

# The Effect of Retirement Under Social Security at Age 62

by Robert Muksian, Ph.D.

## Executive Summary

- The reduction in Social Security benefits due to early retirement at age 62 is greater than often realized.
- When calculating how much benefits will be reduced by retiring as early as age 62, observers often underestimate the reduction because they fail to account for the annual cost-of-living adjustments and make other incorrect assumptions relative to the reduction.
- The article explains how Social Security calculates a worker's "average indexed monthly wage" and how the primary insurance amount is in turn calculated from that, using "bend points."
- An accurate calculation of early retirement benefits is also key to spousal benefits, because a reduction of benefits for the primary worker may affect the amount of benefits the spouse receives both during the marriage and after the worker's death.
- One of the subjective arguments for collecting Social Security benefits early is that if death occurs before normal retirement age, no retirement benefits are collected. But a 62-year-old male has more than a 93 percent chance of living to normal retirement age, and a couple has more than a 99 percent chance that one of them will reach normal retirement age.
- A spreadsheet calculates the break-even point for the age at which total benefits from an early retirement and normal retirement age are equal.
- Unless early retirement is "mandated" due to health reasons, it appears one should wait until normal retirement age or later to begin collecting Social Security.

*Robert Muksian, Ph.D., is a professor of mathematics at Bryant College in Smithfield, Rhode Island, and serves as a consultant to financial planners and attorneys.*

According to the 2000 U.S. Census, approximately 2.5 million people will turn 62 in 2004. The first eligible age for elective retirement under Social Security is age 62, and those who are eligible to retire with such benefits may be making a decision as to whether to retire and take Social Security benefits. If a disability occurs, circumstances will have forced the decision. Other than for disability, the decision may be based on other subjective considerations, not the least of which is to take the benefit as soon as possible, but a decision will have to be made. Financial planners should inform clients who are potential retirees that there are economic consequences if the decision is to retire at age 62. This paper addresses those economic considerations.

## Background

There are three basic retirement concepts under Social Security—early, normal and delayed. For the purposes of this paper, early is defined as age 62 and 1 month; normal is defined to be age 65 years and 10 months for those who turn 62 in 2004; and delayed is defined as retirement after the normal retirement date. In 1956 and 1961 the Social Security Act<sup>1</sup> was amended to entitle female and male workers, respectively, whose wages are taxed under the Federal Insurance Contributions Act (FICA) of 1936 to retire at age 62 (Social Security Administration [SSA—History, p. 5]). The law specifies that the person must be 62 for the entire month in which the birthday falls. Therefore, for those workers whose birthday is the first day of a month, Social Security benefits begin in that month (SSA—History, p. 12). For all others, the minimum early retirement age is 62 years and 1 month. The 1956 and 1961 amendments to the Act (SSA—History, page 12) prescribed a benefit reduction for female and male workers, respectively, for retirement before the normal retirement age. The formula for that reduction is

$$R = \frac{5}{36} (N_n - N_e) \% \quad N_n - N_e \leq 36 \quad (1)$$

where

R = the reduction as a percent,  
 $N_n$  = the number of months of the normal retirement age = 790 (12 x 65 + 10) for 2004,  
 $N_e$  = the number of months at the early retirement age = 745 (12 x 62 + 1).

The age for full retirement benefits was 65 for persons born before 1938. The Social Security Act was amended in 1983 to delay the normal retirement date for persons born in 1938 and later, and the formula for early retirement is

$$R = 20\% + \frac{5}{12} (N_n - N_e - 36)\%.$$

$$N_n - N_e > 36 \text{ (2)}$$

Further, if a person delays taking Social Security benefits beyond the normal retirement date, the 1972 amendment to the act allowed for the normal retirement age benefit to be increased (SSA—History, p. 12) by a “delayed retirement credit,” which is a simple interest increase in the full retirement benefit for the number of months that benefits are delayed or

$$C = \frac{DRC}{12} (N_d - N_n)\%, \text{ (3)}$$

where

C = the delayed retirement credit as a percent,  
DRC = the delayed retirement credit rate,  
 $N_d$  = the number of months of the delayed retirement age,  
 $N_n$  = the number of months of the normal retirement age.

