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The Right Time To Claim Your Social Security Benefit

Some decisions may seem insignificant but they could cost you in the long run, says Andrea Solana

US Social Security and UK State Pension benefits often provide a foundational source of retirement income. The ability to receive benefits during retirement will generally depend on an individual's earning patterns meeting the qualification rules in the requisite countries. A fundamental first step is to understand the basic principles of the US Social Security and UK State Pension systems for a US-UK connected individual; we previously looked at this in *The American* [visit www.theamerican.co.uk, go to the Library then click on March-April 2019].

Once you understand what your benefit entitlement may look like, it is also important to consider the timing for collecting your social security income and determine how it will factor into your broader retirement planning.

There are decisions as to when it is best to begin collecting Social Security benefits and it is important to think about maximizing the benefit for your own individual situation. Some decisions may seem relatively insignificant, but they may cost a material amount over time. To help assess the appropriate time, ask yourself these questions.

Q: What is the underlying purpose for your Social Security benefit?

Before deciding on the appropriate time to begin collecting benefits, you should give some thought as to the goal that your Social Security income will serve for your retirement and legacy planning. For example, are you primarily trying to maximize your own individual income or is it more important to maximize income for the family? Are you trying to maximize income for your spouse in the event of your death? Alternatively, you may wish to maximize leaving as many assets as possible following your death versus maximizing an income stream. There is no right or wrong answer, however it is important to have a clear idea on priorities.

Q: How can your benefit change based on when you begin collecting Social Security?

Under current law, the State Pension age in the UK is currently age 66 with it set to increase to age 67 by 2028 and age 68 by 2046. Proposals have indicated the desire to bring the age 68 date forward from 2046 up to 2039[1]. Once you reach State Pension age, you are entitled to collect your full benefit regardless of whether you continue to work and have employment earnings.

It should be noted that you can choose to defer the start of your payments. Your State Pension increases by 1% for every 9 weeks that you defer. This would amount to just under 5.8% for every year that the payments are delayed[2].

In the US, the current Full Retirement Age (FRA), or age that an individual is entitled to collect full benefits, ranges between age 66 and 67 depending on date of birth. The US does allow benefits to begin to be collected as early as age 62 albeit at a reduced rate of up to 30%[3]. It should also be noted that if you choose to begin collecting your US Social Security benefit before reaching FRA but continue to work, your benefit may be reduced based on your earnings until you reach FRA. In 2023, if you earn more than $21,240, $1 is deducted from payment for every $2 that exceeds the earnings limit[4]. Once you reach FRA, your earnings no longer affect your benefits so you can work and still collect your full benefit entitlement should that be your preference.

Similar to the UK, individuals can also choose to delay their US benefits after FRA up until the age of 70. For every year that an individual defers their US Social Security benefit, the monthly benefit will increase by roughly 8%[5]. However, once you reach age 70, benefits will no longer continue to increase.

Ultimately, individuals can choose to receive benefits anywhere between the age of 62 and 70, but it will be important to understand the benefits and trade-offs to the exact age that is decided.

Q: What timing is in your household's best interest?

If you are trying to maximize your own income over your lifetime or maximize the income of the family, and you do not require access to income earlier in retirement then choosing to wait until FRA or delay payments past FRA may be beneficial. Alternatively, if your health is poor and you think your life expectancy will be shorter than average, collecting a benefit earlier may be beneficial in terms of the amount of benefit you collect during your lifetime. That being said, for married individuals, you must also keep

in mind that any surviving spousal benefit would also be reduced which may impact the surviving spouse's financial planning should they have a much longer life expectancy.

Choosing to take benefits early means that you are collecting your benefits over a longer time period (assuming the same life expectancy). However, the monthly benefit is permanently reduced. Additionally, if you continue to work before reaching FRA, your benefit will be reduced further during the time period before you reach FRA. However, you will receive the further withholding back once you reach FRA. If you are working or you have other assets or income sources that can plug the gap, delaying your payments can permanently increase your monthly retirement income stream over your lifetime. It is important to understand though that this will generally result in a drawdown of your assets during this time in favor of the higher income stream in the future. Therefore, while you may be maximizing your income stream, you may not be maximizing the assets that remain for your heirs. If your US benefit will be subject to the Windfall Elimination Provision (WEP), delaying the commencement of payment can help make up some of the reduction as the reduction applied is a static amount and is not dependent on the size of the US benefit itself.

The Bottom Line

Social Security benefits can be a complex space to navigate for all individuals let alone expat individuals. Starting early and ensuring you understand any impact your time abroad has on your estimated benefits is important. Taking the time to review this with both your financial and tax advisers will allow you to make sure any claiming decision best meets your individual needs. It is also beneficial to visit the Social Security Administration's website (www.ssa.gov) as it provides a large amount of useful information about benefits for expat individuals and also provides some useful calculators to assess the impact on benefits starting at different ages. ★

Footnotes

[1] https://www.gov.uk/government/news/proposed-new-timetable-for-state-pension-age-increases

[2] https://www.gov.uk/deferring-state-pension/what-you-get

[3] https://www.ssa.gov/benefits/retirement/planner/agereduction.html

[4] https://www.ssa.gov/benefits/retirement/planner/whileworking.html

[5] https://www.ssa.gov/benefits/retirement/planner/1943-delay.html

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