

SOCIAL SECURITY BENEFIT OPTIONS

Desert Leaf Article

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Introduction

Social Security benefits are a mystery to many people, including those who are currently receiving Social Security. This article is designed to address your Social Security options.

Retirement Age.

You may elect to start receiving retirement benefits as early as age 62. Currently, a person born in 1950 would be eligible to retire in the year 2012. However, if you elect to retire at age 62, you would only receive 75% of your annual Social Security benefits for the remainder of your life. In order to receive 100% of your annual Social Security benefits, you would need to reach your full retirement age (FRA). Currently, FRA is 66. FRA will eventually increase to age 67.

Consequently, in exchange for receiving benefits for the four extra years between the ages of 62 and 66, you receive a 25% reduction for the remainder of your life. If you would have had a \$1,000/month Social Security benefit at FRA, from age 62 to age 66 you would collect \$750 per month, or \$36,000 total during that time period. Your benefits do not go up to the full retirement amount when you reach 66 if you retire early. Electing early benefits and receiving \$250 less every month after age 66, in 12 years you would have exhausted the benefit you received by taking Social Security between ages 62 and 66. Thus, age 78 is the breakeven point (not considering the time value of money).

The IRS mortality tables state that a 62 year old will live 23.5 more years, having a life expectancy to age 85.5. So, if you take early retirement and live to your life expectancy, it will cost

you \$250 (\$1,000 less \$750 a year) for a full 7.5 years, or \$22,500. People born in 1960 and later will have an even greater loss if they start taking benefits early, as their benefits are reduced by 30% if they retire at age 62 instead of the current 25% reduction.

In conclusion, it is not financially wise to take early Social Security benefits unless you have reasons to believe that you will not live to your normal life expectancy.

Full Retirement Age vs. Age 70

Even though the full retirement age is currently age 66, you can wait until age 70 to begin receiving Social Security benefits. If you do so, the IRS will increase your total payout by a certain amount each year. Currently, that amount is approximately 8% per year. Consequently, if you are to receive \$1,000/month in the year you turn 66, waiting until age 70 will increase this amount to approximately \$1,360. During the four year period between age 66 and 70 you would have received \$48,000 at \$1,000/month. You will make up that dollar amount in a little over 11 years if you wait until age 70 to begin taking benefits. Consequently, if you reach your life expectancy, it is more advantageous to wait until age 70 to start receiving Social Security benefits.

Spousal Benefits

Following is a discussion of options available while both spouses are alive. A spouse can obtain spousal benefits in an amount equal to one-half of the other spouse's primary insurance amount (PIA) less their own PIA. PIA is generally the amount that a person would obtain if he or she started taking retirement at age 66. If a husband waits until age 70 to start taking benefits and receives the \$1360 as illustrated above, the wife who had no Social Security benefits would still only receive 50% of the \$1,000 that husband would have received at age 66, not 50% of the \$1,360. The spouse must be at least age 62 prior to filing for spousal benefits. Between your own Social Security

benefits and your spousal benefits, you receive a total of one-half of the difference between the higher earning spouse's Social Security unless your benefits on your own is greater than that amount.

If you retire early and also elect to receive spousal benefits early, the spousal benefits will also be reduced by a percentage factor. This percentage factor is slightly higher than the reduction in your own benefit.

A spouse can elect to receive his or her own benefits early and delay filing for spousal benefits until age 66. This will allow you to receive full spousal benefits. You cannot do the reverse by filing for spousal benefits early and delaying your own retirement benefits.

One thing to remember is that you can apply for spousal benefits at age 66 and delay your own filing, allowing your own amount to grow until age 70.

Survivor's Benefits.

There are options to consider upon the death of the first spouse as well. If your spouse predeceases you and has a higher Social Security benefit than you do, you have the right to elect to take that spouse's Social Security benefit. Consequently, the survivor can always obtain the Social Security benefits of the higher earning spouse. You must go to the Social Security office in order to obtain this benefit. The Social Security Administration will not automatically make this election for you. Reduction provisions apply if the surviving spouse is under the age of 66.

However, the widow or widower can begin receiving benefits at age 60 rather than age 62. That person can also start receiving benefits if he or she is disabled and is over age 50.

A widow or widower can also receive benefits if he or she has children under the age of 16. Those children can also receive benefits.

If you have not yet reached age 66 you can receive your spouse's benefits between age 60 and age 66 and then switch to your own benefits if they are higher.

These rules are complicated and can be confusing even for those who deal with them frequently. If you have any doubt as to the best course of action, you should consult with a trained advisor.

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