

Claiming Social Security early: A spectrum of breakeven and longevity risks

- Certain investors without current income needs may benefit from claiming Social Security early, defying the conventional wisdom that those who can afford to delay claiming should.
- Claiming benefits early makes sense for many investors with very little risk of outliving their resources. For these investors, longevity risk shifts from living "too long" to "not living long enough."
- This applies to both single and married investors. In spousal situations, there are often added reasons for at least one partner to claim earlier.

Navigating the spectrum: Balancing breakeven risk and longevity risk

Deciding when to claim Social Security is a highly personalized and complex decision. Conventional wisdom states that if a person can meet their spending needs, they should delay claiming Social Security. At first glance, the reasons for delaying are compelling: Doing so increases the monthly benefit amount for life; for many, total payments will be higher; survivor benefits are higher; and spousal benefits may be higher. In short, investors create a higher income floor that offers protection for the rest of their lifetime, and potentially for their spouse's lifetime as well.

All of this—particularly the increased lifetime benefit received—helps mitigate one's *longevity risk*, which is generally seen as the risk one will outlive their assets. Delaying taking Social Security is thus often cited as a good tactic for offsetting that risk. However, it also introduces *breakeven risk*—the risk that the overall benefit from delaying Social Security will be less than the benefit of starting smaller payments earlier. This is likely to occur when an investor does not live long enough. In a sense, longevity itself presents a risk on both ends of the spectrum—living too long often brings longevity risk, while not living long enough brings breakeven risk. Thus, each investor must weigh the two risks and find the right balance between them.

For some investors, longevity risk is dying early

For investors who have little to no chance of outliving their assets, it follows that money will be left over.¹ While assets can be left behind to anyone, Social Security benefits cannot. Considering both long and short longevity scenarios leads to a surprising—yet also intuitive—result. In the absence of any meaningful longevity risk, investors' focus should shift more to breakeven risk and they should consider claiming Social Security earlier. Claiming early enables investors to reduce portfolio drawdown in the near term, leading to higher assets if their lifespan is short. Instead of protecting against living too long, these investors need to balance not living long enough.

Claiming early also means the investor's Social Security tax burden can be spread across more years. Not all Social Security income is taxable, but the portion that is taxable can increase with income.² Thus, claiming early may reduce the relative tax burden, as a greater portion of Social Security income could be untaxed. For some, this lower base of Social Security income may reduce income taxes, Medicare income-related monthly adjusted amounts (IRMAA) surcharges, and more. For others, the interaction will be more complex, which may provide an opportunity to incorporate additional tax-planning interventions like Roth conversions.

Finally, people often value immediate rewards over future ones. In simpler terms, most people prefer receiving a dollar today rather than waiting for it tomorrow. Although this mindset doesn't always lead to the best financial outcomes, it's an important behavioral factor to consider when choosing a claiming strategy that offers the most value to an investor.

Case Study 1: Single investor with no risk of outliving assets

Our first hypothetical case study compares the outcomes for a single investor, Wally, when he claims Social Security at age 62 or 70 (**Figure 1a** on page 3). Note that for Wally, who was born after January 1, 1960, full retirement age (FRA) is 67.

Wally represents an investor who is very unlikely to outlive his assets. He is projected to meet his spending target amount in all 10,000 market scenarios generated by the Vanguard Capital Markets Model® (VCMM). (For more information on the VCMM, see **Appendix 1**). Given that longevity risk is not a concern for him, delaying Social Security for a higher lifetime income offers little benefit. Further, as **Figure 1b** on page 3 shows, Wally's projected median wealth is higher if he claims at age 62 compared to claiming at age 70 up until age 88—which is two years beyond his life expectancy.³

Along with higher balances in early years, Wally sees some tax benefits, especially in later years. In median wealth scenarios, he never reaches the 32% federal income tax bracket when claiming at 62—but he does reach it at age 86 when claiming at 70. His average annual IRMAA surcharge through age 86 is \$1,615 when claiming at age 70, versus \$1,354 when claiming at 62. These factors, along with market returns, help to push his breakeven age to 88, despite having reached the breakeven amount of total Social Security payments at age 81. Claiming at age 62 adds a wealth equivalent of \$60,000 or a return equivalent of 11 basis points compared to claiming at 70.⁴ (A basis point is one hundredth of a percentage point.)

