

# Tangible Solutions

## Financial Information to Meet Your Needs

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Spring 2009

### Introduction

Many of my clients are seeking useful information to help them make educated decisions on financial matters. Each issue we will focus on a specific topic and provide pertinent information which I believe that you will find valuable. If you have a suggestion for a future topic or concern, please let me know. I look forward to your input and feedback.

- Sandy Voit, Publisher, *Tangible Solutions*

## FOCUS: Social Security

### When Should You Start Collecting Benefits?

This is a popular question, and the only way of knowing for sure what your greatest benefit would be, is if you knew when you were going to die. That may sound morbid, but this is the reason it is called Social Security Insurance.

First, let's see if you are eligible for Social Security benefits. To be eligible you had to have worked a minimum of 10 years – actually 40 3-month quarters with earnings of a minimum of \$1050/quarter, and have been paying Social Security taxes – also called FICA (many government employees, for example, do not pay into the social security system). Or, you may qualify based upon your spouse's earnings. This applies even in the event of being widowed, or after a divorce (assuming the marriage lasted at least 10 years).

Your specific benefit depends upon your age at retirement and your highest 35 years of earnings. (Each year's earnings are adjusted for inflation.) Even if you did not work, but were married, you can receive an amount of 50% of your spouse's benefit. (**Note:** You may be eligible several different ways, but you may only receive the benefit which is the highest amount. For example, your earnings may entitle you to \$900/month, but your spouse is eligible to receive \$2000/month, which would mean you would qualify for spousal benefits of \$1000/month, which is higher.)

**Disability / Survivor's Benefits:** If you were to become fully disabled, you may be eligible to receive your benefits right away. Should you die, your survivors, spouse and children younger than 18 years old, would also be eligible for benefits right away. The amounts are listed on your annual Social Security Statement (*please see section on reverse side*).

Each year you receive a **Social Security Statement** which provides you with an estimate of what you will receive depending upon when you choose to retire at one of three ages (see below). If you can't

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find your annual statement, you may contact the Social Security Administration by calling 1-800-772-1213 (they will send you form SSA-7004 to complete and return) or apply online to [www.ssa.gov](http://www.ssa.gov). You will be asked to supply your name, Social Security number, date and birth place, previous year's earnings, estimated current year's and future earnings, and the year you estimate you will retire. Your report indicates your year-to-year record of your earnings, including the taxable amount you earned, the amount you and your employer paid in Social Security and Medicare taxes.

**When to Start Collecting:**

The Social Security program has identified three ages at which you may start collecting benefits, but the benefit amount is dependent upon when you start to collect. You can start as early as age 62, but then you will collect about 25% less than if you waited until your "full" retirement age (**Note:** "full" retirement can range from age 65 – if you were born before 1938, to age 67 – if you were born after 1959, depending upon the year you were born). On the other hand, for each year after you are eligible to receive full benefits you would receive an 7-8% credit, plus additional cost of living adjustments. If you wait to start collecting until age 70, you would collect about 32% (plus additional cost of living adjustments) more than at "full" retirement age (using age 66 as an example). As benefits do not increase after age 70, do not postpone starting your benefits after age 70.

**Example: Consumer's Reports** uses the following example to demonstrate the impact of how starting your benefits at three different ages compares and contrasts... If your benefits will be \$2190/month at age 66 (your "full" retirement age), you would earn \$1610/month at age 62, and \$2945/month at age 70. Each amount would have a cost-of-living increase added annually. (**Note:** Both the reduction and the additional benefits are proportional – you can earn additional benefits by waiting any amount of time, not just waiting until your full retirement age, or until age 70.)

Assume that "Susan" is eligible to receive \$2,190/month at age 66 – her full retirement age:

By Age	Retires at age 62 (\$1610/month)	Retires at age 66 (\$2190/month)	Retires at age 70 (\$2945/month)
	<u>Total benefits collected</u>	<u>Total benefits collected</u>	<u>Total benefits collected</u>
66	\$78,890	\$0	\$0
70	\$156,170	\$105,120	\$0
75	\$252,770	\$236,520	\$176,700
80	\$349,370	\$367,920	\$353,400
85	\$445,970	\$499,320	\$530,100
90	\$542,570	\$630,720	\$706,800
95	\$639,170	\$762,120	\$883,500

**Note:** This example does not include any cost-of-living benefit. It is in constant dollars.

In the first column, Susan starts her benefits at age 62. Her median life expectancy, based on actuarial tables, is age 84. If she is still alive at age 84, she will have lost almost \$50,000 over waiting until age 66 to start, and about \$70,000 than if she waited until age 70 to start. (**Note:** Median life expectancy means that half will die before that age, and half will live longer than that age.)

In the second column, Susan starts collecting at age 66. Her median life expectancy at age 66 is age 85. By the time Susan turns 78, she "breaks even" from what she would have earned if she started collecting at age 62, and is collecting \$580 more every month.

