

AMERICANS NEED TO BETTER PREPARE FOR RISING SOCIAL SECURITY RETIREMENT AGE

Many Americans still don't know that the age at which they'll be eligible for full Social Security retirement benefits is rising, and that their lack of knowledge could undermine their retirement plans.

In their latest annual Retirement Confidence Survey released this spring, the Employee Benefit Research Institute (EBRI) and the American Savings Council (ASEC) found that only 18 percent could answer correctly the retirement age at which they could collect full Social Security benefits. Not surprisingly, 32 percent assumed it is age 65 – the historical retirement age – though in fact anyone currently younger than 65 will have to wait beyond age 65 to collect full benefits. Overall, 55 percent thought they'd collect full benefits *earlier* than was correct for their age, with 12 percent believing that full benefits start as early as 62.

Knowing the right age is crucial to making retirement plans that won't leave you short of money once you retire. Here's a brief review of the changes and how you might modify your retirement plans to compensate for the later retirement age.

Beginning in 2003, the full-benefit age for Social Security began to gradually increase, from age 65 to age 67. For people retiring in the next few years, the change won't be dramatic. Someone reaching age 65 in 2006, for example, will have to wait to age 65 and 8 months to collect full benefits. People born in 1943 through 1954, however, must wait until age 66, and those born in 1960 or later must wait until age 67 to collect full benefits.

Despite the rising full-benefit age, Congress did not change the age at which you can start collecting early Social Security benefits. It's still 62. But benefits collected early are reduced, and the gap is increasing as the full-benefit age rises.

For example, when the normal retirement age was 65, retirees who began collecting Social Security benefits at age 62 found their monthly check reduced 20 percent. But for someone whose full-benefits age is 66, the age-62 reduction is 25 percent, and the reduction is 30 percent for those whose full-benefits age is 67. These are permanent reductions, by the way. Reduced benefits don't jump to "full" once you reach your full-benefit age.

Furthermore, the actual monthly dollar loss would likely be even a larger percentage because if you'd continued to work until your full-benefits age you'd probably increase the amount of benefit dollars you would be eligible to receive from Social Security.

What are the consequences of not knowing your correct full-benefits retirement age? Obviously, you may find yourself retiring early with smaller Social Security checks than what you thought you would receive. Knowing your correct full-benefits age might motivate you to save more while you're still working, or to plan to retire later.

And you run other risks. On paper, anyone living their normal life expectancy collects the same total amount in Social Security benefits whether they retire early or at their full benefits age. That's because although you collect a smaller monthly amount by retiring early, you collect it over a longer time than if you wait until your normal retirement age. The catch is that should you live longer than your normal life expectancy – half of retirees do – you'll receive less in total lifetime Social Security benefits than if you'd waited to collect larger checks at your full retirement age. (You can collect even larger checks if you delay beyond your full-benefits age.)

Another risk from retiring early is that you'll have less time to accumulate non-Social Security retirement assets. A smaller pool of assets and smaller Social Security checks may make it difficult for you to pay for a major expense many early retirees overlook: healthcare. You won't be eligible for Medicare benefits until age 65, even if you take early Social Security benefits. Perhaps you'll be covered under an employer's retiree health plan, but many employers are either dropping retiree plans or are compelling retired employees to pay substantially more.

You could alter plans at the last minute and not retire as early as you'd hoped. But keep in mind another result found by the same retirement confidence survey: 37 percent of current retirees said they left the workforce earlier than planned due to health problems or job loss.

Your safest strategy remains boosting savings while you're still working and you still have time.

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