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How to Retire Early, Then Change Your Mind

by

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Call it the Social Security do-over. If you retire early and take a reduced monthly benefit, you can change your mind, reapply, and get the bigger payments that go to those who wait to collect benefits.

The catch? After filling out Form 521, you must send the government a check covering the benefits you've been paid (without interest or adjusting for inflation). "Everyone is free to do this," says Laurence J. Kotlikoff, economics professor at Boston University and head of financial-planning software company ESPlanner.

He ran numbers for a couple who retire at 62, have $300,000 in savings, and an additional $100,000 each in retirement assets. They want their money to last until they're 100. If they apply for benefits at 62, each gets $17,921 a year.

Fast-forward eight years. Had they waited until age 70 to file, they would get $31,005 each, for a total of $62,010 a year. To get those higher payouts at this point, the formula requires them to pay $118,957 each. Yes, that's a big check. But to get that same payout by buying the cheapest commercial annuity would cost 40% more. When you include earnings from the couple's other assets and factor in their 30-year time horizon, Kotlikoff calculates that their annual aftertax spending can go from $58,765 to $70,420.

—By Christopher Farrell, Edited by Suzanne Woolley