The reductions for early retirement and the credit rates for delayed retirements are summarized in Table 1.

<div>TABLE 1</div> <div>Reductions for Early and Credits for Delayed Retirements</div>						
Birth Year	Year of Age 62	Normal Retirement Year	Normal Retirement Age + Months	Maximum Reduction for Age 62	Reduction For Age 62 Plus 1 Month	Delayed Retirement Credit
1937	1999	2002	65	20.0%	19.5%	6.5%
1938	2000	2003	65+2	20.8%	20.4%	6.5%
1939	2001	2004	65+4	21.7%	21.2%	7.0%
1940	2002	2005	65+6	22.5%	22.0%	7.0%
1941	2003	2006	65+8	23.3%	22.9%	7.5%
1942	2004	2007	65+10	24.2%	23.7%	7.5%
1943–1954	2005–2016	2008	66	25.0%	24.5%	8.0%
1955	2017	2020	66+2	25.8%	20.4%	8.0%
1956	2018	2021	66+4	26.7%	21.2%	8.0%
1957	2019	2022	66+6	27.5%	22.0%	8.0%
1958	2020	2023	66+8	28.3%	22.9%	8.0%
1959	2021	2024	66+10	29.2%	23.7%	8.0%
1960	2022	2025	67	30.0%	24.5%	8.0%

If a person has earned 40 quarters of coverage under FICA, he or she will be “fully insured.” Earnings of \$900 in 2004 qualify as a credit of coverage (SSA Online—Office of the Chief Actuary, Automatic Increases). Further, if a worker earns \$3,600 (4 x 900) of FICA wages in any one period during the year, he or she will be credited with four quarters of coverage. The term “fully insured” means that the worker is entitled to *the maximum benefit that he or she has earned* during his or her years of covered employment.

There appears to be a misconception by those who address early retirement under Social Security. That common error is the assumption that if a person retires before his or her normal retirement age, the benefit will be reduced from the full retirement benefits they would receive if they had waited until their normal retirement age. Examples may be found in Rose and Larimore (2001), Greene (2003) and Clements (2003). Rose and Larimore present a detailed analysis of the early retirement considerations. They conclude that the economic value for men at age 62 would be greater than that of waiting until the normal retirement age, and for women, the economic value would be slightly greater to wait. However, they did not account for the annual cost-of-living adjustments (they did reference the indexing) and they made the incorrect assumption relative to the reduction. Both factors could have affected their conclusions.

Rose and Larimore used \$1,428 as the maximum full retirement benefit for a person who retired in 2000 at age 62. That person’s normal retirement age would have been 65 years and 2 months. Using 38 (12 x 65 + 2 – 12 x 62) months of early retirement, they reduce the benefit by the maximum statutory amount of 20.833 percent, giving a benefit of \$1,130.50 (the Social Security Administration rounds this off to \$1,130.00). Factually, if a person had always earned the maximum FICA wages, he or she would have *earned* a benefit of \$1,568.20 for retirement at age 62 in 2000. It would have been \$1,568.20 reduced for 38 months to \$1,241 or to \$1,248 (SSA—AnyPia calculator) for 37 months’ early retirement. Greene makes the statement that “...they take monthly payments that are 20 percent below what they would have received at full retirement age.” The 20 percent reduction would have been valid for those who were 62 in 1999 with a normal retirement age of 65 in 2002 and applied to the benefit that had been *earned* by age 62. Similarly, Clements assumes that if a person were eligible for a \$1,000-per-month benefit at age 66, he or she would suffer a 25 percent reduction to \$750 a month. The correct values would be that if a person, whose full retirement age was 66, had *earned* a benefit of \$1,000 a month by age 62, his or her benefit would be reduced to \$750. The flaws in these three articles stem from the fact that at age 62, *the full retirement benefit is unknown*; the Social Security Administration does not estimate that value. Two factors will affect the full retirement benefit, vis-à-vis the age-62 benefits, and are discussed below. *The age-62 benefit is based on a value that has been earned by the worker* and is defined by the Social Security Administration as the primary insurance amount (PIA). *This is an error that planners must not make. The planners’ reputations are at stake if a client applies for Social Security benefits at age 62 and is informed that he or she has been misinformed.*