- ¹ In the tested scenarios described in this paper, someone with annual spending of less than 2% of portfolio or whose annual spending is met by non-portfolio income was considered unlikely to outlive their assets.
- ² Social Security benefits may be 0% to 85% taxable, with taxability increasing with income.
- ³ Wally's life expectancy is calculated using data from the Society of Actuaries (SOA) Mortality Tables RP-2014 and SOA Mortality Improvement Scale MP-2021, available at, respectively, [soa.org/resources/experience-studies/2014/research-2014-rp](https://www.soa.org/resources/experience-studies/2014/research-2014-rp) and [soa.org/resources/experience-studies/2021/mortality-improvement-scale-mp-2021](https://www.soa.org/resources/experience-studies/2021/mortality-improvement-scale-mp-2021).
- ⁴ Wealth equivalent and return equivalent are defined, respectively, as the amount of wealth or the amount of return an investor needs to be indifferent to the outcome across 10,000 scenarios. Both are baselined to claiming at age 70 for Wally in Case Study 1 and to claiming at age 70 for both Wanda and Wally in Case Study 2.

FIGURE 1
Wally: Single male investor, no risk of outliving assets

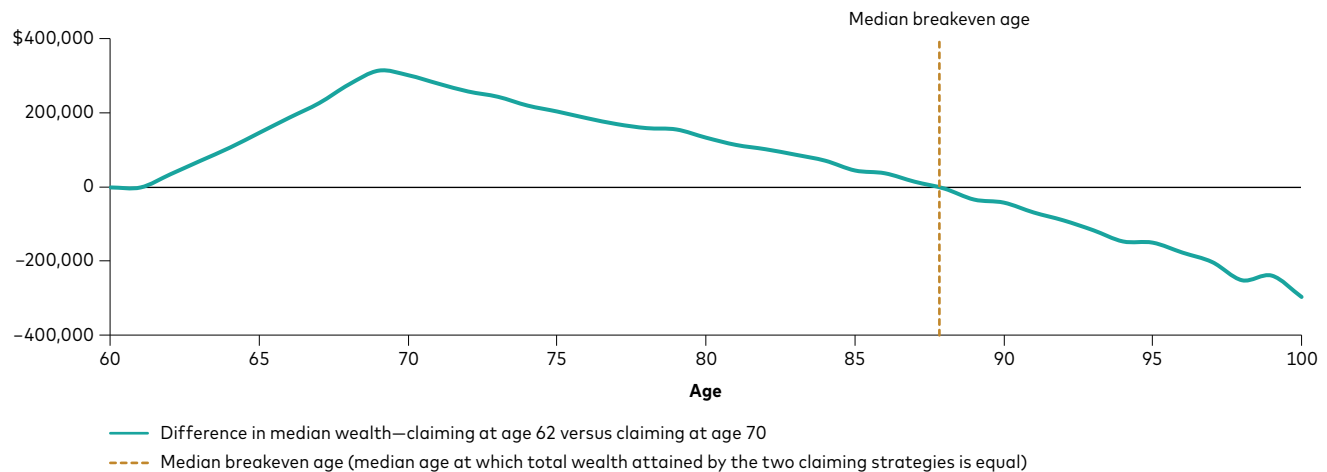
a. Vital statistics, success rate

Age	60
Median life expectancy	86
Current assets	\$4,000,000
Asset breakdown	25% taxable; 50% traditional IRA; 25% Roth IRA
Primary insurance amount (PIA)*	\$4,000
Annual expenses	\$80,000
Success rate	100%
Claiming at 62	
Median wealth—age 70	\$3,930,000
Median wealth—age 80	\$4,995,000
Median wealth—age 90	\$6,824,000
Claiming at 70	
Median wealth—age 70	\$3,627,000
Median wealth—age 80	\$4,861,000
Median wealth—age 90	\$6,865,000
Median breakeven age**—claiming at 62 versus 70	88

* Primary insurance amount (PIA) is the monthly Social Security benefit that a person is entitled to if they claim at FRA (full retirement age). FRA is defined as 67 for those born after January 1, 1960, according to the U.S. Social Security Administration.

