When Should You Start Social Security? 5 Things to Consider

My Comments: A very serious question, and one that requires some thinking about. We've talked about this before, but if you've not yet signed up, here are five questions you can ask yourself to get a better answer.

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You can start your Social Security retirement benefits any time between age 62 and 70, and the longer you wait within that window, the larger your monthly check will be. The trade-off between the age you start and the benefits you receive is such that, actuarially speaking, you're likely to get around the same lifetime benefit amount no matter when you start in that window.

Even so, depending on your personal life circumstances, it may make more sense for you to start earlier in that window, later in that window, or somewhere in between. Here are five key things for you to consider when it comes to determining when to start your benefits.

No. 1: Are you still working?

If you're still working and below your full retirement age (somewhere between age 66 and 67 for those who haven't reached it yet), it generally makes little sense to collect your Social Security benefit. That's because you're penalized as much as $1 for every $2 you earn above $16,920 in the year. Even if you've reached full retirement age, you may want to hold off collecting Social Security until age 70 if you're still drawing a paycheck and that paycheck is enough to allow you to make ends meet. That's because your Social Security check increases by 8% per year you wait past your full retirement age, up until age 70, to start collecting, and an 8% guaranteed increase like that is very hard to come by.

No. 2: How long will you live and stay active?

Aside from spending on healthcare, people's spending tends to drop off the deeper into retirement they get. While you may technically get more money overall by waiting until age 70 if you survive long enough, how much of that extra money will come after you're no longer able to make much use of it? As my Foolish colleague Todd Campbell recently pointed out, the crossover age happens somewhere between 79 and 81 years old, depending on when you start claiming.

Even if you do live long enough to receive more money from Social Security by waiting to collect, ask yourself how active you really see yourself being in your 80s and beyond. There's value in getting the money sooner, while you're more active and better able to enjoy it. If you reach the later part of your golden years regretting the things you didn't get done because you didn't have access to more money younger, there's no do-over option at that point in your life.

No. 3: What other sources of financial support do you have?

If taking your Social Security check early makes the difference between surviving and starving, by all means, take it. If, on the other hand, you'll be receiving temporary retirement income such as from a structured sale of your business or an employment severance agreement, it may make sense to wait. If you don't need the money right away, waiting for the bigger check might make a whole lot of sense.

Remember, too, that your Social Security benefit itself can become taxable if your income is high enough. According to Social Security, as much as 85% of your Social Security benefit can be considered part of your taxable income. All it takes is $34,000 in combined income if you're single or $44,000 in combined income if you're married filing jointly, and 85% of your Social Security benefit becomes taxable income to you. Almost everyone filing as married filing separately will see their benefits taxed.

Social Security defines your "combined income" as your adjusted gross income plus your non-taxable interest income plus half your Social Security benefit. Because it includes your non-taxable income and half your Social Security benefit, it can be easy to reach that level even if your otherwise taxable income is low.

If your other sources of income are longer term in nature, such as a pension, rental income, or investment income, then it makes less sense to wait. After all, you won't be avoiding the tax on your Social Security benefit by postponing taking that benefit, and the sooner you start Social Security, the less you have to depend on your other income for support in those early years. That could enable you to keep more invested more aggressively for longer, potentially improving your overall retirement income.

No. 4: How big are your Traditional 401(k) and Traditional IRA balances?

Once you turn 70 1/2, you're generally required to start taking distributions from your Traditional IRA and Traditional 401(k) plans. While the distributions start off fairly small -- around 3.6% of your balance -- they grow as a percentage of your account balance every year after that until age 115. While you can't avoid those required distributions, you can get your money out earlier and potentially at a lower tax rate.

Once you turn age 59 1/2, you can start withdrawing money from your traditional 401(k) and Traditional IRA plans without facing a tax penalty. If you have a substantial Traditional IRA and/or Traditional 401(k) balance, you can start taking that money out to cover your living expenses before you start your Social Security. By holding off on Social Security while you take those withdrawals from your Traditional 401(k) and/or Traditional IRA, you can keep your income and tax down while drawing down those balances.

If you get your Traditional 401(k) and Traditional IRA balances low enough, then you won't face as steep required minimum distributions later in your retirement years. In addition, any money you took out of those plans and didn't spend remains yours to use as you see fit. By leveraging those factors over time, the combination can give you the opportunity to keep your overall taxes lower in retirement without really affecting your overall retirement lifestyle.

No. 5: Do you plan to convert your Traditional IRA and/or Traditional 401(k) to a Roth IRA?

Similar to the previous point, you can convert your Traditional IRA and 401(k) balances into your Roth IRA, paying taxes on the conversions along the way. Roth IRAs are not subject to required minimum distributions for the original account holder, and thus once the money is in your Roth IRA, you can keep it in that account as long as you are alive.

There are three key differences between this point and the previous one, though. First, you can convert your Traditional plans to your Roth IRA starting at any age, not just at age 59.5. Second, remember that money you convert to your Roth IRA isn't available for you to pay the conversion taxes on, unless you subsequently withdraw that money from your Roth IRA. Third, money you are required to withdraw from your traditional plans after age 70.5 must be withdrawn and can't be part of a Roth conversion.

That combination of factors means that when it comes to Roth conversions, it's useful to have another source of money to cover the taxes associated with the conversions as well as your costs of living. As a result, it may make sense to start taking your Social Security to have a source of money to cover those costs while converting your Traditional IRA and Traditional 401(k) plans into your Roth IRA.

Make the right Social Security choice for you

Social Security serves as a cornerstone for the retirement plans of millions of Americans. As with any cornerstone, it works best when it's part of an end-to-end structure designed around a useful purpose, in this case, your retirement. By understanding how these five key factors interact with your choice on when to start taking Social Security, you can design an end-to-end retirement plan that better suits your needs with the resources you have available. And that's a recipe for retirement success.