



When Should I Apply for Social Security?

This seemingly simple question can lead to hours of research, confusion and frustration. The issue is usually whether one should start receiving Social Security (SS) retirement benefits at age 62, one's "full retirement age," or at age 70. Important factors to be taken into consideration are life expectancy, accustomed standard of living, savings, debt and other income.

There is no penalty for working past the "full retirement age."

Wizened financial counselors,¹ including the Social Security Administration (SSA), tell us that we need to plan so that our retirement income will be about 70 percent to 80 percent of our pre-retirement earnings in order to comfortably maintain our pre-retirement standard of living. They recommend that planning for retirement should include a combination of Social Security, private pensions, and personal savings. Under current law, if you have average earnings, your Social Security retirement benefits will replace about 40 percent of your pre-retirement earnings. The percentage is lower for

people in the upper income brackets and higher for people with low incomes.

How is "full retirement age" determined?

Congress established our full retirement age in *The Social Security Amendments of 1983*.

Those amendments made comprehensive changes in Social Security coverage, financing, and benefit structure. The law provided a gradual increase in the "full retirement age." This is how it works: if a worker was born in 1937 or earlier, the

full retirement age is 65. The full retirement age increases by 2 months each year, until full retirement age reaches 66 for people born 1943-1954. From 1955 until 1959, the full retirement age creeps up by 2 months per year, until 1960. For people born 1960 and later, the full retirement age is 67.

How does the Social Security Administration determine retirement benefits?

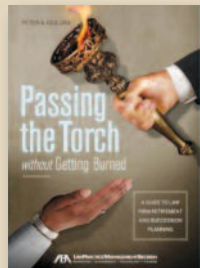
In order to collect retirement benefits, one must have worked long enough to earn 40 credits, which is 10 years. However, when determining the amount of the retirement benefit at full retirement age, the Social Security Administration considers the worker's lifetime earnings and adjusts or "indexes" the earnings to account for changes in average wages since the year the earnings were received. Then the SSA averages the worker's highest indexed earnings for 35 years and applies a formula to determine the worker's retirement benefit at full retirement age.

What is the maximum retirement benefit one may receive?

The answer depends on a worker's reported income history. However, the Social Security Administration's table: "Workers with Maximum Taxable Earnings" provides that for a worker who retires at age 70 in 2014, who has earned the maximum taxable earnings since age 22, his

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Attorneys should include an "exit strategy" in their business plans. An excellent book for lawyers considering an exit strategy is *Passing the Torch Without Getting Burned: A Guide To Law Firm Retirement and Succession Planning*, by Peter A. Giuliana. ABA Law Practice Management Section, 2013.



maximum retirement benefit is \$3,425.²

What is a process I may follow to determine my projected Social Security retirement benefits?

Let's follow Larry Lawyer, who celebrates his 60th birthday on July 15, 2014. Reaching this milestone has made Larry wonder when he will be able to afford retirement. Larry began his legal career at age 25 working with a larger firm. After five years, he wanted more autonomy and flexibility, so Larry decided to hang out his shingle. He has remained a solo practitioner, but he would like to start slowing down, take fewer cases, and enjoy more family time. Larry is married to Sara, who is 55 years of age. They have adopted their 7-year-old grandson, Sam. Sara owns an Internet-based business. Larry begins to research his Social Security retirement benefits. (If your client was married to a same-sex partner, more

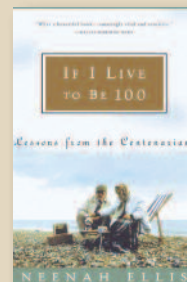
information about Social Security benefits may be found at visit <http://www.socialsecurity.gov/samesexcouples>.)

Step 1: What is Larry's life expectancy? When trying to determine when he can afford to take Social Security retirement benefits, Larry would like to know approximately how long he might live. This will help him determine if he will have enough retirement income to last his estimated lifetime. Larry finds his life expectancy using the Social Security Life Expectancy Calculator.³

A 65-year-old man today can expect to live until 85. Of course, these are just averages because about one out of every four 65-year-olds today will live past age 90, and one out of 10 will live past age 95. Perhaps, we should consider the possibility of living to be a centenarian?!

Step 2: What is Larry Lawyer's

One of my favorite books chronicles the lives of 19 centenarians, many of whom remained in their homes and led active lives: *If I Live to Be 100: Lessons from the Centenarians*, by Ellis, Neenah. New York: Three Rivers Press, 2004.



“full retirement age”? Since he was born in 1954, Larry's full retirement age is 66. That means that at age 66, Larry may begin to receive his full Social Security retirement income. There is no penalty for working past the “full retirement age.”

Step 3: Is it wise for Larry to take his Social Security Retirement benefit at age 62?

If Larry retires at age 62 and begins taking his SS retirement, his benefits, if taken at full retirement age, will be reduced by about 25 percent. Therefore, Larry needs to determine if his savings would be sufficient for him to begin taking Social Security benefits at age 62.