** Breakeven age is the age when the total wealth attained by two different claiming strategies is equal.

b. Projected median wealth difference—claiming at 62 versus claiming at 70



Notes: Hypothetical case for illustration purposes only. Median wealth is displayed in after-tax, real dollars. Projections are made using the Vanguard Financial Advice Model (VFAM) and Vanguard Capital Markets Model (VCMM). Investment allocation is variable, decreasing in equity weights over time. Any surplus is invested at the target allocation; see Appendix 2 for more information. State tax is assumed to be 3.07%; 2024 federal tax rates are used. All projections are shown in today's dollars. For more information on the VFAM, see Appendix 2.

Sources: Vanguard calculations, using data from the Society of Actuaries.

IMPORTANT: The projections and other information generated by the VCMM regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from the VCMM are derived from 10,000 simulations for each modeled asset class. Simulations are as of August 31, 2024. Results from the model may vary with each use and over time. For more information on the VCMM, see Appendix 1.

Case Study 2: Incorporating a spouse into the decision framework

Two-party households both provide for more flexibility in and add complexity to claiming options. Evaluating several scenarios, with small changes between each, offers a chance to explore longevity trade-offs and highlight additional findings. Our second hypothetical case study presents several scenarios for a male and female couple—Wally from Case Study 1 has now become the spouse of Wanda, who shares the same financial attributes (see **Figure 2** on page 5). Each of our five scenarios evaluates and ranks different combinations of Social Security claiming when each spouse can choose to claim at either 62, 67 (FRA), or 70.⁵ The Vanguard Financial Advice Model (VFAM) evaluates each scenario with variable life expectancy assumptions. (For more information about the VFAM, see **Appendix 2**.) The claiming strategies are ranked and assigned a wealth equivalent compared to both claiming at age 70.⁶

In Scenario 1, the assets and spending remain constant from Case Study 1. Both spouses claiming at age 62 provides the highest wealth equivalent—\$107,000—compared to both claiming at 70.

When life expectancy rises, however, longevity risk increases and breakeven risk decreases. This increases the likelihood that later claiming is beneficial. We see this in Scenario 2, and in this scenario a slightly later claiming strategy (Wanda claiming at FRA, Wally at 62) would be recommended. With greater life expectancy (represented in Figure 2 as “excellent” in the health column), the likelihood rises that the

additional payment amount can help generate greater wealth. Other strategies are valued much less than they were in Scenario 1. Scenario 3 decreases life expectancy (represented as “poor” in the health column), and the results are similar to those seen in Scenario 1.

Moving to Scenario 4, benefits—the primary insurance amount (PIA)—have been decreased for both Wanda and Wally. There are now a small number of simulations where the spending goal is not met—i.e., where longevity risk is present. We see that values relative to age 70 claiming drop significantly: Unlike Scenario 3, where the top two strategies each result in a wealth equivalent of at least \$100,000, Scenario 4’s top strategy (Wanda claiming at FRA and Wally at 62) offers a wealth equivalent of only \$24,000. More generally in this scenario, later claiming strategies are moving up in the rankings.

Scenario 5 doubles spending compared to Scenario 4 (\$160,000, or 4% of \$4,000,000). While still successful generally, there are more failures under this scenario. With longevity risk more of a concern, claiming strategies now favor delaying claiming, as it offers greater longevity protection.

Scenarios 3 and 4 reveal a few other interesting pieces of the puzzle. All else being equal, couples are more likely to benefit from the older spouse claiming late. A couple is more likely to benefit (again, all else equal) from the spouse with a higher PIA claiming late. Older investors are closer to and more likely to reach a later claiming age that provides higher payments and longevity protection. When the spouse with a higher PIA (usually the higher earner) claims later, higher payments and greater longevity protection result.

