



Social Dilemma

August 2009

Determining Social Security Benefits

The mere mention of Social Security usually elicits one of two responses: a dissertation on inevitable insolvency or bewilderment of entitled benefits. While the former is beyond the scope of this month's issue, we will attempt explanation of benefit options and strategies. We will also provide reference tools to empower those at or near retirement to make sound, educated decisions.

The Basics

- Individuals may start collecting Social Security at age 62 but benefits will be reduced by a fraction of a percent for each month remaining before their full retirement age (FRA). Full retirement age is considered age 66 for those born between 1943 and 1954. Benefits may be delayed until age 70. To estimate retirement benefits: [SS Benefits](#)
- For taxpayers with provisional incomes less than \$25,000 (\$32,000 for married joint taxpayers), all Social Security benefits are excluded from taxable income. For provisional incomes between \$25,000 and \$34,000 (\$32,000 and \$44,000 for married joint taxpayers), up to 50 percent of Social Security benefits may be subject to tax. For those with provisional incomes over \$34,000 (\$44,000 for married joint taxpayers), up to 85 percent of Social Security benefits may be included in taxable income.ⁱ
- Cost of living adjustments (COLA) for benefits have averaged around 4.4% since 1975. Currently 3% is being used. It is definitely in the Treasury's best interest to understate inflation so as to maintain a lower COLA.

Filing Strategies for Couples

- Waiting until age 70 to delay benefits may be easier said than done. Obviously, cash flow and life expectancy are two major considerations. Here's an intriguing strategy called 'file and suspend': the lower income earning spouse begins benefits at age 62 and collects reduced benefits. The higher income earning spouse waits until age 66 and files to collect 50% of the lower income spouse's FRA benefits. Then at age 70, the higher income spouse applies to collect their entitled benefits based on his/her own earning history. By waiting until age 70, the higher income spouse will receive both retirement credits and COLA's on his/her benefits which could result in full benefit enhancement and perhaps more favorable taxation.
- The Social Security 'do-over' is a little known and utilized strategy. Basically, it allows an individual who has begun receiving benefits early to re-evaluate and have the option to pay back the benefits without penalty. The individual is entitled to a tax credit or deduction for the income taxes paid on collected benefits. Then the client would file a new application (Form SSA-521) to receive larger monthly checks. Obviously, life expectancyⁱⁱ can play a huge role in this decision and a break even analysis of benefits would be in order.

Certainly, Social Security is a hot button issue that can serve as a vital part of retirement income planning. While its own life expectancy can be debated, it does have virtue as a risk-free investment, low inflationary risk and tax favorability. Brushing up on Social Security's features and nuances will only help retirees maximize benefits. After all, you have paid into this blind trust your entire working life; you might as well fully exploit what is rightfully yours.

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ⁱ Social Security.gov

ⁱⁱ [Life Expectancy Tables](#)