

When Should Your Client Take Out Social Security?

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What are Your Client's Options?

The workforce is aging and older adults must carefully contemplate when they will take out their Social Security benefits. Attorneys, therefore, will be facing questions from their baby boomer clients for advice on the topic. Seniors can take out social security for “early retirement”, at “full retirement” age or “late retirement”. It is important for the attorney to know their client's options and how each option will affect their client's overall retirement strategy.

Generally, the earlier you're client takes Social Security Retirement benefits, the lower the monthly payment will be. “Full retirement” age is the base time upon which the benefit amount is calculated. Until year 2000, full retirement age was sixty-five. From 2000 forward, the full retirement age increases on a sliding scale based on the year you were born. For example, if you were born before 1938, the full retirement age is sixty-five. Thereafter, the full retirement age will increase in certain two month increments to age sixty-seven. If you were born after 1959, the full retirement age will remain at sixty-seven under current law.

Your client doesn't have to wait for full retirement age before he or she can take Social Security Retirement benefits. Anyone can elect to take Social Security as early as age sixty-two, but benefits will be permanently reduced unless the senior later stops receiving the benefits and returns to work prior to full retirement age. This effectively stops some of the early retirement loss reduction. Conversely, your client can wait to take retirement benefits as late as age seventy, and by doing so, the monthly payments will be substantially increased above the “full retirement” benefit percentage amount due to “late retirement”. Your client can wait to take payments as late as they wish, but there is no advantage to delaying payments past seventy because after that age, there is no “late retirement” increase.

The Calculations

The actual equation is a little complicated, but the breakdown can be seen through an illustration. Let's say you have a client that was born in 1954. “Full retirement” age is the month that that client reaches age sixty-six. If your client elects to take payments at age sixty-six, Social Security will distribute 100% of the monthly benefits. If your client elects to take payments at age sixty-two as opposed to the normal retirement age of sixty-six, then the monthly payments will be reduced by 25%. If your client waits until age seventy or later to take benefits

for the first time, then the monthly payments will be 132% of what he or she would have received at “full retirement” age.

If everyone lived to their average life expectancy, then everyone would receive the same amount of total money, regardless of when they elected to receive their monthly payments. But of course individual life spans are different, and there are also other factors to consider regarding when to receive the payments. This allows some flexibility in planning but in order to maximize the overall payout, you must weigh the factors that will determine how much your client gets paid.

Various Factors to Consider

Some planners will recommend taking payments immediately at age sixty-two because they can earn you more through private investments. This strategy would require a large return on investment to match or exceed the increase in payments the government guarantees by delaying. Of course, today’s economic environment would not provide good odds that this would be a successful approach, so be wary of an investor offering such advice.

Of course there are other factors to consider. For example, your client may have a need to receive the payments immediately. If the client is forced into retirement and doesn’t have the savings to survive without Social Security, then of course receiving the payments at 62 might be the only option. However, if your client saved well for retirement, or if they are still earning sufficient income, then delaying Social Security might provide a larger payoff in the end. Social Security offers a website that calculates the payouts the recipient will receive, depending on income and when the recipient expects to take the benefits. See www.socialsecurity.gov/estimator.

Another major factor to consider is your client’s life expectancy. If your client is in poor health or foresees poor health in the future and he or she does not think they will reach average life expectancy, then it will make more economic sense to receive payments early. If your client is predicting to live past your life expectancy, then the overall payout will be much larger if your client delays. Income tax is another factor to consider. If your client is earning \$25,000 or more as an individual, then they may have to pay taxes on Social Security benefits.

How Work Affects Your Benefits

Work earnings can also affect Social Security benefits. Your client can still work and earn Social Security benefits, but the benefits might be reduced due to countable earnings at certain ages in a formula called the Retirement Test. If your client is working between age sixty-two and sixty-five, and they elect to take Social Security benefits, \$1 will be deducted for every \$2 in gross earnings that they earn over the annual limit. The annual limit in 2009 is \$14,160. Between sixty-five until you reach “full retirement” age, Social Security will deduct \$1 for every \$3 you earn above \$37,680.

Regardless of the age of retirement, your client will also receive additional benefit increases based on an increase in the average lifetime annual earning calculation if their current wages are higher than the prior average upon which benefits were calculated. Once your client reaches full retirement age, the “Retirement Test” ends and Social Security will no longer deduct anything from the monthly payments due to work earnings. Social Security does not count pensions, annuities, investment income, interest, or government or military retirement benefits as work earnings.

Your client’s family may also be entitled to their Social Security benefits. If your client is married or has minor or adult disabled children, then your client’s spouse or children may be entitled to benefits on your client’s record. Your client’s qualified dependents each receive 50% of their benefit, and their survivors each receive 75%. However, total benefits payable under any worker’s record are usually capped at 150% to 175% of what the worker would otherwise receive.

Moschella & Winston has specialized in legal planning and protection for individuals and families for over 30 years, and our attorneys are experts in elder, disability and special needs law. For more information, please visit our website, www.moschellawinston.com or contact us at info@moschellawinston.com or (617) 776-3300.