⁵ As noted previously, FRA is defined as 67 years old for anyone born after January 1, 1960.

⁶ For each scenario, a range of return equivalents is also calculated: from 0 to 13 bps (basis points) for Scenario 1, 0 to 10 bps for Scenario 2, 0 to 12 bps for Scenario 3, 0 to 3 bps for Scenario 4, and –58 to 3 bps for Scenario 5.

FIGURE 2

Wanda and Wally: One couple, five scenarios

For Scenarios 2 through 5, significant changes compared to the preceding scenario are shown in bold type

		Scenario 1		Scenario 2		Scenario 3		Scenario 4		Scenario 5	
		Wanda	Wally	Wanda	Wally	Wanda	Wally	Wanda	Wally	Wanda	Wally
Age		60	60	60	60	55	60	55	60	55	60
Health		Average	Average	Excellent	Excellent	Excellent	Poor	Excellent	Poor	Excellent	Poor
Sex		Female	Male	Female	Male	Female	Male	Female	Male	Female	Male
Primary insurance amount (PIA)*		\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	\$2,500	\$1,500	\$2,500	\$1,500
Annual expenses		\$80,000		\$80,000		\$80,000		\$80,000		\$160,000	
Strategy rank	Claiming age	62	62	67 [†]	62	62	62	67	62	70	67
1	Wealth equivalent**	\$107,000		\$84,000		\$104,000		\$24,000		\$13,000	
2	Claiming age	67	62	62	62	62	67	62	62	70	70
	Wealth equivalent	\$104,000		\$77,000		\$100,000		\$23,000		—	
3	Claiming age	62	67	62	67	62	70	67	67	70	62
	Wealth equivalent	\$97,000		\$76,000		\$91,000		\$22,000		-\$16,000	
4	Claiming age	70	62	70	62	67	62	62	67	67	67
	Wealth equivalent	\$86,000		\$71,000		\$91,000		\$18,000		-\$63,000	
5	Claiming age	62	70	62	70	70	62	70	62	67	70
	Wealth equivalent	\$78,000		\$63,000		\$66,000		\$17,000		-\$75,000	
6	Claiming age	67	67	67	67	67	67	70	67	67	62
	Wealth equivalent	\$68,000		\$57,000		\$60,000		\$16,000		-\$89,000	
7	Claiming age	70	67	70	67	67	70	67	70	62	67
	Wealth equivalent	\$52,000		\$47,000		\$57,000		\$7,000		-\$198,000	
8	Claiming age	67	70	67	70	70	67	62	70	62	70
	Wealth equivalent	\$51,000		\$46,000		\$39,000		\$2,000		-\$210,000	
9	Claiming age	70	70	70	70	70	70	70	70	62	62
	Wealth equivalent	—		—		—		—		-\$218,000	

* Primary insurance amount (PIA) is the monthly Social Security benefit that a person is entitled to if they claim at full retirement age (FRA).

** Wealth equivalent is the amount of wealth an investor needs to be indifferent to the outcome across 10,000 scenarios (see figure notes below).

† Age 67 is FRA for those born after January 1, 1960, according to the U.S. Social Security Administration.

Notes: Hypothetical case for illustration purposes only. Projections are made using the Vanguard Financial Advice Model (VFAM) and Vanguard Capital Markets Model (VCMM). Investment allocation is variable, decreasing in equity weights over time. Any surplus is invested at the target allocation; see Appendix 2 for more information. State tax is assumed to be 3.07%; 2024 federal tax rates are used. All projections are shown in today's dollars. Starting with Scenario 1 and with the exception of now being married, Wally's vital statistics remain unchanged from Figure 1: He is male and unlikely to outlive his assets; his current age is 60, and his median life expectancy is 86; he has assets of \$4 million, of which 25% are held in a taxable account, 50% in a traditional IRA account, and 25% in a Roth IRA account; his PIA is \$4,000, his annual expenses are \$80,000, and his success rate is 100%. Also starting with Scenario 1, Wanda has the same details as Wally, with the sole difference of her life expectancy being longer. They share \$4,000,000 in assets and \$80,000 in annual expenses. Subsequent scenarios build on and are adjusted from Scenario 1. For "average" health, life expectancy was calculated using data from the Society of Actuaries (SOA) Mortality Tables RP-2014 and SOA Mortality Improvement Scale MP-2021. For "poor" or "excellent" health, an increase or decrease, respectively, in mortality rate was applied. Each possibility is ranked by the utility score provided by VFAM, with the best strategy listed first. Strategy values are baselined to both hypothetical investors claiming at age 70. Any unlisted characteristics remain unchanged. For more information on the VFAM, see Appendix 2.