Step 4: What happens if Larry takes retirement benefits before his full retirement age, but he continues to work?

If Larry takes his Social Security retirement benefits before his full retirement age, then for his earnings over the annual limit, \$15,120 (2013), his Social Security retirement benefit would be reduced \$1 for every \$2 he earns practicing law. See the SSA's publication “How Work Affects Your Benefits.”⁴ The bottom line is that if Larry believes he will earn more than the annual limit, it's probably best for him to delay taking retirement benefits until full retirement age. Even if Larry takes his retirement benefits before his full retirement age, once Larry reaches his full retirement age, his Social Security retirement benefits will not be reduced if he continues to work.

Step 5: Is it beneficial for Larry to

MEDIATION
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delay taking Social Security retirement benefits until age 70? Delaying retirement until age 70 would increase Larry's benefits in two ways. Each additional year Larry works adds another year of earnings to his Social Security record. Higher lifetime earnings may mean higher benefits when Larry retires. Also, Larry's benefit will increase automatically by a certain percentage from the time he reaches full retirement age until he starts receiving his benefits or until he reaches age 70. The percentage varies depending on the year of birth. Since Larry was born after 1943, the SSA will add 8 percent per year to his benefit for each year that he delays signing up for Social Security beyond his full retirement age.⁵ *There is no advantage to delaying benefits beyond age 70.*

Step 6: What information does the "Retirement Estimator" provide to Larry? Larry finds the "Retirement Estimator" at

www.ssa.gov. He enters his personal information, including his net self-employment income, Social Security Number, name, and date of birth. The calculator then gives him an estimate of his retirement benefits. If Larry begins to take his retirement benefit at age 62, his benefit will be \$1,525 per month. However, if Larry waits until his full retirement age of 66, his retirement benefit will be \$2,322 per month. Finally, if Larry waits until age 70, he will earn additional credits, and his retirement benefit would increase to \$2,975 per month.

Another method to obtain estimates of your Social Security benefits is to download "Your Social Security Statement." Due to budget cuts, the SSA is no longer mailing "Your Social Security

Statement" to all workers. The cost of mailings prior to the cut was about \$60 million per year!⁶ Now, one may create an account at www.ssa.gov, and a .pdf version of the statement will be provided. In order to create an account, click on "My Social Security" at www.ssa.gov.


Based on Larry's analysis of his projected Social Security benefits, his projected earnings from investments, and his family's standard of living, Larry decides to continue working until his full retirement age, then take another look at the family's financial picture. Larry noted that once he reaches full retirement age, his minor child, Sam, may also receive a Social Security benefit. In addition, when wife Sara reaches her full retirement age, she may choose to delay the application for her retirement benefits and instead apply for her "spousal benefit."⁷ Sara's spousal benefit will be roughly equal to one-half

of Larry's retirement benefit. If Sara takes a spousal benefit, there is no reduction of Larry's Social Security income. Then, for each year she delays taking her retirement benefit, it will grow by approximately 8 percent per year.

Sara should be warned, however, that if she takes a spousal benefit before she reaches her full retirement age, the SSA will consider the spousal benefit to be her maximum retirement benefit.⁸

After determining a projected Social Security benefit, the next step is to determine one's projected retirement savings and whether the combination of Social Security benefits, savings and other possible retirement income will be sufficient to maintain a pre-retirement standard of living. That aspect of the analysis may best be left to a financial advisor.

For help in deciphering the many designations used by financial advisors, I recommend a free booklet from the Consumer Financial Protection Bureau, *Senior Designations for Financial Advisors: Reducing Consumer Confusion and Risks*.⁹ There are a multitude of retirement calculators available on the Internet using a simple Google search for "retirement calculators."

Armed with these tools and resources, one can make an educated decision about Social Security benefits and savings necessary for a comfortable retirement. 

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Notes

1. <http://money.usnews.com/money/blogs/On-Retirement/2013/08/02/7-rules-of-thumb-for-retirement-planning>.
2. <http://www.socialsecurity.gov/OACT/COLA/examplemax.html>.
3. <http://www.socialsecurity.gov/retire2/agereduction.htm>.
4. at <http://www.ssa.gov/pubs/EN-05-10069.pdf>
5. The SSA booklet, "Retirement", may be found at <http://www.ssa.gov/pubs/EN-05-10035.pdf>.
6. <http://blogs.marketwatch.com/encore/2012/05/07/your-social-security-statement-now-online/>.
7. Of course, a male spouse may also receive the spousal benefit if the facts were reversed.
8. <http://www.socialsecuritychoices.com/info/freespousal.php>.
9. http://files.consumerfinance.gov/f/201304_CFPB_OlderAmericans_Report.pdf.

Regardless of when you start receiving your Social Security retirement benefits, remember to apply for Medicare within the three months prior to your 65th birthday. If you wait longer, your Medicare medical insurance (Part B) and prescription drug coverage (Part D) may cost you more money.

