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Getting the MOST from your Social Security benefits

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Baby Boomer couples are now at the point of being able to collect Social Security payments. The first in the Baby Boom generation have turned 62, the age when they are eligible to receive the long-awaited Social Security check. But when should they? While the answer can be complex, and is specific to each individual's or couple's situation, having a general understanding of Social Security concepts and strategies can help you maximize the benefit available to you.

Earned Income and Age

If you are less than full retirement age, and still working with significant earned income, it makes little sense to begin receiving benefits because they will be reduced, depending on your age and amount of earned income. For example, if you are younger than full retirement age (FRA) for all of 2009, your benefit is reduced by \$1 for every \$2 earned over \$14,160. However, if you are younger than FRA but reach FRA in 2009, your benefit is reduced by \$1 for every \$3 earned over \$37,680 until the month you reach FRA, at which point there is no longer a reduction in benefits due to earnings.

Let us acknowledge that some people might have few options based on financial needs and health. If you absolutely need to receive your benefits, of course you should begin drawing them once you are eligible.

If one has other sources of retirement income, giving the luxury of a choice in timing, the issue becomes more complex. Let's say that at your full retirement age of 66, you would be entitled to \$2,000 per month. If you start drawing benefits at 62, they would be reduced by 25% to \$1,500 per month. Delaying your benefits until 70 would yield monthly payments of \$2,640, a full 32% higher than the payment taken

at age 66. The obvious conclusion is that if you can afford to delay, and anticipate a normal life expectancy, then do so. Considering your medical history and those of your ancestors can help in this guessing game.

Do-Overs

You do have a chance for a "mulligan," however. Suppose you receive your \$2,000 per month (plus the applicable cost of living adjustment, or COLA, increases) at full retirement age. Then at a later date, you decide you would rather have the higher check at age 70. You can file a "Request for Withdrawal of Application," or Social Security Form 521. Your benefits cease immediately upon filing and the Social Security Administration will inform you of the amount you have received and must pay back. Let's say you received 24 months of benefits worth \$2,000 per month upon filing (ignoring COLA increases). You would be required to pay back \$48,000 (no interest is charged). Upon re-filing at age 70, you would begin receiving a monthly check of \$2,640, or 32% greater than the original monthly payment of \$2,000 (again ignoring COLA). Over time, this additional monthly benefit can make a significant difference.

Timing with an Age & Income Spread

Historically, the traditional household included a higher-wage earner, generally the husband, with the wife often being the younger and lower-wage earner of the two.

In this case, it may be best for the lower earning (and younger) spouse to take benefits as early as possible, with the higher earning (and older) spouse delaying Social Security payments as long as possible to maximize that check. While the younger spouse's benefit (either their own earned benefit or their spousal benefit, which is discussed later) will be reduced if taken earlier than full retirement age, that penalty is

largely, if not entirely, erased upon the death of the higher earning (and older) spouse. This is because of the widow(er)'s benefit inherent in Social Security. The Social Security survivor's, or widow(er)'s, benefit is based on the deceased's earned rate, including reductions for drawing benefits early and increases for delaying benefits. Therefore, when the higher earner is considering the relative value of taking benefits early or delaying them, they must look not only at their own life expectancy, but also that of their spouse. In this scenario, by having the lower earning (and younger) spouse draw benefits at age 62 and the higher earning (and older) spouse delay benefits until age 70, it can provide some degree of income early in retirement while also potentially maximizing the benefit to the spouse with the longest life.

As an example, Herman, 66, is at the age of full retirement with the opportunity of receiving \$2,000 per month. His wife, Mabel, age 62, is eligible to receive a retirement benefit of \$667 per month at her full retirement age, 66, or she could receive a reduced benefit of \$500 per month now. While the reduction to Mabel's benefit is not inconsequential, if it provides enough current income that Herman and Mabel can delay receiving Herman's benefit until age 70, it may pay dividends for them in the long run. This is because of the increase in Herman's benefit due to delayed retirement credits, along with the survivor's benefit that is an intrinsic part of Social Security. For example, if Herman chooses to delay Social Security until the maximum age of 70, his monthly check would be for \$2,640 instead of the \$2,000 monthly benefit he is eligible for at age 66. Further, in the statistically likely event that Herman predeceases Mabel, the higher benefit Herman was entitled to because he chose to delay will be payable to Mabel, thereby erasing the reduction she experienced by taking her own benefit early.

Spousal Benefits

When discussing Social Security benefits, it is important to keep in mind that you may be entitled to up to 50% of your spouse's retirement benefit at their full retirement age. Known as a spousal benefit, it is particularly important in the event that the lower earning spouse either did not accrue enough credits on their own to receive a Social Security retirement benefit, or had substantially lower earnings than the higher earning spouse.

Returning to Herman and Mabel, we see that Mabel is eligible for a reduced retirement benefit of \$500 at age 62 based on her work history. However, if Mabel files for Social Security benefits at 62, she would actually receive a benefit of \$700 per month because of the spousal benefit for which she is eligible. There is a catch, though. Mabel cannot receive spousal benefits until Herman files for his retirement benefit (upon which

Mabel's spousal benefit is based). Given that Herman and Mabel would like to delay taking Herman's benefit until age 70, this appears to pose a problem for accessing Mabel's spousal benefit now. However, it is a problem that can be overcome.

The Senior Citizens' Freedom to Work Act of 2000 allows an individual to file for and suspend payment of his or her Social Security retirement benefits if he or she has reached full retirement age. In our example, this solves Herman's and Mabel's dilemma of whether to file for benefits now and allow Mabel to collect spousal benefits, or wait to draw benefits, therefore allowing his benefit to accrue delayed retirement credits. Strangely, by allowing a worker to "file and suspend" retirement benefits at full retirement age, The Senior Citizens' Freedom to Work Act allows Herman and Mabel to have their cake and eat it too, as Herman is able to continue working, adding to his benefit base and accruing delayed retirement credits, while Mabel is able to collect spousal benefits based on Herman's work record at Herman's age 66. Further, this preserves the maximum survivor benefit available to Mabel because, if Herman pre-deceases Mabel, her benefits are then based on 100% of Herman's earned benefits at his death.

A Note on Medicare

If you wait to begin drawing Social Security benefits until after you become eligible for Medicare (currently age 65), you will need to contact the Social Security Administration to enroll in Medicare; enrollment is automatic only if you are already drawing Social Security benefits upon reaching Medicare eligibility. It is recommended that you contact the Social Security Administration at least three months prior to turning 65 to ensure your Medicare benefits begin on time.

Summary

Decisions about when and how to claim Social Security benefits can be complex and personal. The strategies best employed are unique to the circumstances of the couple or individual.

Because of the complexity of Social Security, seek professional advice well before becoming eligible for benefits. Your CPA often is competent in this regard. D.A. Davidson & Co.'s Financial Consultants and Wealth Planning Department can also be of great value in helping you maximize the benefits to which you are entitled. Additionally you can call the Social Security Administration (1-800-772-1213), or visit www.socialsecurity.gov.

All limits, increases, reductions, and ages of eligibility noted above are as of 2009 and are subject to change. The information and examples contained herein reflect an individual who reaches full retirement age at 66. Social Security laws and regulations are subject to change, and strategies outlined here may or may not still be available to you at the time you begin drawing Social Security benefits.