Sources: Vanguard calculations, using data from the Society of Actuaries.

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General considerations

The decision about when to claim Social Security is based on many factors, and it is important to consider each investor's personal situation, especially since claiming decisions are generally irrevocable.⁷ For most investors born after January 1, 1960, claiming at age 62 reduces the benefit amount by 30%, while claiming at age 70 increases it by 24%, relative to the benefit they receive if they claim it at FRA.⁸ Therefore, many people may benefit from later claiming strategies to increase longevity protection or maximize wealth.

The type of person who is most likely to benefit from early claiming is someone who has little to no risk of outliving their assets. Additionally, it is helpful if they do not have income and may benefit from pulling income forward. That said, when to claim is a nuanced, multi-faceted decision, and financial modeling tools may be needed to best understand the trade-offs most relevant in each situation. It is safe to say, however, that such trade-offs will always involve the following considerations, which we have touched on in this research note.

Longevity. The longer one expects to live, the more sense it makes to delay claiming Social Security. Those who are in good health, female, or both are more likely to benefit from claiming late.⁹

Surviving spouse. Because the surviving spouse will retain the highest benefit amount accrued by either spouse, it often makes sense for the higher earner to delay claiming to increase longevity protection.

Spousal benefit. A spouse will not receive any additional benefit by delaying claiming past their own FRA; the benefit is capped at a maximum of 50% of the worker's PIA.

Income. Knowing one's flow of income, current and future, can help in making the claiming decision. Income flow considerations can play

out in different ways. For someone working past 70, claiming early may not make sense—while someone with a large tax-deferred account will likely want to consider how the timing of claiming could affect required minimum distributions and associated taxes. And (while this is not a scenario presented in this paper) someone eligible for Social Security who is unable to work and having a hard time paying bills, may find that claiming early is appropriate.

Expenses. When expenses are the same year over year, it is easier to plan for them. However, at some point, nearly everyone faces unexpected costs—whether in the form of large and urgent household repairs, a car that breaks down and needs to be replaced, or long-term care for a loved one or themselves. Understanding how income, portfolio assets, and Social Security benefits can best match planned or unplanned needs can help shape a claiming strategy.

Conclusion

Conventional wisdom suggests investors should delay claiming Social Security to age 70 if they can. While this may be an appropriate strategy for many investors, data show that for those who will not outlive their assets, the best outcomes may result from claiming early. Determining the optimal claiming age is complex, however, and there is no ideal strategy for everyone. Investors should consider their needs and circumstances holistically when making their claiming decision. For example, investors who have more unpredictable expenses are more likely to benefit from placing an emphasis on longevity risk, whereas those with more predictable expenses can better evaluate if greater emphasis should be placed on breakeven risk. In both cases, consulting with an advisor can help the investor make their decision and build a comprehensive strategy that considers their individual situation.

⁷ There may be options to 1) suspend payments, or 2) withdraw within 12 months and repay all benefits received.

⁸ Vanguard calculations, using data from the U.S. Social Security Administration. See Social Security Administration, *Effect of Early or Delayed Retirement on Retirement Benefits* (available at https://www.ssa.gov/oact/ProgData/ar_drc.html).

⁹ According to the Mortality Improvement Scale MP-2021 Report of the Society of Actuaries' Retirement Plans Experience Committee, females tend to outlive males; see [soa.org/4a9de4/globalassets/assets/files/resources/experience-studies/2021/2021-mp-scale-report.pdf](https://www.soa.org/4a9de4/globalassets/assets/files/resources/experience-studies/2021/2021-mp-scale-report.pdf).

