

Should I Wait to Start My Social Security Benefits?

Presented by John Higgins

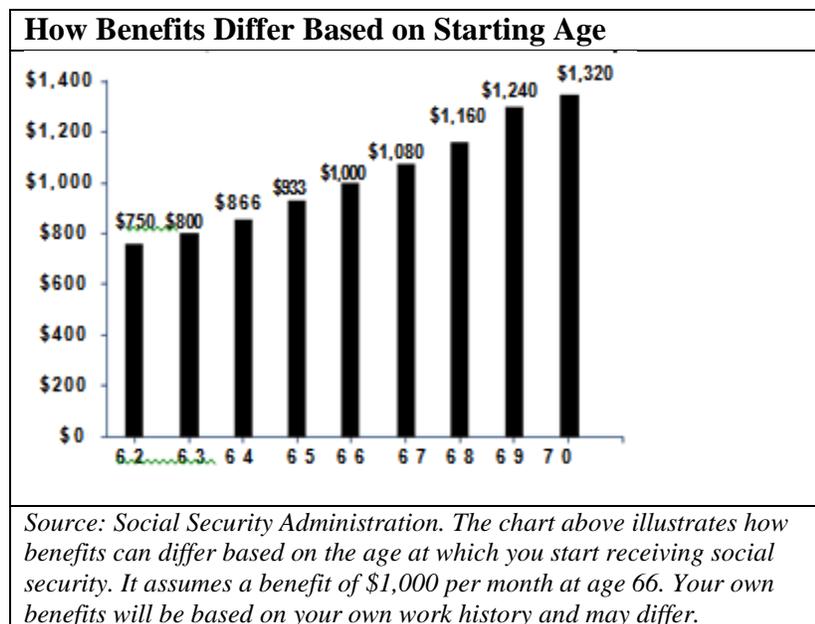
Deciding when to begin taking your social security retirement benefits can be difficult, as there are many factors to consider. Even if you plan to keep working, social security benefits are available to most workers as early as age 62, but you can also delay collecting up until age 70 or choose any age in between.

The first step in making your decision is to determine your full retirement age (FRA)—the age at which you can collect your full benefits. For workers born between 1943 and 1954, that age is 66; for those born later, the FRA gradually increases to age 67. Claiming benefits prior to your FRA can reduce your monthly payment by as much as 30 percent—but you will receive benefits for a longer period. If you postpone claiming benefits beyond your FRA, your social security payment will increase by a certain percentage, depending on your year of birth, until you reach age 70.

It's important to consider your options carefully. The decision to claim benefits early can result in a lower standard of living for the rest of your life. And claiming later can mean more financial security for your surviving spouse.

The benefit reduction due to claiming early is permanent. Even if you elect to start receiving benefits early, your benefits will still be increased annually by cost-of-living allowances. Despite social security's annual inflation adjustment, however, your payments may never equal the benefit that you would have received by waiting until your FRA.

What timeline is best for you? You can crunch the numbers using AARP's Social Security Benefits Calculator, available at www.aarp.org/work/social-security/social-security-benefits-calculator.



Questions to ask yourself

From a purely mathematical point of view, most people are better off waiting to start social security. There are questions you need to ask yourself, however.

Do you need the cash? If you need help paying for your basic living expenses, you probably should elect to begin receiving benefits as soon as possible.

How is your health? According to the most recent Social Security Administration (SSA) life expectancy tables, a healthy 62-year-old male has a 50-percent chance of living to age 77. Age 77 is considered the breakeven point at which the reduced amount a person began collecting at age 62 would be the same as the unreduced benefit paid from FRA to age 77.

Many people, however, will live longer than the breakeven age, and it is interesting to note that other life expectancy studies draw different conclusions. According to MetLife, a 62-year-old male has a 72-percent chance of living beyond age 79; a 62-year-old female has an 82 percent chance of living past 79.

In any case, it is important to consider your family's pattern of longevity. The longer you live, the more you benefit from delaying. If your health and family history predict a long life, you may be better off delaying your benefits until FRA or later.

If you don't expect to attain a normal life expectancy and you are single, consider taking benefits early. But if you are married, be aware that doing so will reduce your spouse's survivor benefit.