## Primary Insurance Amount (PIA)

In 1977 (SSA—History, p. 10), Congress changed the method by which a worker’s benefit would be determined from using an average monthly wage to an average indexed monthly wage (AIME). The AIME is determined as follows. The National Average Wage Index (NAWI) for the second year before the entitlement of a benefit is the base year and would be the year of age 60 for retirement at age 62. From age 22 through the base year, an index factor is determined by dividing the NAWI of the base year by the NAWI of each year. The index factor for years of age 60 and later is 1 (indexing stops with age 60). Then, the actual wages the worker earned from age 22 through 1 year before the retirement year, up to the FICA maximum for the year, is multiplied by the index factor for that year, and the highest 35 years of indexed wages is divided by 420 (12 x 35). The result of this division, to the next lower dollar, is the AIME.

The PIA is determined by using “bend points” for the year of age 62. The concept behind the use of bend points is to place emphasis on relatively low early wages. For age 62 in 2004, the dollar value of the bend points are

\$612 and \$3,689. The formula for the PIA is 90 percent of \$612 plus 32 percent of the next \$3,077 (3,689 – 612) plus 15 percent of the AIME in excess of \$3,689 (AIME – 3,689), if the AIME is greater than the second bend point. If the AIME is less than the second bend point, the PIA is 90 percent of \$612 plus 32 percent of the AIME in excess of \$612 (AIME – 612). Then for 2004,

$$\text{PIA} = 1,535.44 + 0.15(\text{AIME} - 3,689) \text{ AIME} \geq 3,689 \text{ (4)}$$

or

$$\text{PIA} = 550.80 + 0.32(\text{AIME} - 612) \text{ AIME} < 3,689. \text{ (5)}$$

For either case, the final PIA is *rounded down* to the next lower dime.

## Benefit at Age 62

The basic benefit for Social Security retirement at age 62 is determined from the AIME for the 35 highest indexed years from age 22 through the year of age 61, or to 1 year before the benefit year. If an individual is earning FICA wages of at least \$87,900 (the maximum for 2004) and had earned the annual maximum FICA wages historically back to age 22, his or her AIME would be \$5,892 to the next lower dollar (SSA). Since this AIME is greater than the second bend point, equation (4) shows the PIA to be \$1,865.80 (to the next lower dime). But because this retirement is before the normal retirement age of 65 years and 10 months, a reduction is imposed by the Social Security Act. When the first benefit is received at age 62 and 1 month, it will be 45 months early (12 x 65 + 10) – (12 x 62 + 1). Table 1, or equation (2), shows the early retirement reduction to be 23.7 percent for age 62 in 2004, and this reduction gives a benefit of \$1,422.61 [(1 – 0.237) x 1865.80]. However, the SSA drops the cents and the actual benefit will be \$1,422. Therefore, anyone who retires in 2004 at age 62 and 1 month and had maximum FICA wages from age 22 (1963) through age 61 (2003) will receive this benefit. The obvious observation is that those whose birth month is January will receive this benefit for 11 months of 2004 and those whose birth month is November will receive it for one month, the significance of which will be addressed below. Naturally, the SSA will supply the actual benefit and the foregoing gives the financial planner a base of knowledge to explain the process to the client.

## Spousal Benefits

The spouse of a retired worker is entitled to spousal benefits if the spouse has not earned enough quarters of coverage to qualify for his or her own benefit. If the spouse does qualify for his or her own benefit, he or she will receive the larger of the two. The 1939 amendments to the Social Security Act entitled a wife, who was 65, to receive spousal benefits at the retirement of the husband, and the 1956 amendments entitled a wife between age 62 and 64 to collect reduced benefits. The 1950 amendments entitled a fully insured, dependent husband to receive spousal benefits, and the 1961 amendments entitled reduced benefits for husbands between 62 and 64. There are other conditions whereby a spouse may receive benefits, but those conditions are not germane to this paper. The normal retirement age for spouses is also based on their year of birth, as it is for the primary wage earner. The maximum spousal benefit is 50 percent of the primary worker's PIA if the spouse has reached his or her normal retirement age at the time benefits begin. As with the primary wage earner, the spouse's benefit is reduced for early commencement of spousal benefits as follows:

