plus, your annual cost-of-living adjustment (COLA) is based on your benefit. If you begin Social Security at 62, your COLA will be lower too.

If you plan to claim benefits based on your spouse's work record, you'll lose even more by taking benefits before you are 66. The benefit reduction is greater for a spouse—30% instead of 25%. For instance, if you're the spouse of the person in the above example, you'd be eligible for only $560 a month at age 62, which is 30% less than the $800 a month you would get at your FRA of 66.

Your decision to take benefits early will live on even if you don't. If you die, your spouse is eligible to receive your monthly amount as a survivor benefit (if it's higher than his or her own amount). But if you take your benefits early, those payments will be less than they could have been for the remainder of your spouse's lifetime.

If you take Social Security early, you'll also lose the opportunity to pursue a few sophisticated strategies that could be valuable to your retirement planning. They're only available if you wait until your FRA of 66 to claim benefits. For instance, under an option often referred to as "claim and suspend,"[1] you can claim Social Security at your FRA, but suspend actual payments until a later date.

That way, your husband or wife can draw spousal benefits immediately, while you continue working and the value of your future benefits keeps rising. This technique is especially useful if your benefits are higher than your spouse's (because you're older and/or a higher earner), and you're not ready to retire yet but your spouse is. If your wife, for example, won't qualify for substantial benefits on her own, and she is younger than full retirement age, she can still collect spousal benefits while yours are suspended—but only if you have reached FRA. Meanwhile, your future benefits continue to grow.

Another option, often referred to as "claim now, claim more later,"[1] lets you claim spousal benefits now and then switch to your own benefit later. This strategy lets you keep building up delayed retirement credits of your own while you receive payments based on your spouse's work history. This may be appealing to couples who both want to retire. Instead of the husband and wife each claiming their own benefits, though, the person with the lower benefit (let's say it's the wife) starts collecting Social Security, and her husband claims spousal benefits—allowing his higher benefits to continue to grow. Again, you can only use this strategy if you wait until you've reached the FRA of 66 to claim your benefits.

Broader costs to your retirement plan

It's natural to want to retire as soon as you can, but it's crucial to consider the earning and investing power you may give up if you stop working full-time to take Social Security at age 62. Most obviously, if you leave a job with good pay and benefits, it may be difficult to ever regain that level of compensation if you need to return to work later.

And while you are eligible for reduced Social Security benefits at 62, you won't be eligible for Medicare until age 65, so you will probably have to pay for private health insurance in the meantime. That can eat up a large chunk of your Social Security payments: The average yearly cost of health insurance for a 62-year-old individual is $9,825, and prices have been rising much faster than inflation or Social Security COLAs.[2] Why cut your benefits permanently just to pay for health insurance?

But there's even more to the story. As you approach retirement, you're often at the peak of your earnings, and of your ability to build retirement savings. Keep working, and you can make "catch-up contributions" to tax-deferred workplace savings plans. Catch-up contributions allow you to set aside larger amounts of money for retirement. For example, the limit on pretax contributions to 401(k) plans is $17,000 in 2012, and $17,500 in 2013, but if you are 50 or older, you can invest an additional $5,500 each year. Note: These amounts are subject to cost-of-living adjustments.

Moreover, if you stay on the job past age 62 your Social Security retirement benefits will increase each year, up to age 70. Delaying retirement for even a few years can substantially increase the size of your retirement savings and at the same time increase your Social Security income. Both of these factors combine to increase the chances for a successful retirement plan. Conversely, if you stop working at 62, you will stop tax-advantaged saving opportunities and cap your Social Security benefits. You may begin to draw down your savings earlier.

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When cash is available, it's always alluring to take the money and run. But when it comes to Social Security, this can indeed be a very costly decision. Draw benefits as soon as you can, and you will permanently reduce payments to you and your spouse and lose the chance to keep saving and planning as advantageously as possible. It's often better to wait, and to tap other savings if you need to. Then Social Security can fund the largest possible portion of your retirement for the rest of your life.

Next steps

Get more information from the Social Security Administration.

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1. Center for Retirement Research at Boston College, "Unusual Social Security Claiming Strategies: Costs and Distributional Effects," August 2009.

2. Fidelity Consulting Study with H&W Consulting, June 2010.

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