Will you continue to work? If your working wages are greater than \$15,720 in 2015 and you selected early benefits, your (and your dependents') social security benefits will be reduced by \$1 for every \$2 you earn. If you earn more than \$41,880 in the year you reach your FRA, your benefits will be reduced by \$1 for every \$3 you earn. After that point, working has no effect on the amount of your benefit, although it may impact whether your benefits are taxed.

Although your benefits will be reduced if your earned income exceeds the threshold, this is a temporary reduction. The SSA will recalculate your benefits at your FRA and credit any months where your earnings from work completely offset your monthly benefit. Further, since your benefit includes your highest 35 years of indexed earnings, wages you earned today may replace lower-earning years in the benefit calculation, which could result in higher benefits.

How much do you earn from pensions and other investments? For retirees earning more than \$25,000 (\$32,000 for married couples), 50 percent of your social security benefits will be taxed. If you earn more than \$34,000 (\$44,000 for married couples), 85 percent of your social security benefits will be included in your taxable income. To determine your income for this purpose, the IRS looks at wages, self-employment, interest, dividends, and otherwise tax-free municipal bond income. The IRS adds all these to one-half of your social security benefit to determine how much of your benefits will be taxed.

Are you in a high tax bracket? Since social security benefits may be taxed, those in the highest tax brackets and with other sources of income can benefit from delaying social security and thus deferring taxes.

Are you the spouse of an eligible worker? Normally, if both you and your spouse are living, the SSA will pay you the higher of your own social security retirement benefit or 50 percent of your spouse's benefit. If you delay benefits until your FRA, however, you will have a choice of either benefit.

One strategy would be for one spouse to take reduced benefits at age 62 and for the other to take a spousal benefit at his or her own FRA. Then, at age 70, the latter would switch to a benefit based on his or her own work history. This would allow you to accrue delayed retirement credits and provide a higher benefit. Because the rules are somewhat complicated, however, be sure to consult your local social security office about your eligibility for this strategy.

Another strategy is called "file and suspend." Assuming you are the higher wage-earning spouse, once both you and your spouse reach your FRA, you apply for benefits but immediately suspend the payments until age 70. This allows your spouse to elect a spousal benefit based on your higher benefit amount while continuing to accrue delayed retirement credits on his or her own retirement benefit. At age 70, your spouse may then switch to a higher benefit based on his or her own work record. Meanwhile, you will have earned delayed retirement credits on your suspended benefit payments as well. This strategy will almost always maximize your total lifetime benefits.

Be aware that only one spouse can file and suspend so that the other can claim spousal benefits. It is not possible for both spouses to file and suspend.

Are you a surviving spouse? As a widow or widower at FRA, you are eligible for 100 percent of what your spouse's benefits would have been if he or she were living. Reduced survivor benefits are available at age 60. Taking a reduced survivor benefit does not affect the benefit based on your own earning history. Thus, you can apply for a survivor benefit and switch to your unreduced retirement benefit at your FRA, or later.

Will you spend or save your social security benefits? You may be able to earn more on your reinvested payments than you lose by taking a reduced benefit. Your financial professional can calculate the after-tax, breakeven interest rate that would be necessary for this strategy to make sense.

Before you can decide when to take your retirement benefits, it's necessary to check with the SSA to find out which benefits you're entitled to claim. Verify your earnings history with the SSA's records and correct any errors. Based on the social security benefit statement and your recent tax records, your financial professional can run sophisticated financial models to help you make your decision.

Take your benefits early	Wait until your full retirement age	Delay benefits up to age 70
<ul style="list-style-type: none"> • If you need the cash flow to pay living expenses • If you prefer the flexibility of investing benefits • If you're not in good health and are single 	<ul style="list-style-type: none"> • If you are still working and earning more than \$15,720 (2015) • If you are married and you want to use a "file and suspend" strategy so your spouse can apply for spousal benefits • If you want to receive the highest spousal benefit available 	<ul style="list-style-type: none"> • If you want to increase your monthly benefit • If you are very healthy and have a family history of long life expectancies • If you want your spouse to receive the highest survivor benefits

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