$$R = \frac{25}{36} (N_n - N_e)\% \quad N_n - N_e \leq 36 \text{ (6)}$$

36

and

$$R = 25\% + \frac{5}{12} (N_n - N_e - 36)\%$$

$$N_n - N_e > 36, (7)$$

where the variables are the same as for the equations (4) and (5). Thus, if a spouse is 62 years and 1 month, in 2004, when a primary worker retires, his or her normal retirement age is also 65 years and 10 months, and the number of months of reduction will be 45. Equation (7) shows the reduction to be 28.75 percent. Then, the spousal benefit is 71.25 percent  $(1 - 0.2875) \times 50$  percent, or 35.62 percent, of the primary worker's PIA.

In a two-wage-earner home, there is a secondary implication if a spouse takes early retirement at 62. Suppose the husband had always earned the maximum FICA wages and retired in 2004 at the full retirement age of 65 years and 4 months. His benefit would be \$1,825 a month, and if his wife were the same age, she would be entitled to a spousal benefit of \$912. Now suppose that she had worked sporadically during her working years and began collecting her own benefit at age 62 in 2001. If we assume that she always earned 45 percent (classified as Low Wages by the SSA) of the National Average Wage Index, her benefit would have been \$544 a month,<sup>2</sup> which would have been reduced from a PIA of \$691.40. Three years later (now), this will have increased to \$575 due to COLA (cost-of-living adjustment) increases of 2.5 percent, 1.4 percent and 2.1 percent. To determine the spousal benefit under these circumstances, the unreduced PIA is brought forward by the COLAs, becoming \$751.

The spousal benefit is the difference between the \$912 and the \$751, or \$161. This difference is added to the spouse's own benefit of \$575 for a total monthly benefit of \$736. Thus, by taking her benefit early, she will be forgoing an initial \$161 per month, to be increased by future COLAs. If her own benefit exceeded the \$912, she would retain that monthly amount. A further significance of the spousal benefit will be discussed below.

## Economic Consequences of Early Retirement

Unless retirement at 62 becomes mandatory due to disability, the rationale for early retirement could be objective. For example, the primary worker could have a defined benefit pension plan that pays 80 percent of the high three-year average compensation for retirement at 62. If that basis were \$85,000, the defined benefit pension would be \$68,000. When supplemented by the Social Security benefit of \$1,422 a month, the initial annual income in retirement would be \$85,064. Then, if in the year of age 62 the worker's compensation will be \$87,900, he or she would be working full time for an annual pre-income-tax gain of \$2,836  $(87,900 - 85,064)$ —provided, however, the cost of health care insurance will not be a factor until he or she becomes eligible for Medicare. The worker could also “argue” that he or she could work part time to make up any shortfall. If the worker chooses to work part time, the law requires a “payback” of future benefits (SSA—History, p. 23) of \$1 for every \$2 earned above a monthly earnings limit, \$970 in 2004 (SS Online—Office of the Chief Actuary, Lower Earnings Exempt Amount). Thus, if a worker's part time work generates FICA wages, the payback would be, according to the formula

$$P = -\frac{(E - L)}{2}, 1 (8)$$

where

P = the payback amount of the monthly benefit,  
E = the monthly earnings, and



$L$  = the monthly earnings limit.

