

# Social Security

## *What to Look For*

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### *Overview*

Social Security will likely play a role for most everyone. With people living longer and in more control of their financial future, the decision on when to begin collecting benefits is more important than ever before. This paper will act as a guide to assist with this decision.

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## What's the BIG Deal?

With the shift away from traditional pension funds, many people approaching or in retirement are finding themselves responsible for their own financial independence. Saving enough, managing investments prudently, and coordinating these decisions with other sources of income is essential. Social Security will be one of these income streams that will be significant to many and the decisions relative to taking these benefits can prove valuable or even costly. It would be impossible for us to write a paper to address all personal situations, but there are some elements that can be applied in a general manner and that we feel are important to be aware of. This paper will show some of these aspects.

## Eligibility

One becomes eligible for Social Security when they are deemed to be fully insured. This status comes as a result of working 40 calendar quarters in which earnings exceed minimums (\$970 for 2006) and for which Social Security is paid. So an annual income of \$3,880 (2006), equally divided among 4 quarters, would be equivalent to 4 calendar quarters.

## Spousal Benefits

At normal retirement age a spouse is entitled to a benefit equal to 50% of the surviving retired spouse's benefit. However, if a spouse has worked and earned a benefit that is larger than 50% of the other spouses benefit, he or she will receive the larger amount.

## Early Benefits?

For some, there is a temptation to take retirement benefits at an age prior to the full retirement benefit. In these cases one needs to consider their personal situation carefully prior to making this election. There is some important information to consider.

- **The Reduction in Benefits** – Social Security benefits are available for those who are fully insured at age 62. If benefits are collected early, for those whose full retirement age is 65, or those born prior to 1938, there will be a reduction of benefits equivalent to 5/9 of 1% for each month prior to full retirement age for up to three years, for a total reduction of 20%.

For those who collect early benefits, whose full retirement age is over age 65, there is the same reduction of 5/9 of 1% for each month between age 62 and 65, plus an additional 5/12 of 1% for each month beyond their 65<sup>th</sup> birthday until full retirement age. For example, a person whose full retirement age is 67 could receive benefits at age 62, but the first 3 years the benefit would be reduced by 20% (5/9 of 1% for 36 months) and an additional 10% reduction for the subsequent 2 years (5/12 of 1%) for a total reduction of 30%.

- **Spousal Reduction in Benefits** - A person whose benefit is based on a surviving retired spouse's benefit may begin receiving benefits as early as age 62. However, the benefit is reduced by 25/36 of 1% for each month before age 65 in which benefits are received. For example, a spouse electing to

receive benefits beginning at age 62 will only receive 37.5% of his or her retired spouse's benefit. A spousal benefit cannot be received unless the retired working spouse has begun to receive benefits

- **Reduction in Benefits Due to Excess Income** - For those who elect early benefits there is an additional reduction that will be levied for those making too much income. If a person is of full retirement age in the same year in which they begin to draw their benefit they cannot earn more than \$33,240 (2006) without foregoing \$1 in Social Security benefit for every \$3 earned over that amount.

A beneficiary who elects early benefits and is under the full retirement age for *the entire year* prior to full retirement age will receive a reduction in benefits of \$1 for every \$2 earned over \$12,480 (2006). After full retirement age is reached there is no reduction in benefits regardless of income.

### Taxation

For married couples filing jointly and with base income (annual income plus ½ of Social Security benefit) in excess of \$32,000, 50% of the benefit will be subject to taxation. The same couple with a base income of more than \$44,000 will have 85% of the benefit taxed.

### Increasing the Benefit

Workers who delay applying for retirement benefits until after attainment of normal retirement age are eligible for an increased benefit. For person born between 1917 and 1924, the increase is 3% for each year of delay up to age 70. The increase is 3.5% per year for persons born in 1925 or 1926 and 4% for persons born in 1927 or 1928. To encourage delayed retirement, the percentage will gradually increase to 8% per year for those born in 1943 or later.

### Impact of Early Retirement

Early retirement is the desire for many in today's society, but it can come at a price. Social Security benefits are generally calculated based on the highest 35 years of earnings for the worker. If a worker does not have earnings for a 35 year period of time, say if they retire early, then the years in which there are zero earnings, or causing lower earning years to be included when they otherwise may not, could reduce the overall benefit. For example, if a worker who currently makes \$100,000 annually retires at age 60 with 35 years of income, but only earned \$10,000 annually in their first two years of work history, these years will replace the \$100,000 potential earnings if the worker chooses to retire early. Although the impact on benefits is difficult to calculate, the point remains that benefits could be affected.

### Be Aware!

If a worker chooses to receive benefits prior to full retirement age, their benefits will be reduced by up to 30%. If the same worker continues to earn income, benefits will further be reduced, \$1 for every \$2 earned over \$12,480. If earnings are over certain amounts, \$32,000 for a married couple filing jointly, benefits will be subject

to taxation. It is possible for a worker to collect benefits prior to full retirement age and lose ALL benefits due to these reductions.

## Conclusion

The decision as to when to begin receiving retirement benefits can be a very valuable, or costly, decision. Other income sources and the amount as well as timing of these sources will be very important. Please consult with a financial adviser as to the appropriateness of early or delayed benefits. Workers can also receive personalized information by calling the Social Security office at (800) 772-1213 or by visiting a local office. Valuable information regarding social security can be found at [www.socialsecurity.gov](http://www.socialsecurity.gov) and an office locator link on their website is <https://s044a90.ssa.gov/apps6z/FOLO/fo001.jsp>, simply insert your zip code and local offices will appear. There is also a Frequently Asked Questions section on the website, among which will be the answers to the questions below. Gather all the information you can, plan early, and you will ultimately make an informed and educated decision.

What are the tax, benefit and earning (COLA) amounts for 2007?

How are my retirement benefits calculated?

Can I apply for Social Security benefits on the Internet?

What is the maximum Social Security retirement benefit?

How does a divorced spouse qualify for benefits?

What are the requirements for a survivor to receive Social Security benefits?

Can I receive my own benefits at age 62, then a full spouse's benefits at full retirement age?

How much can a divorced spouse receive?

Can my spouse collect retirement and then receive more when I receive benefits?

How much will a widow receive?

My wife doesn't have enough work to qualify; can she qualify on my record?

## References

- Social Security Online  
<http://www.socialsecurity.gov>
- *2006 Social Security Manual*, The National Underwriter Company, Cincinnati, OH, 2006