Many retirees claim Social Security early based on the mistaken belief that it will preserve their retirement savings. The logic may stem from thinking they will be better off if they allow their retirement savings to continue to grow. The reality is that claiming early will accelerate the depletion of savings over the long run.

The investment return from delaying Social Security can be measured and it's much larger than any comparable investment. Consider a recently retired 62-year-old with a $1000 monthly benefit if claimed at his Social Security full retirement age of 67. He'd receive a monthly benefit amount of $700 if claimed at 62 or $1240 if claimed at 70. We can calculate the rate of return at which the foregone $700 benefit must grow in order to deliver the additional $540 monthly benefit amount beginning at 70. This is shown on the table below using the internal rate of return calculation (IRR). Think of the $700 foregone benefit as the investment and the $540 additional amount as the return. The "real" IRR is 0% at 80 which is the breakeven age. Real return means real buying power before taking inflation into account. By age 85 the real IRR is 3.8%. The nominal IRR would be approximately 6.8% if we assume 3% inflation.

62	-700	
63	-700	
64	-700	
65	-700	
66	-700	
67	-700	
68	-700	
69	-700	
70	540	
71	540	
72	540	
73	540	IRR
74	540	-10.9%
75	540	-7.6%
76	540	-5.1%
77	540	-3.2%
78	540	-1.7%
79	540	-0.4%
80	540	0.6%
81	540	1.5%
82	540	2.2%
83	540	2.8%
84	540	3.3%
85	540	3.8%
86	540	4.2%
87	540	4.5%
88	540	4.8%
89	540	5.1%
90	540	5.3%

You might get 6.8% annualized return from the stock market but that's not an accurate comparison. You could easily get much less that in the stock market. Social Security is risk free and indexed to inflation. A comparable investment is a US Treasury inflation protected bond. Like Social Security, it's risk free and indexed to inflation. As of December, '22, its real (before inflation) yield was 1.7%. That's much less than the 3.8% real return earned by delaying Social Security to age 70.

Continuing from the above example, by age 85 the age 70 claimant would receive 20% more lifetime real Social Security benefits than had he claimed at 62. Of course, this also means he'd have more in savings. Unless you expect a short life, delaying your Social Security claim will increase your total wealth over the long run.

C. Ryan