Then, if a person earned \$1,000 in a particular month, the payback would be \$15 [ $0.5 \times (1000 - 970)$ ]. The payback (per month or year) of the entire benefit can be determined from the formula

$$E_{\max} = 2b + L, \quad (9)$$

where  $b$  is the monthly benefit amount. For 2004, equation (9) shows that if a monthly benefit is \$1,000 and if a worker earned \$2,970 ( $2 \times 1,000 + 970$ ), the entire benefit would have to be repaid. Substituting \$2,970 into equation (8) gives the payback as

$$P = (0.5)(2,970 - 970) = (0.5)(2,000) = 1,000,$$

which is the monthly benefit. There is also a “higher earnings exempt amount” during the year in which that worker would reach his or her normal retirement age. The worker who begins benefits early may earn up to \$2,590 a month (or up to \$31,080 within one month of the normal retirement age) in 2004 without an imposed payback of \$1 for every \$3 above that limit. The appropriate payback would be obtained by replacing  $1/2$  with  $1/3$  in equation (8) and the 2 with 3 in equation (9). Upon reaching the normal retirement month, the Senior Citizens Freedom to Work Act of 2000 permits an unlimited amount of FICA wages without the payback of benefits.

One of the subjective “arguments” to begin collecting Social Security benefits at 62 is that if death occurs before the normal retirement age, “nothing” (other than a \$255 death benefit) will have been received from Social Security by waiting. But that “conclusion,” although true, could be misguided. A 62-year-old male has more than a 93 percent probability (2000 SSA Life Tables) of living to 65 years and 10 months, and a 62-year-old female has more than a 96 percent probability of living to that age. Given a husband and wife who are 62, with one of them receiving spousal benefits, the probability that both of them will reach the normal retirement of 65 years and 10 months is more than 89 percent and the probability that one of them will reach that age is over 99 percent. The objective negative for retirement at age 62 is that both the primary worker and spouse are receiving reduced benefits, and upon the death of the primary worker, the spouse will receive the primary worker’s benefit (SSA—History, p. 18). That benefit will be significantly less than the survivor benefit for the spouse of the worker who waited until his or her normal retirement age.

Every year that the primary worker delays past age 62 will, normally, result in an increased AIME, PIA and final benefit due to two factors:

- Subsequent higher wages would replace earlier indexed wages and would increase the AIME. Because the bend points would be the same as those of the year of age 62, the greater AIME would generate a greater PIA.
- The 1977 amendments to the Social Security Act provide for any general increase in the year of eligibility and later to be applied to the PIA. This means that the COLAs that are announced for the forthcoming years will be applied to the PIA to arrive at a final benefit.

An individual who had always earned the maximum FICA wages from age 22, turned 62 in 2004, and continues to work to the normal retirement age in 2007 will have an AIME of \$6,221, based on wages through 2006. This assumes that the future parameters all increase by a two percent COLA each year. Equation (4) would give a PIA of \$1,915.20. The assumed two percent COLA increases for 2005, 2006 and 2007 would increase this value to \$2,032.30. The Social Security Administration drops the cents; therefore, the initial estimated benefit for the worker who waits until the normal retirement age will be \$2,032.

If there is a spouse who is exactly the same age (within the month), the spousal benefit will be 50 percent of this value or \$1,016 for a combined estimated benefit in 2007 of \$3,048. However, if the birth month is March or later, the three years and ten months to the normal retirement age will delay the first monthly benefit to January, or later, of 2008, and an additional COLA would be applied giving an initial monthly benefit of \$2,072. However, the wages of 2007, which would not have been included in the determination of the benefit, would be included in a recalculation by the Social Security Administration in 2008. The first-year benefit would then be adjusted upwards, if warranted. That possible adjustment is not included in this analysis.

Should the worker wait the two months until age 66, and continue to earn maximum FICA wages, the AIME would increase to \$6,333 and the PIA to \$1,932.00. The application of four two-percent COLAs for ages 63 through 66 would give an initial monthly benefit of \$2,091.20. A same-age spouse would receive a benefit that is 50 percent of this amount or \$1,045. The worker would be entitled to two months of the delayed retirement credit rate of 7.5 percent, thereby increasing the primary worker's initial benefit to \$2,117 a month. This will give a combined benefit beginning in 2008 of \$3,162. The foregoing is summarized in Table 2.<sup>3</sup>

Year	Age	Birth Month	Primary Benefit	Spousal Benefit	Combined Benefit
2004	62 Years + 1 Month		\$1,422	\$664	\$2,086
2007	65 Years + 10 Months	January-February	\$2,032	\$1,016	\$3,048
2007	65 Years + 10 Months	March-December	\$2,072	\$1,036	\$3,108
2008	66 Years		\$2,117	\$1,045	\$3,162

