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Social Security: When to Start

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Your Social Security can be worth more in golden years' income than your 401(k) or individual retirement account. The trick: Know at what age to best file for benefits.

Consider a married couple who both begin Social Security with a first-year combined benefit of just $23,304, based on the Social Security program fact sheet. As of Dec. 31, 2013, the average retired benefits recipient gets $1,294 a month and a spouse $648 a month. A retirement plan needs a value today of $543,147 to provide the same income as Social Security for the next 20 years.

This assumes that each retiree in our couple lives an additional 20 years, during which each receives a cost of living increase of 2.5% per year and pays no federal income tax on Social Security income but does pay 10% federal income tax on all other ordinary income. Also assume that each spouse's 401(k) or IRA earns 4%, with distributions taxed at 10%.

Many preparing for retirement do not understand the value of benefits and how those benefits work, nor do the eventual retirees' financial advisors. Here are four ideas to help maximize your Social Security retirement income.

1. Use the proper start-date for benefits. Assume that you have sufficient income without starting your benefits at age 62 – your earliest date of eligibility, when you get reduced benefits – and that your life expectancy is average or better. Then, delaying your start date can be a good investment.

If you were born between 1943 and 1954, you can increase your monthly payments as much as 76% based on when you start your benefits, at 62 or 70, and does not include any cost-of-living-adjustment.

2. Integrate your retirement and lifestyle, and consider taxes. Today, many post-career years include new or different work in early retirement.

For example, a married couple, both 60 and with a current employer for more than a decade, feel unfulfilled and can't wait for a chance to change their lifestyle. They can work part-time or learn a new skill or both, while beginning to temporarily draw on their 401(k) or IRA. Both can integrate their retirement and work until they reach full retirement age (or FRA, 67 for anyone born after 1960) or continue this strategy until age 70, when they qualify for the maximum the Social Security benefit.

During this period, both in our couple take distributions from retirement accounts (distributions are taxable) and replace that income at full retirement age or up with higher Social Security income (not fully taxable).

3. Consider longevity planning and survivor protection. Longevity planning estimates how long you can collect benefits; survivor protection looks at how long your spouse can collect.

According to mortality tables, if you are a 65-year-old man you have a 50% chance of living to 85 and a 25% chance of making 92. If you are a woman the same age, you have the same relative odds of living to 88 and 94. A surviving spouse has a 50% chance of living to 92 and a 25% chance of making 97. A survivor at FRA or older can receive 100% of a deceased worker's benefit if that benefit exceeds his or her own.

Couples need to jointly decide start dates and take into account age differences and the benefit of the primary wage earner.

4. Enlist a qualified advisor prior to deciding. Social Security representatives are willing to help but not normally prepared to take time to give you a detailed analysis of your best start date. Find an advisor and ask:

- Do you know when I need to stop and restart benefits between age 62 and my FRA or between FRA and 70?
- Do you know how the following may affect my start date: the Social Security tax-favored advantage; use of separate start dates for spouses; the higher step-up survivor benefit?
- Do you understand how to integrate my lifestyle with Social Security?
- Does your retirement-income planning integrate Social Security with 401(k) and IRA income?
- Do you know why I, the primary wage earner, may want to start benefits based on my spouse's *lower*earnings record instead of on my own record?

Carefully consider your Social Security start date. These are just a few of the numerous factors to take into account.

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Wayne Fourman, with the May Financial Group in Greenville, Ohio, *has served individuals and businesses with personal financial counseling since 1983 and was among the first in the nation to provide Social Security start-date planning.*

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