

Social Security - When to apply?

One of the most important decisions a City retiree must make is when to apply for their earned Social Security benefit. Even if you do not qualify for a Social Security benefit, you may have “earned” a Social Security benefit due to a current or previous spouse (i.e. spousal benefit). A monthly Social Security benefit check is attractive because it is adjusted for inflation on an annual basis, the checks continue as long as you continue, and the check is not dependent on stock market performance.

You can start collecting a Social Security retirement benefit as early as age 62 or as late as age 70. Your full retirement age is based on your year of birth. Those born between 1943 - 1953 the full retirement age is 66 years old. The full retirement age increases by 2 months for each subsequent year and tops out at 67 years old for anyone born in 1960 and any year thereafter.

The best strategy is dependent on individual circumstances and it can differ for individuals within the same category. There is no dogma and one size does not fit all. You must decide what is best for you and your circumstances. Different strategies are available to individuals in the following four categories: married couples, the widowed, the divorced, and singles. A detailed discussion of the categories and strategies is available in the January 2015 issue of Kiplinger’s Personal Finance magazine. The title of the article is “Social Security The Best Path For You” and it begins on page 48.

Another good reference document is an eighteen-page report issued by Prudential that is titled “Innovative Strategies To Help Maximize Social Security Benefits.” Generally, it is available for free via the Internet and it can be downloaded to an e-reader.

In most cases, if you have a choice, the best thing to do is delay taking your Social Security benefit until you are 70. In each year you delay taking your Social Security benefit beyond your full retirement age, you earn an 8% return until you turn 70 years of age. The projected 8% annual return has been described as “astonishing” in the financial press. If it is appropriate and given your circumstances, delaying your Social Security benefit offers an attractive and safe investment return when compared to other safe alternatives available today.

No additional benefit accrues after the age of 70 and there is no reason to postpone receiving a Social Security benefit after the age of 70. However, the decision you make will be dependent on your living costs, your health, your family history, your/your spouse’s life expectancy, your savings, the projected rate of return on your savings, and the rate of inflation. Unfortunately, you as a retiree are in the position of making an important financial decision with several unknown factors or incomplete information.

In addition, be mindful of the “earnings penalty” and “means testing” that may reduce the value of your Social Security benefit. A more detailed discussion is listed above this article on the “gov’t programs” page of the APFMA’s web site and it is titled “Federal Tax of Your Social Security Benefit (Means Testing).” In addition, taking required distributions from a traditional

IRA or a tax-deferred equivalent (401k, 457, 403b) could push your Social Security benefit into a higher tax bracket. Required minimum distributions (RMD) must occur after the age of 70 years.

On the “links” page of the APFMA’s web site, the eighth link titled “IRA Help” lists a book titled “The Retirement Savings Time Bomb and How To Defuse It.” It is written by Ed Slot who is a nationally recognized IRA distribution expert. There is good news. In the state of Georgia, there is no state income tax on your Social Security income.

There are several Social Security benefits calculators on web sites like the AARP (aarg.org) and the Social Security Administration (ssa.gov). On the the “links” page of the APFMA’s web site, the second link titled “Bogleheads” will take you to a forum in which a myriad of social security issues have been discussed over the years. You can search/troll the forum’s archives by typing the words “social security” in the search box in the upper righthand corner. Any thing posted on the Bogleheads website about social security by “sscritic” should be regarded as highly reliable.