The results that are summarized in Table 2 are shown in Figure 1. The column that is headed Primary Insurance Amount reflects the result of the PIA, which is determined by equation (4) or (5), and either decreased for early retirement or increased by the COLAs that were assumed for the years of ages 63 through the actual benefit year. As shown in Table 2, the first benefit year would be 2006 for the birth months of January and February and the benefit would be opposite age 65 under the Base Monthly Benefit column. If the birth month were later than February, the first benefit would be in 2008 and would be the age-65 benefit increased by the COLA for 2008 until a recalculation, using the wages of 2007, is performed. If the retiree waited the additional two months to age 66 in 2008, the delayed benefit would be in the Base Monthly Benefit column opposite age 66. The remainder of the software output is self-evident.

FIGURE 1

## Screen Display of Social Security Software (Muksian)

**Social Security**

Note: During Data Entry, either the Enter Key, the Tab Key or the Mouse may be used to move forward from Entry Points.

Identification				Age	Primary Insurance Amount	Base Monthly Benefit	Monthly Spousal Benefit	Total Monthly Benefit	2004 Value Of Benefits
Maximum FICA Wages									
Wage Limits									
Benefit Year									
\$87,000				62	\$1,865.80	\$1,422	\$564	\$2,086	\$2,086
\$87,900				63	\$1,882.20	\$1,567	\$739	\$2,306	\$2,261
Worker Birth Date				64	\$1,898.40	\$1,744	\$842	\$2,586	\$2,486
No Spouse = 0 (Zero)				65	\$2,032.30	\$2,032	\$1,016	\$3,048	\$2,072
Month Year Month Year				66	\$2,091.20	\$2,117	\$1,045	\$3,162	\$2,921
1 1942 1 1942				67	\$2,151.40	\$2,339	\$1,075	\$3,414	\$3,092
Benefit Year FICA Wages				68	\$2,211.60	\$2,570	\$1,105	\$3,675	\$3,263
2004 87900				69	\$2,274.20	\$2,814	\$1,137	\$3,951	\$3,440
The history of FICA wages will be 100% of the FICA Wage Limit Above				70	\$2,338.00	\$3,069	\$1,169	\$4,238	\$3,617
If the percentage of the FICA wage limit becomes less than 45% of National Average Wage Index for any year, the wages will be assumed to be 45% of the National Average Wage Index.				Average Indexed Monthly Earnings = \$5,892					
Wage Limits, Average Wage Index, COLAs, and Bend Points				Current Age of worker is assumed to be 62					
Previous Year = 2.1% 2				Worker's Full Retirement Age is 65 years and 10 months.					
				Assumed First Benefit Date is 2/2004					
				Current Age of spouse is assumed to be 62					
				Spouses's Full Retirement Age is 65 years and 10 months.					
				The delayed retirement benefit is based on a 7.5% delayed retirement credit.					

Clear Submit Print History Exit Print Intensity Regular Bold

The \$1,422 monthly benefit for early retirement will have been increased by the assumed two percent annual COLA to \$1,508 for the year of age 65 (2007) and to \$1,538 for the year of age 66 (2008). Thus, the economic consequences for taking Social Security benefits at age 62 ranges from \$524 (2,032 – 1,508) a month, at the normal retirement month, to \$579 (2,117 – 1,538) at age 66, two months later than the normal retirement age. However, with a two percent COLA, the total amount that the retiree at age 62 will have received over the 45 months from age 62 and 1 month to age 65 and 10 months could be \$64,000 to \$66,000, depending on the birth month. The question of how long it will take to recover these amounts with these initial monthly differentials defines the break-even age and can be an objective factor in the decision.

## Break-Even

As indicated above, break-even is defined as the age at which the total benefits from elective retirement ages are at least equal. The retiree has three fundamental options with an early retirement benefit.

