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No 'Magic Answer' for Early Withdrawal

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Millions of baby boomers are starting to face the decision of when to start collecting Social Security.

And although two-thirds of the people eligible are opting to start taking their Social Security benefits at age 62, rather than waiting to reach their full retirement ages at 65 or 66, the decision is not simple. Local financial planners and retirement experts say there a number of factors to consider before pulling the trigger.

The decision comes down to two questions: Are you prepared financially for retirement? Are you ready for the lifestyle change?

"There's not a magic answer," said Burk Rosenthal of Rosenthal Retirement Planning in Fort Worth, who said he's getting plenty of calls on when to take benefits.

First, those who start taking Social Security at 62 will get smaller checks for the rest of their lives by beginning the process before retiring.

The percentage of benefits lost varies by age. People born from 1943 to 1954 have a full retirement age of 66. By taking Social Security at 62, they lose 25 percent of the monthly payment. Starting for people born in 1955, that loss increases on a graduated scale up to a 30 percent reduction for those born in 1960 or later.

Rosenthal said it would still take 12 years of full benefits at age 65 or 66 to catch up to someone taking early withdrawals of Social Security even at the reduced amount, so you should consider how long you think you may live.

To estimate your life span, look at how long your parents and grandparents lived and your lifestyle habits. A good online calculator is at www.livingto100.com.

Another issue to consider is whether you want to work some during your retirement years. Although those at full retirement age can earn as much as they want in a job and still receive full Social Security benefits, there are restrictions during the early withdrawal time.

People who withdraw before their full retirement age can only earn \$12,480 this year before Social Security begins deducting from their monthly checks. The Social Security Administration takes \$1 from your benefit payment for every \$2 over the limit that you earn during this time period. That earnings amount goes to \$12,960 in 2007.

But that earnings limit applies only to wages (or net profit for the self-employed), said Tom Clark, public-affairs specialist for the administration's Fort Worth office. Income from pensions, stock dividends, investment or even rental property is unrestricted, he said.

Fort Worth retirement coach Jane Hardwick said people need to start thinking about retirement long before they become old enough to receive benefits.

“Retirement can be the longest time of a person’s life,” she said. “They need to start thinking about what they want to do 10 years before they retire.”

And Rosenthal said many of his clients find out early retirement isn’t what they thought it might be.

“I’ve had clients tell me they don’t want to work a day after 62, then they retire and six months later are bored out of their minds,” he said.

“But they’ve turned their benefits on and get caught in that reduced amount.”

There is a way out of the lifelong penalty attached to early withdrawal, Clark said. Contact the administration, and file an application to stop getting your checks. If you repay what you’ve received, then you can get your full benefit at your full retirement age.

Even if you can’t repay what you’ve received, you can still stop future payments, Clark said. But you will be penalized for the months you collected early when you start receiving the benefit again.

Taxes also affect the early retirement question. About one-third of all people who receive Social Security benefits have to pay taxes on their benefits, according to Marin Olguin, spokesman for the administration’s Dallas office. If a person files a federal tax return as an individual and has a total adjusted gross income (which includes pensions, stock dividends, etc.) of more than \$25,000 or (\$32,000 for a joint return), that person would have to pay taxes on part of his Social Security benefits, he said.

Bottom line: If you’re working and over the earning limit, don’t go for early withdrawal, Rosenthal said.

“If you think you want to retire at age 62, try a trial period of at least three to six months to get an idea of what retirement is like,” he said.

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