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In the last column Susan waits until age 70 to start collecting. Her median life expectancy at age 70 is age 86. Susan will “break even” with early benefits at age 80, and is earning \$1335 more each month, and she breaks even with full benefits at age 82, then starts to earn \$755 more each month thereafter.

If you have your annual Social Security Administration Report, you can use an online calculator, such as the one at [www.choosetosave.org](http://www.choosetosave.org) (developed by the Employee Benefit Research Institute and the American Savings Education Council) to help you forecast your life expectancy, then go to the Social Security’s website ([www.ssa.gov](http://www.ssa.gov)) and use their calculator to help you estimate your own benefits at different ages and see whether or not Early, Full, or Late retirement is best for you.

**Note: Consider taking benefits at age 62 IF:**

- You’re in poor health, and do not expect to live another 12 years.
- You’re a spouse with modest earnings – you could start benefits early without sacrificing survivor benefits later.
- You’re an aggressive investor – receiving benefits earlier allows your investments to earn potentially higher returns.

**Other aspects to consider:**

**Continuing to Work:** You can still continue to work and receive Social Security benefits. As of 2008 if you earn more than \$13,560/year, from age 62 until your full retirement age, you will have your benefits reduced at the rate of \$1 for every \$2 in earnings beyond that amount. At your full retirement age, you can earn any amount and there is no reduction for earnings.

**Solvency of Social Security System:** As the number of retirees increases, the Social Security Trust Fund will start paying out more in benefits than it receives in taxes. Estimates vary, but this could occur as early as 2017. This doesn’t mean that the system will be bankrupt, but would mean that the benefits paid out will start eating into the reserves that have been built up. It is estimated that by about 2040, the reserve funds will be wiped out, and if no changes have been made in terms of increasing the FICA taxes, or postponing the age of retirement, then benefits will have to be reduced.

Congress might make changes, but the options are tough – voters may not like them, but without making tough political choices there appears to be no alternative but to have reduced benefits because of no action at all. Given your current age, it may, or may not have any impact on your benefits, but it certainly will impact the options of your children when it comes time for their retirement. This, too, might impact your decision whether or not to receive benefits at age 62...

**Divorced and Widowed Benefits:** If you are a divorced, unmarried spouse, you can receive the same benefits as a widow/er, as long as your marriage lasted at least 10 years. You can receive 100% of the worker’s full benefits if you apply at your full retirement age, or can receive reduced benefits as early as age 60.

If a divorced spouse remarries before age 60, then you are not eligible to receive a deceased spouse’s benefits as long as your second marriage is in effect. If you marry after age 60, then you could qualify for benefits based on the deceased spouse’s benefits, and could switch later to receive benefits from the new spouse (if larger – you can’t receive more than one benefit, only the larger one).

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## **Bonus Possibilities:**

### **Spousal Benefits:**

The lower-earning spouse is eligible for three types of benefits (but you can only receive one benefit – the highest):

1. Based upon your own earnings.
2. Spousal benefit equal to half of your spouse's benefit.
3. Survivor benefit equal to spouses benefits after death.

### **Using Spousal Benefits Before Your Own:**

**Example 1 – When there is a significant difference in benefits for each spouse:** According to the Center for Retirement Research, It is recommended that the spouse who is eligible for lower benefits to collect them early, while the higher earning spouse would delay taking benefits until they are worth more. If the higher earning spouse were to die before the lower earning spouse, the survivor benefit would preserve the higher benefits, essentially increasing the original benefit.

The Senior Citizen's Freedom to Work Act of 2000 allows you to "file and suspend" your Social Security benefits once you have reached your "full" retirement age. So, under this law the higher earning spouse could file for benefits at age 65-67, then suspend the benefit while continuing to work and build a bigger payment for the future. The lower-earning spouse could then apply for your benefit based upon your earnings and increase your benefits as well.

**Example 2 – When both spouses have relatively equal incomes:** Once you reach your normal retirement age, you can apply for spousal benefits and delay the start of your own, higher benefits. So, for example, if you are both 66 and eligible for benefits of \$1500/month, and one of you wants to stop working, but the other wants to continue, then you would apply for spousal benefits (half of the \$1500 or \$750/month) and your spouse would continue working until age 70, when the benefit would be worth over \$2000/month. You could then apply for your benefit based upon your earnings and increase your benefits as well. Remember that the spouse working longer can only take a voluntary suspension once you have received full retirement age.

**Final comment:** Planning for retirement would be far easier if we could see into the future and know at what age we will die. Your own family and health history are major factors to consider when deciding when to start your benefits. On the other hand, you may really need to have the cash at age 62 and that's why you might start then.

**End Note:** Thank you for taking the time to read this article. I hope you have found it useful. If you have any questions or concerns about this topic, or any other topic, please contact **Sandy Voit**, Tangible Solutions, 206-890-1174, or [sandyvoit@gmail.com](mailto:sandyvoit@gmail.com).