

The Total Family Benefits Impact on The Social Security

Early Retirement Decision

Rich Fortin
New Mexico State University
Box 30001 Dept 3FIN
Las Cruces, New Mexico 88003
505-646-3099
Fax 505-646-2820
rfortin@nmsu.edu

Stuart Michelson
Stetson University
421 N. Woodland Blvd, Unit 8398
Deland, Florida 32723
386-822-7376
Fax: 386-822-7446
smichels@stetson.edu

The Total Family Benefits Impact on The Social Security Early Retirement Decision

Purpose

This paper analyzes the impact of an individual's social security total family benefits on the decision to take early retirement at age 62. More specifically, this paper will examine social security early retirement at age 62 in the context of individuals with a spouse caring for younger dependent children, who could receive from 150-180% of the individual's benefits in total family benefits. This may make a difference in the decision to take social security at age 62.

Motivation

There has been an extensive amount of research into the social security early retirement decision. Spitzer (2006) points out the mixed results of prior research [whose conclusions have varied from retire early, Rose and Larimore (2001), wait until the normal retirement date Muksian (2004), and it does not matter Cook et al. (2002) as the benefits schedule is actuarially fair] and uses a bootstrap approach to analyze the breakeven age for individuals only and concludes, in the context of 21 different asset allocations, that "a retiree of either gender is not likely to benefit from delaying Social Security payments to age 66. McCormack and Perdue (2006) analyze the Social Security optimization benefit question for individuals and couples and concludes that "early initiation of benefits is the correct course of action for individuals with lower life expectancies. However, delayed initiation of benefits may often be the correct course of action for a single person with a long life expectancy or for a married male who is the

higher income earning spouse”.

Munnell and Sota (2007) examine when women should claim Social Security benefits and conclude that “the wife is usually better off claiming her own Social Security benefits as early as possible” and that the “husband usually can maximize the benefits of the couple or his surviving wife by delaying his claim”. Friedman and Phillips (2008) model the Social Security early initiation versus postponement decision “in terms of a sequential decision process rather than in terms of a single evaluation made at or before the normal retirement age”. This paper will extend the analysis of prior research to the early retirement decision for the baby boom generation now at or rapidly approaching retirement with a spouse caring for young dependent children. These individuals are allowed to receive “Maximum Family Benefits” from 150-180% of their individual benefits and this may influence their early retirement decision. This analysis will utilize an Excel Model to analyze this scenario and other early retirement scenarios that will allow individual investors and their advisors to evaluate their specific retirement situation. The Excel Model will be provided to readers upon request.

References

Cook, K. A., Jennings, W. W., & Reichenstein, W. (2002). When should you start your Social Security benefits? *AAll Journal*, 24, 27-34.

Friedman, J., & Phillips, H. E. (2008). Optimizing Social Security benefit initiation and Postponement decisions: a sequential approach. *Financial Services Review* 17, 155-168.

McCormack, J.M., & Perdue, G. (2006). Optimizing the initiation of Social Security benefits.

Financial Services Review 15, 335-348.

Munnell, A. H., & Sota, M. (2007). When should women claim Social Security benefits? *The Journal of Financial Planning*, 20, 6, 58-65.

Muksian, R. (2004). The effect of retirement under at age 62. *Journal of Financial Planning*, 17, 64-71.

Rose, C. C., & Larimore, L.K. (2001). Social Security benefit considerations in early Retirement. *Journal of Financial Planning*, 14, 116-121.

Spitzer, J.J. (2006). Delaying Social Security payment: A bootstrap. *Financial Services Review* 15, 233-245.