# Taking Social Security: The Early or Late Debate

**By Kimberly Sterling**

If you are in your late 50s or early 60s, this issue is probably on your mind. But, if you haven't yet reached age 50, there may not be much of value in here for you. Come back in 10 years.

The Internet is full of free calculators for social security (SS), including the free one at ssa.gov. Most provide data and information, but few provide knowledge or wisdom on how to determine the best choice for you. You can buy a software program to help determine SS benefits (RCG uses one). You'll get some knowledge, but you probably won't get the wisdom to make the best decision for you.

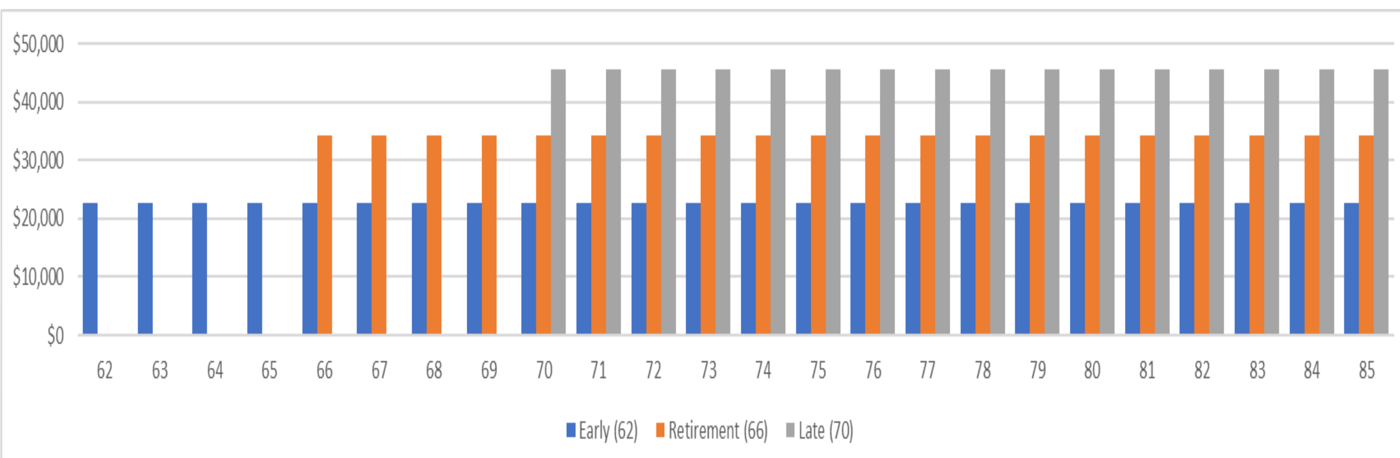
If you are approaching age 62, this is a critical time for making that decision and RCG can help – especially with the knowledge and wisdom.

### SS options are designed to break even

Social Security benefits are a pension plan of sorts. You have a variety of options: take the money early, take it at full retirement age (FRA), or take it later. Each choice is designed to have the same actuarial value – meaning each is worth the same amount in today's dollars.

The example below illustrates three of the retiree's possible options. The value today is around $459,000 for each option, using a real rate of return of about 3% and life expectancy of 85.

- Full retirement age benefit of $34,152 at age 66
- Reduced benefit of $26,600 at age 62
- Increased benefit of $45,660 at age 70




If you think you will live beyond the Social Security Administration's (SSA) life expectancy, you will be better off waiting to start benefits. Inversely, if you expect to die before SSA's life expectancy, you should consider taking your benefit as early as possible. SSA measures life expectancy for a 65-year-old at 84.3 years for a man and at 86.6 years for a woman. So, those ages become the "break even" age for choosing a strategy. But there's more to consider – of course!

### Are you still working?

You are eligible to start collecting benefits at age 62. But if you are still working, SSA will take back $1 of SS benefits for every $2 earned above $17k in 2018. During the year you reach your full retirement age (FRA), you can earn more. You only must repay $1 for every $3 earned above $45k in 2018 prior to your birthday. Once you reach full retirement age, you can earn as much as you like and keep your benefits.

### Should you let benefits grow beyond full retirement age?

Benefits increase by 8% per year beyond your FRA. They also grow with inflation each year. This is a meaningful increase if you expect to live beyond normal life expectancy. But you'll have to get cash flow from some other source while you wait to collect.

