

Investment Insight: When Should Social Security Benefits Start?



Social Security benefits are calculated based on your 35 highest years of earnings...you might want to work a few extra years before full retirement age to boost your benefits.

Unfortunately, there is no perfect answer to this question. However, let's take a look at the different options to see which may best fit your needs and situation.

If you retire early, you permanently reduce your benefit for life. On the other hand, however, you collect benefits for a longer period of time than if you had waited until full retirement. Taking a smaller benefit early can pay off if you don't live past your break-even age. To determine the break-even age you can use the Social Security Administration's web site which has a break-even calculator at www.ssa.gov.

A Social Security benefit of \$1,500 per month at full retirement age (FRA) would equate to approximately \$1,250 if taken early at age 62 (75% of FRA). By age 78 (77 and 11 months) you will have collected approximately \$216,000 in total benefits, whether you opted for the early or full retirement age benefits. However, this calculation does not take into account any investment value of the early benefits. Even if you don't save the early benefits they could allow your other assets to continue to grow which would have some value. This investment growth could add an additional 3 to 5 years to your break-even age.

However, the decisions don't stop here. Here are some other issues to consider:

ADDITIONAL MEDICAL INSURANCE EXPENSE: If you choose to retire early you may have to pay a lot more for medical insurance. Many companies are required to offer your current medical coverage through COBRA but they don't have to subsidize the premium payment as they had when you were working. This could be a significant added expense.

YOUR FINANCES AND YOUR HEALTH: Waiting for full retirement age or later isn't an option if you are unable to work. Nor is it a smart move to wait if you don't have substantial savings to live on in the meantime.

YOUR TAX SITUATION: Those with high total incomes must include up to 85% of their benefits as income for federal income tax purposes. If your

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annual income in retirement from all sources exceeds \$25,000 (\$32,000 for joint filers) you will owe income taxes on a portion of your benefits. Your benefits may be reduced even further because Medicare premiums (age 65 and older), which are paid out of your social security check, have been rising faster than inflation.

YOUR PLANS TO WORK IN RETIREMENT: If you take Social Security benefits before full retirement age and take a job which pays more than \$14,160, your benefits will be reduced by \$1 for every \$2 earned above that threshold unless you are past your full retirement age. However, once you have reached full retirement age this penalty does not apply.

HOW LONG YOU HAVE BEEN IN THE WORKFORCE: Social Security benefits are calculated based on your 35 highest years of earnings. So if you have worked less than that, because of leaving the workforce to raise children or were out of work for several years, you might want to work a few extra years before full retirement age to boost your benefits. If you have not worked the full 35 years, those years where there was no income represent a year in the calculation, therefore pulling down your average earnings.

MARRIED COUPLES MUST CONSIDER LONGEVITY OF SPOUSE: If one member of a married couple dies, the surviving spouse can continue to receive his/her own Social Security benefit, or 100% of the deceased spouse benefit, whichever is more. If your spouse earned less over his or her lifetime than you did, and outlives you, he or she will start receiving your benefits. If you file at 62, he or she will inherit a reduced amount of benefits for the rest of his or her life. And remember that, statistically, women live longer than men.

If you would like more insight into whether you can afford to retire soon or if it might be more prudent to wait a few years, contact your Hilliard Lyons Financial Consultant. Your consultant has the tools and knowledge to create an in-depth analysis and advise you of your options.

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