THE FINANCIAL SIDE OF RETIREMENT PLANNING

Thinking about filing for social security?

Five factors to consider as part of your analysis

The answer to when to begin claiming Social Security benefits depends on each person's individual circumstances. Your decision should be coordinated carefully with your overall retirement income plan so that you make the best decision for your personal situation. As you begin your analysis, there are five factors that may help you make this important decision.

1) Full retirement age

Full retirement age (FRA) is also called "normal retirement age." It is the age at which a person first becomes eligible to receive full, or unreduced, retirement benefits.

For people born in 1937 or earlier, FRA is 65. Beginning with people born in 1938, FRA gradually increases until it reaches age 67 for people born after 1959. If your FRA is greater than 65, you can still take benefits at age 62, but the reduction to your benefit will be greater than it will be for those who were born before 1938.

For example, if your FRA is 67 and you start taking your retirement benefits at age 62, your monthly benefit amount will be reduced by about 30%. For every year that you delay starting your retirement benefits up until your FRA, the reduction to your monthly benefit becomes progressively smaller and you'll receive a greater percentage of your full retirement age benefit.

Please note, no matter when you claim your retirement benefits, Social Security income is adjusted for inflation each year with the annual cost-of-living adjustment (COLA).

2) Delaying your benefits

If you don't want to begin receiving benefits at your FRA, you can delay them—which could result in a larger monthly benefit. Generally, for every year you delay claiming your benefits, your Social Security income increases by an average of 8%. This is in addition to COLA. With delayed retirement credits, you'll be eligible for your largest monthly benefit if you claim at age 70. You can compute the effect of claiming your benefits before or after your FRA by using a calculator on the Social Security website, https://ssa.gov/OACT/quickcalc/early_late.html#late

3) Working and receiving benefits

If you take benefits while you are working, your earnings will reduce your benefit amount until you reach your FRA. After you reach FRA, your benefit amount is recalculated to leave out the months when benefits were reduced as a result of your excess earnings. This could result in higher monthly payments in the future.

4) Income taxation

Keep in mind that benefits may be taxable. Generally, if Social Security benefits are your only source of income, those benefits are not taxable. However, if you receive income from other sources, your benefits may be taxable if your modified adjusted gross income exceeds the base amount for your filing status.

5) Personal circumstances

A variety of personal circumstances can come into play when you are deciding whether to take a lower benefit sooner or a higher benefit later.

- **Life expectancy** – If you are in good health with a long life expectancy, delaying the start of your Social Security benefits could increase the monthly amount you receive later in life, as well as the cumulative lifetime benefits you receive if you live a longer life.
- **Health** – Conversely, if you are in poor health and/or are unable to work, you may want to start taking benefits early to help meet living expenses and/or medical costs.
- **Other income** – If you are able and willing to work until full retirement age or have other sources of income that can meet your cash flow needs, waiting until at least your FRA to receive benefits probably makes sense. Another factor may be how reliant you are on your investment portfolio to cover living expenses. If you and your advisor determine that your annual draw from your investments is getting too large to be sustainable, claiming Social Security benefits can reduce the need to access those investments and allow them to grow.
- **Marital status** – If you are married, how and when you decide to claim Social Security benefits can affect your and your spouse's benefits. For example, spouses generally are eligible to claim a Social Security benefit that is equal to the greater of their own benefit (based on work history and income) or up to one-half of their spouse's FRA benefit. This spousal benefit, however, only becomes available when the spouse with the higher earnings record claims their own retirement benefit. Once the spousal benefit is available, the amount of such benefit will be determined based on the age of the spouse claiming the benefit. If the spouse claims their spousal benefit prior to their own FRA, the spousal benefit is reduced.

There are many nuances to claiming Social Security, which is why it is important to review your situation with your advisors.
For more information about Social Security, visit our *The Financial Side of Retirement* resource page.