5 THINGS TO CONSIDER BEFORE YOU CLAIM YOUR SOCIAL SECURITY

CLAIM WISE

INTRODUCTION

PAST, PRESENT, FUTURE

Originally called the “Federal Old-Age, Survivors, and Disability Insurance, SS was created in 1935 after the Great Depression and widespread bank failures. Poverty rates for senior citizens exceeded 50% at this time and Social Security was an attempt to limit the modern dangers of American once they enter into the final years of life (old age, poverty, unemployment, widows, orphans). So in 1935, the system did exactly what it was supposed to do. The average life expectancy back then was 59 years old with a full retirement age of 65 (average benefit paid of -6 years). Fast forward to today, the problem is that the average life expectancy is now 85 years old and with full retirement age moving just 2 years back to age 67; so, the average SS benefit payout time is now +18 years…that’s a 24-year swing largely using the same model it was created in.

This trend creates a negative cash flow to the system because while the payout ratio used to be 16.5 people paying in to every 1 person taking out, today, those numbers (thanks to the Baby Boomers) are now just 3.3 people paying in to every 1 person taking out. This means that more money is being taken out then is being taken in…that’s the bad news and that’s why SS gets such a negative emotion to those who are expecting its payout in their retirement.

But did you know though that this is not the first time a Social Security has run a deficit? It’s actually happened 2 times in our past and each time has rebounded stronger than the last. The good news is this, Social Security, at least for now, is not going anywhere. The government will take action and the system will remain healthy. Not to mention the added benefit that the Baby Boomers gave birth to 80 million Echo Boomers (more than the Boomers generation) who are all now paying into the system. While we are experiencing a deficit currently, there is light at the end of that tunnel. Bottom line is, you can take your time to make sure you maximize your benefit without fear of losing out.

So, with that in mind, what are some things you should consider before you claim?

SHOULD YOU CLAIM EARLY OR CLAIM LATE?

You can start collecting Social Security anytime from age 62 to 70 - the later you start, the bigger your benefit. Just how much bigger depends on when you were born. Americans born from 1943 to 1954 have a “normal” or “full” retirement age of 66. They get 25% less than their normal benefit if they cash in at 62 and 32% more than their normal benefit if they wait until 70. If you were born after 1954 - your Full Retirement Age is slightly higher, so you will take a larger hit for claiming earlier and a slightly less increase for claiming later. Making the decision of when to start Social Security benefits involves many variables, such as age, health, marital status, income level, tax bracket, financial need and others. As a general guideline, take the money when you need it but always consult an expert before claiming to ensure you maximize your benefit. There are hundreds of ways to claim and your decisions are permanent. Take the time to get it right!

SHOULD YOU KEEP WORKING?

You can continue to work after your claim BUT…until you reach Full Retirement Age, all income over the annual maximum (it changes each year) will be subject to The Earning Test. The Earnings Test mean that for every $2 earned over the max, $1 will be withheld from your benefit.
After you hit your Full Retirement Age, two things happen:

1. Your monthly benefits will be permanently increased to account for the months in which benefits were withheld and

2. The exempt amount increases (about 3x) and the withholdings rise to $1 of benefits for every $3 of excess earnings.

So, claiming while you work depends on you, but knowing these numbers is critical to making an informed claiming decision.

WHAT SPOUSAL BENEFITS ARE AVAILABLE?

Spouses can take EITHER their own benefit OR ½ of their spouses benefit amount at FRA. Spouses do not benefit from a delayed retirement credit and spouses that claim before they reach their own FRA will receive a reduced benefit based on the number of months left until they reach FRA.

WHAT ARE SOME ADVANCED CLAIMING STRATEGIES I SHOULD KNOW ABOUT?

With hundreds of ways to claim and many little-known strategies available for you to use to maximize your benefit amount, things can get a little confusing. You'll need the input from a computerized software to know for sure what strategies make the most sense for you, but here are a few of the popular ones for review:

SURVIVOR BENEFIT – Similar to spousal benefit but the percentage of benefits is higher and claiming age can be as young as age 60.

EX-SPOUSAL BENEFIT – If married for more than 10 years and did not remarry, the divorced spouse could be entitled to a benefit if greater than his or her own.

RESTRICTED APPLICATION – Primary worker can file for a spousal benefit based on the spouse's working record while letting primary benefits based on workers record to grow until age 70.

SWITCH TECHNIQUE – Spouse's can claim a spousal benefit for a period of time and then later file on his or her own benefits.

WHO CAN HELP ME CLAIM?

A recent survey given to married couple ages 60-66 found that “77% of people expect to receive advice from the Social Security Administration (SSA) on how to maximize their Social Security Retirement benefits. In reality, most SSA personnel are not trained or equipped to dispense anything more than monthly benefit amounts at different election ages, and the SSA actually prohibits its representatives from dispensing advice.” In fact, found in Procedure A Section D of the SSA employee handbook, employees are to “provide enough information so that claimants can make informed choices, but do not give advice.”

So, if the SSA can’t help, can your Financial Advisor? The Rand Corporation recently polled Financial Professionals all around the Country and results showed that only 22% of FP’s consider themselves to be very knowledgeable about Social Security. This means that the vast majority of financial professionals are not capable to give advice to their clients on strategies to help maximize their benefits.

KEY TAKEAWAY

WHAT DOES ALL THIS MEAN?

Make sure you find someone that understands Social Security who uses SOFTWARE to help you find the optimization strategies that are right for you. These reports take professionals minutes to produce, and they will give you optimized claiming strategies specific to you and your needs.

This advice will save you a lot of time and frustration and can help you dramatically increase your final benefit amount.

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