"You better file for social security before it runs out of money." You may hear or see statements to this effect regarding the nation's largest retirement program so let's deal with this misunderstanding before we get into various factors you should assess before filing for social security.

Social security is a pay-as-you-go system in which current program earners pay taxes to pay current program recipients. The program has over the decades collected more money than it has paid out resulting in a cumulative surplus of $2.8 trillion. This makes up the social security trust fund; yes, it exists but the money has been spent on other government programs and the social security trust fund holds IOUs. This $2.8 trillion will be used and accounted for so we can continue to pay full benefits. However, according to the latest social security trustees' report the trust fund is projected to be depleted in 2034 and then-current program income will cover approximately 75% of then-estimated benefits. So, if there's no act of Congress beneficiaries will in 2034 see their benefit reduced by one quarter. Far from running out of money but also not full pay.

I share the view of many experts that any significant change to social security is unlikely to impact people close to or currently receiving benefits. Last time we faced a similar challenge in the early 1980s we made structural changes to the benefits impacting people then younger than 46. Since, we've also raised the tax rate to increase the program's income.

Still, for those under age 55 – 60 I think it's prudent to allow for potentially reduced benefits compared to current projections, especially if you are a high income earner.

With that out of the way let's look at factors to consider. If you're born before 1955 your full retirement age (FRA) is 66. This gradually rises to 67 for anyone born after 1959. In this article I'll refer to the FRA age as 66. All who have at least ten years of work paying social security taxes can collect as early as 62 or any month thereafter up until age 70. If you delay your benefit all the way until 70 you will receive more than 70% extra per month compared to your age-62 benefit.

Married couples and divorcees who were married for more than ten years and are currently unmarried need to consider potential spousal benefits. Broadly, if the lower-earner files at 66 he should not receive less than half of the higher-earner's benefit at 66 - the benefit at 66 is also known as the Primary Insurance Amount (PIA). If his PIA is less than half of hers he may receive a spousal benefit in addition to his own to bring his total benefit up to half of hers. If he files before 66 both his spousal and own benefit will be reduced. Note that in order to receive spousal benefit the other spouse must already be collecting benefit.

You may have an eat-your-cake-and-have-it-too benefit available if you are born before January 2, 1954. If you are also married, not collecting yourself, and your spouse is already collecting you can, starting at age 66, file a restricted filing for spousal benefits only without impacting your own benefit. This means you can receive half of your spouse's FRA from age 66 until 70 and at 70 switch to your own maximum benefit assuming this age-70 amount exceeds half of your spouse's FRA.

This also applies to divorced filers who were married for at least ten years and are currently unmarried. In this instance it is not required that the ex-spouse already is collecting,

1405 Rolkin Ct., Suite 202
Charlottesville, VA 22911
toll free 844.391.3610
tel 434.328.8040
fax 434.234.3789
www.skvgrp.net

only that he's eligible to do so. Benefits on an ex-spouse's record in no way impact the ex-spouse or his current spouse if he's remarried. In theory, four spouses could be collecting benefits on the same ex-spouse's record.

Keep survivor benefits in mind as well. When the higher income earner dies the survivor will qualify for her benefit amount. Basically, the higher earner's benefit will last until the second spouse dies. If the lower earner is younger the higher earner's benefit may last many years past her own life.

Widows and widowers can collect a survivor's benefit from the age of 60, or 50 if disabled. If filing before 66 there will be a reduction in the survivor benefit for the widow(er). Unlike for divorced participants survivors can marry after age 60 and still choose to collect benefits based on the record of the deceased spouse. At the same time their own benefit will earn delayed retirement credits.

If you file for benefits before 66 you will be subject to an earnings test. In the years before you reach 66 your benefit will be reduced by $1 for every $2 earned above $17,040. In the year you reach 66, up until the month before your birthday, the benefit will be reduced by $1 for every $3 earned above $45,360. Note that your benefit is not lost but deferred so that your benefit would be increased accordingly once you turn 66.

After 66 there is no earnings test and you can earn unlimited amounts while receiving social security.

If you are eligible for social security and still have children at home these children will also be eligible to receive a benefit. There is a family maximum benefit ranging from 150% to 180% of the PIA.

Confused yet? Then take a deep breath and prepare for taxes. Your social security benefit may be taxed. To find out you must calculate your provisional income which consists of your modified adjusted gross income plus half your social security income plus tax-exempt interest. That's right, that municipal bond with its tax-exempt interest may suddenly add to your tax bill. If you file single and your provisional income exceeds $25,000 then 50% of your benefit is taxable. Single filers with provisional income exceeding $34,000 must include 85% of their benefit for taxation. For those married filing jointly the same limits are $32,000 and $44,000 respectively.

Finally, to fully appreciate the value of your social security benefit remember that the benefit is adjusted for inflation each year. Lately, these adjustments have been small but they still add up to a meaningful difference. For 2018 the adjustment was 2.0%. Over the last 15 years the benefit has increased by a cumulative 35.8% meaning that a person who started collecting $2,000 per month is now receiving $2,716. That adds up to an additional annual income of over $8,500. Compare that to most other fixed income alternatives.

Working with clients I keep in mind their older selves. I think it's hard to exaggerate the comfort we can take in our 80s and 90s from having a stable and safe income source that keeps up with price increases. Just in case you live a long life it may be worth considering delaying filing for your social security to receive a higher income later and instead draw more from your savings early.

faith . discipline . patience

I think it’s best to approach social security primarily as an insurance program to protect you from financial pain in old age rather than as an isolated break-even math problem.

*Wells Fargo Advisors Financial Network is not a legal or tax advisor.

Jorgen Vik, CFP® CAP®
CERTIFIED FINANCIAL PLANNER™
Partner
SKV Group, LLC

CAR-0719-03377

1405 Rolkin Ct., Suite 202
Charlottesville, VA 22911
toll free 844.391.3610
tel 434.328.8040
fax 434.234.3789
www.skvgrp.net