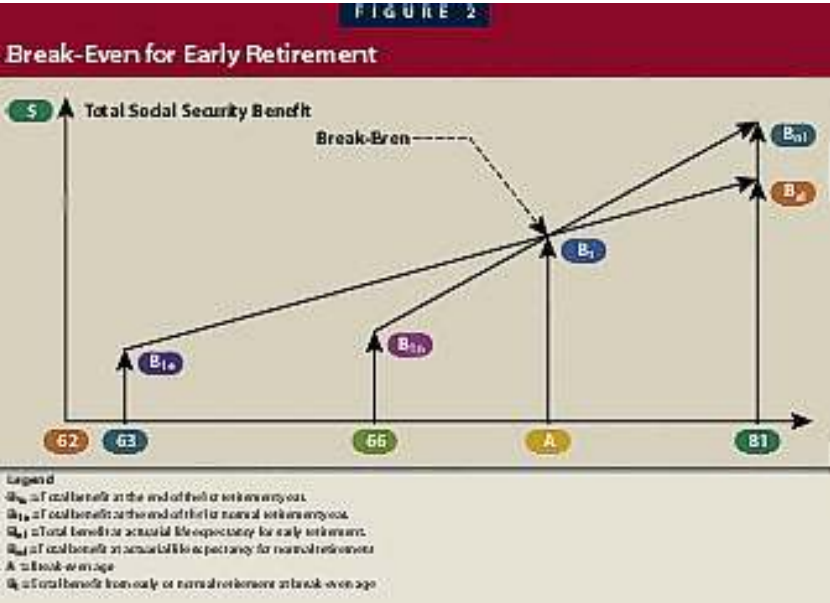
1. Always spend the entire post-income-tax amount.
2. Always save the post-income-tax amount.
3. Save the post-income-tax amount until the normal retirement age, thereby accumulating a fund from which monthly amounts could be withdrawn to make up the shortfall for having taken the benefit early.

This paper addresses the first option only. Break-even for the latter two will depend on an investment rate of return and would be the topic of another paper.

The actual break-even month will be the month when the total benefits from normal retirement exceed those of early retirement. That age is arrived at by adding the total benefit of the first year, which depends on the initial



month, with the future amount of an immediate annuity with the COLA as the interest rate and equating that sum with the same combination at the normal retirement age. This is shown in Figure 2.



The mathematics to arrive at the break-even age, A, involves the payment amounts and numbers of payments in the first early and first full retirement years in conjunction with respective geometrically increasing (by COLAs) annuities by calendar years until total revenues are equal. An Excel spreadsheet is also available on the Web page cited in endnote 3 that will show the planner the time until break-even. That spreadsheet, with the data entry and break-even ages, are shown in Table 3. The break-even time will vary from 12 years, 7 months for birth months before March (monthly benefit = \$2,032) to 11 years, 4 months for the birth month of December (monthly benefit = \$2,072). These become ages 74 years, 7 months and 73 years, 4 months, respectively. The break-even ages reduce to 73 years, 4 months and 72 years, 8 months, respectively, when spousal benefits are also included.

TABLE 3

**Data Entry and Break-Even**

Birth Month	3
Benefit at Age 62 + 1 Month	1,422
Base Benefit at Retirement Age + 1 Month	2,032
Estimated Future Constant COLA	2.0%
Actual Age At Normal/Delayed Retirement	65

**Calculations**

Current Year	2004
Early Retirement Age, Must Be 62	62
Birth Year	1942
Normal Retirement Age	65
Normal Retirement Months: 65 Plus	10
Actual Benefit: Normal Retirement Age + 1 Month	2,072
Number of Payments in Early First Year	9
Normal Retirement Month in Normal First Year	1
Number of Payments in Normal First Year	11
Total Benefit Early First Year	12,798
First Year of Normal Benefit	2008
Total Benefit Normal First Year	22,792
Monthly Benefit Early Second Year	1,450
Monthly Benefit Delayed Second Year	2,113
Annual Amount Early Second Year	17,400
Annual Amount Delayed Second Year	25,356

