

## **WHEN TO START COLLECTING SOCIAL SECURITY**

With the ongoing discussion about the Social Security Trust Fund running out of money in 2033, you may feel tempted to file for benefits as soon as you are eligible (generally age 62). According to the Social Security Administration, workers continue to pay into Social Security, making it impossible to “run out” of money; however, the Fund will experience a shortage of funds to cover all it needs to pay out. How Congress will deal with the shortfall is still to be addressed, but benefits will still be paid out. Starting benefits early may have negative consequences in the long run.

If you haven’t already visited the Social Security website at [www.ssa.gov](http://www.ssa.gov), you should check it out. The website includes benefit calculators and contains a wealth of information on Social Security. Once you have created an account, you can print your Social Security Statement (they no longer mail it on an annual basis), apply for benefits, estimate your future benefits, and much more.

### **MAKING THE DECISION**

You should carefully consider your alternatives before making a decision as to when to start receiving Social Security. There are several factors to consider regarding benefits, which are listed below:

- 1) Will you continue to work?
- 2) What is your life expectancy (any health issues or family history of health problems)?
- 3) Do you have a spouse or children that may be eligible for benefits on your earnings record?
- 4) Do you have other sources of income?

Once you begin receiving your Social Security benefits, your spouse and children may be eligible for benefits on your earnings. These benefits are in addition to yours and are calculated as a percentage of your Primary Insurance Amount (PIA). There is a discussion of these benefits later.

### **Effect of early retirement on benefits**

- 1) Reduced benefits -

Full retirement age [also called normal retirement age (NRA)] is the age at which a person may first become entitled to full retirement benefits. As you are probably aware, NRA increases depending on your birth year. For those born before 1938, NRA is 65. For baby boomers born between 1943 and 1954, the NRA is 66. NRA gradually increases to 67 for those born in 1960 and later. Please [click on this link](#) to find your NRA. If you retire before your NRA, your benefits are permanently reduced based on your retirement age and your NRA. For example, if you retire at age 62 (and your NRA is 66), you would receive 75% of your benefits each year (even after you reach NRA). The closer you are to NRA when benefits start, the smaller the reduction. Retiring at age 62 means a 25% reduction, but waiting until age 63 would be a 20% reduction. Please [click on this link](#) to refer to the chart “Effect of Early or Delayed Retirement on Retirement Benefits” that shows the reduction amounts for early retirement and the increased amounts for delayed retirement.

Example: If your monthly Social Security benefit would be \$1,000 at NRA, you will only receive \$750 per month if you retire at age 62. You will receive four additional years of benefits by not delaying until age 66. It will take you 12 years to make up for this reduction, making your break-even point age 78 (66 + 12). If your life expectancy is higher than 78, your total benefits would be greater by waiting to retire. If you don't expect to live to age 78 due to illness or family history, the additional four years of benefits would be more beneficial to you.

With the unfavorable economy, many people age 62 and older are filing for Social Security before their NRA because of unemployment and or needing money.

2) Earnings limit -

If you retire before your NRA and you earn more than the exempt amount (\$15,480 for 2014), your benefits and your family benefits will be reduced. For every \$2 you earn above \$15,480, your benefits will be reduced by \$1. For example, if you earn \$20,000, your benefits will be reduced by \$2,260 ( $\$20,000 - \$15,480 = \$4,520$ .  $\$4,520 \times 50\% = \$2,260$ ). So if you plan to continue working after filing for early retirement, a portion (or all) of your benefits may have to be repaid. Note that your benefits will be increased when you reach NRA to account for these earnings limit reductions.

3) Family benefit -

As discussed below, your unmarried children could be entitled to a benefit of 50% of your PIA (subject to family maximum benefits). Taking early retirement increases the number of years that your children qualify for family benefits. For example, if you retire at age 62 with a 15 year old child, your child qualifies for benefits for three years. If you wait until age 66 to retire, your child will be 19 and will not qualify for any benefits. Similarly, your spouse could be entitled to benefits of 50% of your PIA (also reduced if your spouse is under full retirement age), subject to the earnings limit discussed above.

