Think long term before you decide to take Social Security

When you approach age 62, you will be asking yourself this question: What is the best time to take Social Security?

Contemporary thought is simply "the sooner the better," because Social Security "may not be around very long," so "get it while you can." If you adopt this simplistic approach, you may live to regret it.

Social Security may not be around forever, but let's assume it has a life expectancy at least the same as a present-day 62-year-old. Let's further assume that you can actually afford to postpone your application. That being said, should you postpone applying?

If you know that your life expectancy is shorter than average, then an early application may be warranted. If you think you'll survive into your 80s, read on.

There are three nice things about Social Security. First, it is a source of income that you cannot outlive. Second, it has a cost-of-living increase that has averaged 2.8 percent annually, unlike commercial annuities and monthly payments from company pension plans that have little or no cost-of-living adjustment (COLA). Third, Social Security offers a 100 percent survivor benefit to your spouse, and your benefit is not reduced because of it.

If you apply at 62, your benefit will be reduced by 25 percent for the rest of your life, compared to what you would get at full retirement age, which we

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will assume is 66. The COLA will forever apply to this lower amount, and the survivor benefit will be forever lower.

If, on the other hand, you postpone your application even beyond full retirement age, your benefit will increase by 8 percent for each year that you wait. Waiting and thus being eligible for a higher base amount means the COLA will forever apply to the higher amount and the survivor benefit will be higher as well. There is no advantage to postponing your application beyond 70.

The detriment from an early application is compounded by the COLA. Conversely, the advantage of a postponed application is compounded by the COLA.

The argument for waiting is more compelling for married people because the odds are greater that at least one of you, if not both of you, will survive into your 80s. By waiting, at least one of you will enjoy the higher benefit from the postponed application, for the duration of the survivor's life.

Married people also have more planning options than singles. They are entitled to their own benefit while they are alive. Once their spouse dies, they are entitled to a "survivor benefit" if it is higher than their own benefit. While their spouse is alive, they are entitled to a "spousal benefit" if it is higher than their own benefit. Your "spousal benefit" is basically 50 percent of what your spouse is collecting based on his or her earnings history. Compare that to what you are entitled to based on your own earnings history and you get whichever is higher. The details are more complicated, of course.

Knowing how to combine these benefits brings strategy into play. Two strategies to be aware of are "file and restrict" and "file and suspend."

To illustrate, consider a husband who is 66 and a wife who is 62. Both of them are eligible for a benefit based on their earnings history, and the husband's benefit is higher. They decide that the husband will wait to apply for his benefit until he is 70, and the wife will start taking her benefit now, at 62. Both spouses are eligible for either the spousal benefit or their own benefit, whichever is greater.

While the husband does not want to apply for his own benefit now because he wants his benefit to grow, he can "file and restrict" his application to his spousal benefit, to which he is entitled because his wife has applied. From husband's age 66 to 69, the wife collects her own benefit, and the husband collects his "spousal benefit," and the husband's benefit continues to grow. When the husband reaches 70, he applies for his own benefit, which of course will be higher. When he dies, the spouse will switch to the 100 percent survivor benefit.

Another option may be better for this couple. Using the "file and restrict" method above, the couple is collecting the wife's benefit, let's say $600, plus the husband is collecting his "spousal benefit," let's say 50 percent of $600, for a total of $900, until the husband turns 70.

Compare this total to the wife's "spousal benefit," which might be $1,200 if the husband's full benefit is $2,400. In this case, the husband would "file and suspend" his application. Filing causes the wife to be eligible for the spousal benefit, $1,200, and suspending his application for his own benefit allows his own benefit to continue to grow until he reaches 70.

"File and suspend" is necessarily the choice if the wife has no earnings history. By filing at age 66, the husband makes his 62-year-old wife eligible to collect her spousal benefit. Since she has no earnings history, she would otherwise have no benefit. By simultaneously suspending collection of his own benefit, the husband causes his own benefit to continue to grow.

While these examples involve simplistic fact patterns and the plan details are unrefined, pay attention to them. You or someone you know could benefit from them.

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