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Knowing Your Social Security Options

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I am often asked, "What is the best age to begin Social Security retirement benefits?" My answer will depend upon your unique situation. Factors to consider are your cash flow requirements, your health and family longevity, whether you plan to work after retirement, whether you have other income sources, whether you are married, or whether you have ever been married. Many people plan to begin retirement benefits as soon as they can for a number of reasons: they need income now, they fear the Social Security system will collapse in the future, or they want to delay tapping into their nest-egg for as long as possible. These are valid reasons and should to be taken into consideration; however, a retiree should investigate all options to maximize lifetime benefits for themselves and their spouse.

Let's begin our discussion by understanding the basic Social Security rules:

- Your full retirement age is based upon the year you were born. For example, an individual born in 1950 has a full retirement age of 66. An individual born 1960 has a full retirement age of 67.
- You can start your Social Security retirement benefits as early as 62 or as late as 70. If you begin retirement benefits at age 62, your lifetime benefits are reduced 20-30%, depending upon your full retirement age.
- You can postpone your retirement benefits beyond your full retirement age and boost your retirement benefit by 8% for each year you delay, up to age 70.
- If you begin benefits prior to your full retirement age and continue to work, your social security benefits will be reduced $1 for every $2 your salary is above an annual amount until you reach your full retirement age. In 2012, this amount is $14,640.
- If you decide to delay benefits after age 65, you should still apply for Medicare within 3 months of your 65th birthday. If you wait longer, your Medicare medical insurance (Part B) and prescription drug coverage (Part D) may cost you more money.

Social Security benefit rules for an individual are pretty straight forward. However, when we add a spouse into the equation, we have many more options to consider.

- You can choose to collect benefits based upon your own earning history, or you can claim <u>up to</u> 50% of the benefit earned by a spouse or former spouse (if you were married at least 10 years), whichever is higher.

- If you remarry, you generally cannot collect retirement benefits on your former spouse's record unless your later marriage ends (whether by death, divorce or annulment).

- If your spouse or former spouse is deceased, you can claim up to 100% of their retirement benefit as a survivor. If you remarry before age 60, you cannot receive survivor benefits based upon your former spouse's earnings record.

- A spouse can elect to receive benefits under his/her own earnings history and at a later date switch to spousal benefits (if higher*). However, a spouse cannot elect to receive spousal benefits prior to his/her full retirement age and later switch to his/her own benefits.*

- The higher-earning spouse can file for benefits at full retirement age and can file a notice to suspend his/her benefits. Doing so will provide spousal benefits to the lower-earning spouse. By suspending his/her benefits, the higher-earning spouse can continue to accrue higher payments for his/her retirement benefits.

Example:

Assume Jack is 65 and Jill is 62. Based upon Jill's work record, she can receive a benefit of $1,600 per month at full retirement age of 66 or $1,200 at age 62. Based upon Jack's work record, he can receive $2,000 per month at his full retirement age of 66 or $2,640 if he delays payments until age 70. Assume both Jack and Jill expect to live to age 90 and cost of living adjustments average 1% annually.

Option One: If Jack collects $2,000 at age 66 and Jill collects $1,600 at age 62, expected lifetime benefits would be $1,195,344. This option maximizes annual income for the first 4 years of retirement.

Option Two: If Jack collects $2,000 at age 66 and Jill delays benefits until full retirement age of 66, expected lifetime benefits would be $1,240,029.

Option Three: At Jack's full retirement age, he can claim $800/month spousal benefits. In the meantime, Jill can receive benefits beginning $1,200/month to support cash flow requirements. At age 70, Jack can switch to a monthly benefit of $2,640, based upon his earnings record. Expected lifetime benefits would be $1,317,497. This option maximizes annual income for the last 23 years of retirement.

Note that in the event of Jack's death, Jill can collect survivor benefits based upon 100% of Jack's retirement benefits. Option three provides the highest survivor benefit of $2,640/month, while options one and two provide a survivor benefit of $2,000/month.

Conclusion:

When deciding to begin benefits, consider your health and planned longevity. If you live to the average life expectancy for someone your age, you will receive about the same amount in lifetime benefits no matter what age you begin benefits. If you or your spouse expect to live past your early 80's, it may be better for one of you to postpone benefits to full retirement age or later.