**Break-Even Formula**

Break-Even Years	12.75
Break-Even Age	74
Break-Even Age Plus Months	9

**Break-Even Age and Month**

Birth Month	Normal Retirement Monthly Benefit	Break-Even Age	Break-Even Month	Break-Even Years	Break-Even Months
January	\$2,032	74.6	July	12	7
February	\$2,032	74.6	August	12	8
March	\$2,032	74.8	September	12	9
April	\$2,072	75.0	December	12	0
May	\$2,072	74.8	September	12	9
June	\$2,072	74.9	July	12	7
July	\$2,072	74.4	May	12	5
August	\$2,072	74.2	February	12	2
September	\$2,072	74.0	December	11	12
October	\$2,072	73.8	September	11	9
November	\$2,072	73.6	July	11	7
December	\$2,072	73.4	April	11	4

Based on 2000 SSA Life Tables, the probabilities of a person age 62 surviving to between ages 72 and 75 are approximately 79 percent to 69 percent, respectively, and the probabilities of age 66 (65 years, 10 months) surviving to between ages 72 and 75 are approximately 85 percent to 75 percent, respectively. Further a male age 66 has a life expectancy of 15 years with about a 50 percent probability of surviving to age 81.

Early retirement can have a significant impact on the income to the spouse upon the death of the primary worker. The widow or widower's benefit is the amount the primary worker would receive, but not less than 82.5 percent of the PIA (SSA—History, p. 18).

The annual benefit at age 81 will be \$24,720 (with an assumed two percent COLA) for the individual whose birth month is January and who chose retirement at age 62. Had that individual waited to his or her normal retirement date, the annual benefit at age 81 would be \$33,360. Therefore, in the latter case, the surviving spouse will have at least \$8,640-a-year more than in the former case. Also, the difference in total benefits due to waiting will be greater by at least \$50,000. When including the spousal benefit, there will be a greater difference in the total benefits. The age-81 line of a secondary page (not shown here) of the Excel spreadsheet will show these values.

The surviving spouse will be affected negatively by the primary worker's decision to retire at age 62.

## Conclusion

The decision to take Social Security benefits at age 62 should be based on a combination of subjective and objective considerations. Absent any significant conditions (such as health issues) that would "mandate" an early retirement, it would appear that one should wait until the normal retirement date or even the additional time until one reaches age 66—especially in 2004 when the normal retirement age will be 65 years and 10 months, for a wait of two months. The additional spousal income during the joint lives will be greater and the effect on the widow or widower will be less dramatic if the primary worker does not retire at age 62.

## Endnotes

1. The complete historical reference, "History of the Provisions" to the Social Security Act may be obtained on the Social Security Administration Web site at [www.ssa.gov/OACT/HOP/hopi.htm](http://www.ssa.gov/OACT/HOP/hopi.htm).
2. The part of all Social Security benefits that would be available for discretionary spending would be the remainder after income taxes on 85 percent (50 percent for lower income) of the benefit and in a 30 percent combined federal and state income tax bracket would amount to \$405.
3. A software package by Muksian (2003) that enables the determination of an age-62 benefit in 2004 and the age-62 benefit in 2005 (after October 2004) is freely available at <http://web.bryant.edu/~rmuksian/textbook> or at the Prentice-Hall Web site, [www.prenhall.com/muksian](http://www.prenhall.com/muksian). The Social Security software will be updated annually.

## References

Clements, Jonathan. "Social Security Can Wait." *Wall Street Journal* Sunday/Getting Going. November 16, 2003.

Greene, Kelly. "Early Retirees Pay Later." *Wall Street Journal* Sunday/Encore. November 2, 2003.

Muksian, Robert. <http://web.bryant.edu/~rmuksian/textbook>. Prentice-Hall. [www.prenhall.com/muksian](http://www.prenhall.com/muksian).

Rose, Clarence C. and L. Keith Larimore. "Social Security Benefit Considerations in Early Retirement." *Journal of Financial Planning*. [www.journalfp.net](http://www.journalfp.net). [June 2001](#): Article 13.

*Social Security Online*. Office of the Chief Actuary. Actuarial Publications. History of the Provisions.

*Social Security Online*. Office of the Chief Actuary. Automatic Increases.

*Social Security Online*. Office of the Chief Actuary. Compute Your Benefit, Detailed Calculator, Batch Version and AnyPia.