If you are married and have a higher earnings history than your spouse, waiting until age 70 will increase the survivor benefit for your spouse if you die first. This is valuable if your spouse anticipates living far beyond life expectancy.

### Consider the tax impact between ages 62 and 70.

Keep in mind that up to 85% of SS benefits are taxable if you have income from other sources. Are you in a higher tax bracket now than you think you will be beyond age 70? If so, you'll reduce your SS benefit by taking them now. By waiting, you'll have the double advantage of higher SS benefits being taxed at a lower rate. That's more for you and less for the government!

In contrast, some wealthy individuals end up in an unusually low or zero tax bracket between age 62 and 70. It can happen if they retire early for example. If they have plenty of cash or personal investments and don't need social security, this is an opportunity for thoughtful tax planning that shouldn't be missed! Don't take social security until the situation is explored by your CPA or wealth advisor.

### How strong are your resources beyond the SS benefits?

If your retirement resources beyond SS are limited or stressed, the value of SS benefits can be critical. SS benefits are a form of longevity insurance. You should maximize both the worker benefits and the survivor benefits as much as possible. And, you should work as long as you can.

If, instead, you have an abundance of other resources and are likely to leave wealth to your heirs, you should be more inclined to take the benefits early. That may leave more investment assets to grow for heirs. Social security ends when you do; but, investment assets can be stretched by heirs.

- Heirs can s-t-r-e-t-c-h tax-deferred investments over their life expectancy. They are often in a lower tax bracket than their parents.
- Investments owned outside tax-deferred accounts will get a step-up in the tax basis. Heirs can sell any investment immediately and pay no tax. Or, they can continue to own the investments and pay only capital gains tax using the new tax basis when they are sold. Thus, they too can s-t-r-e-t-c-h the taxation for a long time.

### Watch out for reductions in benefits

The next time you look at your Social Security Statement, you may notice this comment on Page 2, right below the Estimated Benefits section, and we quote:

> *Your estimated benefits are based on current law. Congress has made changes to the law in the past and can do so at any time. The law governing benefits amounts may change because, by 2034, the payroll taxes collected will be enough to pay only about 77 percent of scheduled benefits.*

There are many examples of past changes in the SS law that are effectively a "back-door tax" on wealthier taxpayers.

- Recently the calculation of the cost of living adjustment was redefined. Future increases are expected to be less, and some years have seen no increase.
- At first, SS was not subject to taxation. Later, up to 50% was taxable. Today, up to 85% is taxable for couples with income above around $60,000.
- Congress has increased full retirement age for Social Security to 67 as part of the attempt to sustain the benefits.
- Congress eliminated the option to "file and suspend" for everyone in April 2016 and is currently phasing out the option to file a "restricted" claim by 2019.

### So, where's the wisdom? What matters most?

If you or your spouse expect to live beyond FRA, then you will collect more by waiting. But, the additional benefit will not even begin to be meaningful until you exceed life expectancy by at least 5 to 7 years. By then you'll be at or near 90. On top of that, the cumulative benefit is surprisingly small – probably in the low 6 figures at best – and is only attained if one of you lives to 95 or more.

It usually makes sense for the high earner to wait at least until FRA, and probably until age 70 to capture the highest survivor benefit, especially when the lower earning spouse is much younger.

For the low-earning spouse, the value of waiting beyond FRA is typically of very little value. They should probably collect at 62 or at FRA at the latest.

Couples often need to consider ancillary issues such as:

- Health insurance needs if you and/or your spouse are not eligible for Medicare.
- Sources of cash flow and the drain on terminal wealth if SS benefits are deferred.
- Unique tax planning opportunities.

If you have ample resources, and are pessimistic about future benefits, back-door taxes, or health issues, you may want to choose the "bird in the hand" and start collecting SS as soon as you stop working and your spouse is eligible for Medicare.

### How to get help from RCG

To obtain a recent copy of your SS benefits statement and your spouse's, visit www.ssa.gov and click on the button for My Social Security. Create a user name and password. Then print or save the report and send it to RCG. If you have a freeze on your credit it may be more challenging to create an on-line account.

Let us know if you want to discuss this at your next regular meeting or have a special meeting. We'll analyze and review your potential options and help you make the best decision given your circumstances. It's just one of the ways we hope to add value and peace of mind to your financial well-being.