Next steps

Investors who are eligible or nearing eligibility to claim Social Security may want to take the following steps:

1. Determine expected benefit amount.¹⁰
2. Learn more about Social Security benefits.¹¹
3. Consider all income sources and expenses, now and in the future, including the ability to work and anticipated health care expenses.
4. Evaluate how Social Security benefits and an investment portfolio can best meet any gaps between income, expenses, and long-term goals.

Appendix 1

About the Vanguard Capital Markets Model

IMPORTANT: The projections and other information generated by the Vanguard Capital Markets Model (VCMM) regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. VCMM results will vary with each use and over time.

The VCMM projections are based on a statistical analysis of historical data. Future returns may behave differently from the historical patterns captured in the VCMM. More important, the VCMM may be underestimating extreme negative scenarios unobserved in the historical period on which the model estimation is based.

The VCMM is a proprietary financial simulation tool developed and maintained by Vanguard's primary investment research and advice teams. The model forecasts distributions of future returns for a wide array of broad asset classes. Those asset classes include U.S. and international equity markets, several maturities of the U.S. Treasury and corporate fixed income markets, international fixed income markets, U.S. money

markets, commodities, and certain alternative investment strategies. The theoretical and empirical foundation for the VCMM is that the returns of various asset classes reflect the compensation investors require for bearing different types of systematic risk (beta). At the core of the model are estimates of the dynamic statistical relationship between risk factors and asset returns, obtained from statistical analysis based on available monthly financial and economic data from as early as 1960. Using a system of estimated equations, the model then applies a Monte Carlo simulation method to project the estimated interrelationships among risk factors and asset classes as well as uncertainty and randomness over time. The model generates a large set of simulated outcomes for each asset class over several time horizons. Forecasts are obtained by computing measures of central tendency in these simulations. Results produced by the tool will vary with each use and over time.

Indexes for VCMM simulations

The long-term returns of our hypothetical portfolios are based on data for the appropriate market indexes through August 31, 2024. We chose these benchmarks to provide the most complete history possible, and we apportioned the global allocations to align with Vanguard's guidance in constructing diversified portfolios. Asset classes and their representative forecast indexes are as follows:

- U.S. equities: MSCI US Broad Market Index.
- Global ex-U.S. equities: MSCI All Country World ex USA Index.
- U.S. cash: U.S. 3-Month Treasury—constant maturity.
- U.S. bonds: Bloomberg U.S. Aggregate Bond Index.
- Global ex-U.S. bonds: Bloomberg Global Aggregate ex-USD Index.

¹⁰ The United States Social Security Administration offers calculators and other free tools as part of its "my Social Security" online access program; see ssa.gov/myaccount.

¹¹ See Social Security Administration, *Effect of Early or Delayed Retirement on Retirement Benefits* (available at https://www.ssa.gov/oact/ProgData/ar_drc.html). Also useful are the information and resources offered by Vanguard for personal investors, available at investor.vanguard.com/investor-resources-education/social-security.

Appendix 2

About the Vanguard Financial Advice Model

VFAM is designed to exhaustively simulate combinations of financial planning strategies over a life cycle of potential market and economic forecasts to assess how each strategy would perform. All consumption and bequest amounts are presented and evaluated in inflation-adjusted dollars.

Asset allocation recommendations are valued using the Vanguard Life-Cycle Investing Model (VLCM). The VLCM is a proprietary model for

glide-path construction. In the case studies described in this paper, we use a standard glide path from VLCM set to a moderate risk tolerance. The asset allocation is 50% stocks/50% bonds until age 81, 45% stocks/55% bonds until age 86, and 40% stocks/60% bonds thereafter. Stocks are weighted 60% domestic/40% international, while bonds are weighted 70% domestic/30% international. See Appendix 1 for the indexes modeled. In Case Study 1, the target allocation is based on Wally's age; in Case Study 2, it is based on Wanda's age.

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