Laid Off During the Pandemic: Should You Tap Into Social Security Early?

Why you should look for other solutions first

by Adam Shell, **AARP**, July 30, 2020

More than 4 of 10 jobs lost during the pandemic may never come back, the Becker Friedman Institute for Economics at the University of Chicago predicts. That grim statistic means many pre-retirees may not find work again. As a result, they could beh, Delaware. “We have to survive now; we'll figure out what we need to do down the road. Future planning doesn't feed your stomach.” This option is best for workers who have no other options.

And that raises a key question: If you're 62 or older, and you're one of the 17.8 million Americans still out of work because of COVID-19, is taking Social Security early a smart option if you need to produce fresh income to pay the bills?

“Although there are a few exceptions, this is a one-time decision that will impact you and family members relying on you for the rest of your life,” says Joel Eskovitz, director of Social Security and Savings Policy at the AARP Public Policy Institute. “Every month you delay adds value to your lifetime monthly benefit, so if you have other ways to fill the gap that don't involve huge penalties or interest rates, you should seriously entertain those options first. That said, Social Security is intended to be a safety net, and if you are in a position where you have few or no choices, claiming benefits early may be a critical lifeline to help get you through tough times."

Look at alternatives first

If possible, you should do what you can to avoid tapping Social Security early to avoid the prospect of locking in a lower monthly benefit during retirement, financial advisors and social security experts say. But not everyone has the financial cushion to avoid doing so.

The good news? If you eventually land a new job, there are options available that may enable you to boost your monthly benefit even if you opted to start receiving payments early, Social Security experts say.

"People need to understand that the decision to start collecting Social Security benefits early doesn't have to be an irrevocable one," says Kurt Czarnowski, principal of Norfolk, Massachusetts-based Czarnowski Consulting. "Social Security enables them to tap into and receive a revenue stream to help them through periods of job loss," adds Czarnowski, who worked 34 years at the Social Security Administration (SSA).

Much-needed cash

Still, there are pros and cons to tapping this government-funded income before you reach full retirement age, which is 66 or 67, depending on the year you were born.

The biggest plus of taking your benefit early is that you'll get an immediate and regular infusion of cash, albeit a lower one, to help fill any income gaps.

When evaluating tradeoffs, you should first determine how big a financial hole your job loss has put you in, and if you can replace the lost monthly income from other sources, says Denise Nostrom, owner and financial advisor at Diversified Financial Solutions in Medford, New York. If your monthly bills total, say, $4,000, and you're now $2,000 short, first see if you can temporarily make up the difference with unemployment benefits, or dipping into your savings or 401(k), or trimming expenses to help shrink the gap. Many people will say, "'I want to take [Social Security] as soon as I can,' but sometimes it is not the best plan," Nostrom says.

Like any financial decision, it's best to analyze all your options before tapping Social Security early, says William Meyer, founder and managing principal of Social Security Solutions. "This is a scary time and people [62 or older] naturally say, 'Hey, I've got Social Security, I'm going to turn it on,'" Meyer says. "Social Security is really valuable. Retirees can find a lot of additional money. [But] don't turn on Social Security without doing a thorough evaluation of the tradeoffs."

For example, people 55 and older who have been separated from service can tap defined contribution retirement plan, such as a 401(k), with no early withdrawal penalty. The Coronavirus Aid, Relief, and Economic Security Act (CARES) gives you three years to either pay the money back or pay the taxes, provided you withdraw the money in 2020. Although most employers don't let you take loans from a 401(k) once you've left the company, the limit on loans from retirement accounts has been increased to $100,000, from $50,000, and payments on both new and existing loans can be deferred for a year. So if you were counting on two incomes to get by and you lose one, the spouse who is still employed could take a loan to help the family get by.

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Still, it's important to plan for the worst. After the Great Recession, workers 62 and up were about half as likely to become employed again compared with people between the ages of 25 and 34, according to the Urban Institute. “A career reboot isn't as easy as it sounds,” says Alissa Quart, author of Squeezed: Why Our Families Can't Afford America.

"We believe in these second acts and believe we can always start over again,” Quart adds. “It's an encouraging idea, but it's not always possible.”

What if I find work?

The major drawback of turning on the Social Security income spigot early is that you run the risk of receiving a lower monthly benefit that over time could cost you money. For example, a person who takes Social Security at 62, the earliest age possible, would see a $1,000 monthly benefit at their full retirement age of 67 reduced to $700, or 30 percent less, according to SSA. What's more, your Social Security payout rises by 8 percent for each year past your full retirement age up until age 70 that you delay taking benefits. In 2020, the maximum benefit at age 62 is $2,265 per month, at 66 it's $3,011, and at age 70 it swells to $3,790, according to SSA.

But you do have options if you take Social Security after getting laid off, Meyer says. Here are some scenarios and options to consider when deciding on whether to take Social Security benefits early.

No job, scant savings. If you lost your job because of the coronavirus-driven economic shutdown, and you have zero emergency funds or investments to tap, then taking Social Security early makes sense.

The reason? It's the only financial lifeline available to you.

"If you're someone who can't make ends meet and have nothing saved up and no cash flow coming in and no prospects for getting a job, and taking Social Security early is your only option, you have to take it,” says **Len Hayduchok**, founder and president of Dedicated Financial Services, with offices in Hamilton, New Jersey, and Rehoboth Beach, Delaware. “We have to survive now; we'll figure out what we need to do down the road. Future planning doesn't feed your stomach.” This option is best for workers who have no other options.

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You're rehired within a year. Just because you take Social Security early may not mean you're stuck with that decision — and smaller benefit — forever. If you apply for Social Security before your full retirement age, but you're lucky enough to land a new job and have been receiving benefits for less than 12 months, you can ask Social Security to undo your application. This process, known as a "withdrawal," halts payments and allows you to reapply for Social Security benefits later. The only catch is you must repay all the benefits you and your family received, according to Social Security rules.

"It's a complete do-over," says Czarnowski. "It's a way to completely start from scratch. It's as if the earlier application never occurred." Your monthly benefit will reset at a higher amount based on your older age at the time you reapply. Workers eligible for Social Security, however, are limited to one withdrawal per lifetime. This option is a good one for workers who get a pink slip but then get a new job that provides them with a sizable enough salary to be able to repay the benefits they've already received.

Social Security may adjust your monthly benefit

For those who claim benefits prior to full retirement age but later find a job and earn enough money above a certain threshold, current Social Security rules may result in a higher monthly lifetime benefit. The SSA temporarily withholds Social Security benefits for annual earnings prior to full retirement age above the threshold of $18,240. Beyond that amount, a person sees $1 deducted from his monthly benefit payments for every $2 earned. An additional higher limit, at which $1 is deducted for every $3 earned, is set for a threshold of $48,600. Beginning at full retirement age, SSA increases benefits to pay back the amount withheld over a person's life. The bottom line is that this reduction of benefits prior to full retirement age due to increased earnings will have a long-term benefit, as the benefits are recalculated and increased to account for this activity.

The bottom line?

Do your homework before deciding when to take Social Security, says Nostrom.
"Explore all [your] options," she says. "This is a huge decision. Your retirement will last a long time. You don't want to make mistakes now that will hurt down the line."

https://www.aarp.org/retirement/social-security/info-2020/claiming-benefits-due-to-job-loss.html