

The Social Security dilemma

SHOULD I TAKE SOCIAL SECURITY at 62 or should I wait?" was the first of many questions Mary, a single 62-year-old recently-retired administrator asked me during our consultation. "What do you think?" I responded. She shrugged her shoulders and shook her head back and forth and laughed.

I did the same thing, because the choice depends upon a lot of factors and there isn't one answer that applies to all. "I just want to be grandfathered into the system before the government makes any more changes," Mary exclaimed.

So what should you do? It depends. Some people should take social security at age 62; some at 63. Some should wait to age 70, and others should wait only until their normal retirement age/full retirement age (NRA/FRA) when they are entitled to 100 percent of their full retirement benefits with no reduction.

For those born after 1937, FRA is being gradually increased from age 65 until it reaches 67 for those born in 1960 or later. A worker can earn a larger benefit by continuing to work past his or her FRA. However, if you're willing to accept a permanently reduced benefit, you can collect as early as age 62. If your FRA is 65, taking retirement benefits at 62 will reduce your annual benefit by about 30 percent.

Each worker age 25 and older who isn't receiving monthly benefits receives an annual statement from the Social Security Administration, called the Personal Earnings Benefit Statement. According to Dorothy Clark, a spokesperson at the SSA Press Office in Baltimore, "Social Security benefits are based upon your 35 highest earning years," so you'll want to verify the accuracy of your recorded earnings versus your tax returns.

What is my retirement age?

If you've been a substantial earner for at least 35 years, Clark said you can receive "as much as \$26,220 per year during 2008 in benefits" at your NRA. Many retirees will receive less,

because they will opt for reduced benefits as soon as they're eligible at age 62.

Some people take social security at age 62 because they have no choice. They've lost their job, or they can't find work due to an injury, medical condition, or age discrimination. Women's social security benefits are often lower if they have fewer years in the work force due to caring for kids or parents.

Yes, you may work and collect a paycheck and social security benefits simultaneously. In most cases, before your NRA, your social security benefit is subject to temporary reduction when your wages exceed certain limits. In 2008, for example, if your current age is less than your NRA, you'll lose \$1 of benefits for every \$2 you earn over \$13,560, and for every \$3 you earn over \$36,120. Ugh, what a formula! It's temporary, because once you reach your NRA, there is absolutely no benefit reduction regardless of how much money you make.

Are social security benefits taxed? They can be. In general, when the total of your benefits and earned income exceed certain limits, then a portion of your social security benefits are taxable. A married couple filing jointly with total income exceeding \$32,000 could have 85 percent of their social security benefits taxed. For singles and all others, the threshold is \$25,000.

So when should you take it?

If you're mathematically inclined, one way to answer this all-important question is to do a break-even analysis at the Social Security Administration website (www.SSA.gov). Or you can call them at (800) 772-1213.

If that's not appealing, here are some tips from my experience.

- People in poor health or with a short life expectancy may benefit from taking their benefits at 62, regardless of the break-even analysis results.
- If you need the cash now, by all means take it.



- If you don't need the money now, you're in good health, you're still working, and have a history of longevity in your family, consider postponing your benefits a year or two to achieve a permanently higher amount down the road.
- In short, if you think you'll live to age 77 or beyond, consider starting your benefits after age 62. If you think you won't live to age 77, consider taking your monthly benefits at age 62 or 63.

Here is a complication for married couples. Spouses, especially younger ones and/or spouses whose earnings were modest or negligible during their lifetime, may benefit financially by encouraging an older spouse or one with higher earnings to wait until age 70 to collect benefits. The math is somewhat tricky, but the principle is that social security may be a surviving spouse's only source of inflation-protected income after her mate dies. In such a case, the decision when to take Social Security shouldn't be taken lightly.

Let's face it. The Social Security Trust Fund is in trouble. You know it and I know it. Increased longevity and the number of people eligible for monthly benefits will grow substantially during the next two decades.

According to the 2008 OASDI Trustees Report, "the annual cost [of benefits] will begin to exceed tax income in 2017 for the combined Trust Funds, which are projected to become exhausted and thus unable to pay scheduled benefits in full on a timely basis in 2041."

Social Security may look quite different than it does today. If you're able, start saving more money for your retirement. Tell your kids and grandkids too! ■



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