Social Security: The costs of retiring too soon

Thirty-eight million Americans rely on Social Security benefits in retirement. With such a big reliance on the program, a critical decision for retirees is at what age to begin taking these benefits.

The amount of money you will receive each month is based on your work history and your age at the time you apply for benefits. A person can receive full benefits starting at ‘full retirement age’ — defined as 66 years old — with some slight variations, depending on your birth date:

Born before 1955: You’re eligible for full benefits at age 66.

Born between 1955 and 1959: You’re eligible for full benefits at age 66 plus two to 10 months.

Born in 1960 or later: You can take full benefits at age 67.

A person can begin receiving Social Security as young as age 62. But there’s a catch: dip into the pool early and your benefits will be reduced by a fraction of a percent for every month before normal retirement age it is taken. That lesser amount can add up. Say someone born in 1952 is eligible for full retirement benefits of $1,300 a month at age 66, in 2018. If he or she takes Social Security this year, at age 62, the size of that check is reduced by about 25% to $975 per month.

On the flip side, for every year you delay filing for benefits after 66, up to age 70, you can add an additional 8% per year. So that $1,300-a-month benefit grows to $1,716 at age 70.

Now imagine you live to 87. If you start taking Social Security at 62, you’ll receive about $290,000 over 25 years. That amount rises to $327,000 if you file for benefits at 66, taking it for 21 years. And waiting until age 70 and collecting benefits for just 17 years increases the total amount to $350,000.

No matter what age you begin taking Social Security, that monthly payment is still eligible for cost of living adjustments. In 2014, Social Security benefits will increase 1.5%. But Social Security alone likely won't cover most people's living expenses in retirement. It's only designed to replace about 40% of your pre-retirement income, so saving should still be a priority.

The bottom line: Financial planners and experts like AARP agree it's better to delay filing for Social Security for as long as possible to increase the amount of the monthly benefit. Of course, health or employment status may not always make that possible.

By Yahoo Finance April 30, 2014