#### Effect of postponing retirement on benefits

You can choose to delay starting benefits and earn delayed retirement credits (DRC). The rate is 8% for each full year up to age 70 that you do not receive your benefits at NRA or later. If you wait until age 70 to retire and your NRA is 66, your benefits will increase by 32% ( $8\% \times 4$  years). Note that your benefits will increase, but if your spouse is collecting spousal benefits they will be based on your benefits at NRA. You may want to delay benefits if you are still working and you don't need the Social Security income. Also, since your benefits may be subject to income taxes, you may want to wait until you are no longer working to collect benefits to save income taxes.

If you have a spouse or child entitled to benefits on your earnings record, you can choose to file and suspend your own benefit in order to earn DRCs. This will not affect the benefit payable to your spouse or child.

Example: If your monthly Social Security benefit would be \$1,000 at NRA, you will receive \$1,320 per month if you retire at age 70. You will receive four fewer years of benefits by delaying until age 70 and it will take you 13 years to make up for this delay, making your break-even point age 83 (70 + 13). If your life expectancy is higher than 83, your total benefits would be greater by waiting until age 70 to retire.

### Federal Income Tax on benefits

Up to 85% of your Social Security benefits are subject to federal income tax. The calculation is based on your filing status and your other income plus one-half of your Social Security benefits. You will be subject to tax if:

- You are single and your income is over \$25,000
- Married filing jointly and your income is over \$32,000
- Married filing separate (no limit)

### **FAMILY AND SURVIVOR BENEFITS**

There are also special rules that cover your spouse, your unmarried divorced spouse, your children and your widow(er). These are discussed below.

#### Spousal Benefits

When you file for retirement benefits, your spouse may be eligible for benefits on your work record as long as you have been married for at least one year, and both you and your spouse are at least 62. If your spouse has reached NRA, he or she is eligible for benefits of 50% of your benefit (PIA). The spousal benefit is reduced if he or she has not reached NRA and is 37.5% of your benefit if your spouse is 62. If your spouse is eligible for retirement benefits based on his or her own earnings, and that benefit is higher than the spousal benefit, they will receive their own benefit.

Example: If your monthly Social Security benefit is \$1,000 and you wait until age 66 to collect Social Security, your spouse would be entitled to \$500 in spousal benefits if he or she has reached NRA. If your spouse is 62 and claims spousal benefits, he or she would only receive \$375. If your spouse is eligible for benefits on his or her own earnings of \$500 or more, he or she will get their own benefits rather than spousal benefits.

#### Unmarried divorced spouse

Your unmarried divorced spouse may be entitled to benefits starting at age 62 if married to you for at least 10 years. Spousal benefits are 50% of your PIA and are reduced if claimed before his or her NRA. Once you are at least age 62 (whether retired or not) or are receiving Social Security disability benefits, your divorced spouse can file. See the example above for the calculation of spousal benefits.

## Children

When you file for retirement benefits, your unmarried children under 18 (or under 19 and still in high school), would be entitled to a benefit of 50% of your PIA. Similarly, any children that became disabled before age 22 would also qualify. Note that there are family maximum benefits equal to 150 to 180 percent of the parent's full benefit. So if you have more than one child, their benefits may be reduced.

## Survivor benefits

When you die, your surviving spouse age 60 or over is entitled to benefits based on your earnings. Your spouse can also qualify if he or she is under age 60 and is caring for a child who is disabled or who are under 16. Please note that a surviving spouse who files for Social Security before his or her NRA will receive reduced benefits. For example, a widow(er) at age 60 will only receive 71.5% of the PIA. Also, your surviving divorced spouse (if married to you for at least 10 years) qualifies for the same benefit as your widow(er). If your widow(er) or surviving divorced spouse remarries after age 60, they are still entitled to benefits. If your widow(er) or surviving divorced spouse remarries before age 60, benefits are not payable unless (and until) the subsequent marriage ends.

## MEDICARE

Regardless of your NRA, you are entitled to Medicare benefits at age 65. You should apply for Medicare benefits within three months of your 65<sup>th</sup> birthday. Postponing your application could raise your Medicare B premium.

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The above is a brief discussion of the Social Security benefit rules. We encourage you to go on the Social Security Administration's website. We are also here to help you.

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