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7 Things You Need to Know About Social Security

The claiming strategy you elect for Social Security Benefits is one of the most important financial decisions you will ever make. This decision could have income implications for decades.

Understanding these seven details about Social Security will go a long way to helping you maximize your benefits.

1. Statements are back – Did you know they were gone?

Remember the annual Social Security statement you used to get? It showed your earnings history and projected benefits. Perhaps you didn't even realize that you haven't received a statement in a few years. In order to save money the Social Security Administration (SSA) stopped sending paper statements in 2011.

After paper statements were discontinued the only way to get your statement was to set up a personal account at ssa.gov/myaccount. Once you established your account you could log on any time to see your current statement.

The good news is that the government has saved $70 million each year in printing and postage. The bad news is that not enough people signed up for on-line accounts. In order to continue disseminating this important information the SSA decided that it will resume sending paper statements in September 2014.

But there is a catch. Actually two catches. First, they will only send statements to those turning ages 25, 30, 35, 40, 45, 50, 55, 60, and 65

each year. Second, they will only send statements to people who have not already established an online account.

My suggestion: Establish an online account and check it once a year. And while you are there make sure your earning history is correct because your benefits are based on this information (your highest 35 earning years are what matter).

2. Spousal benefits can boost your income

You may not realize that when you are eligible to claim Social Security Benefits you can claim the benefits to which you are entitled (based on your own earning history) or you can claim a spousal benefit, which is 50 percent of your spouse's benefit, whichever is greater. This can be significant in marriages where one spouse earned considerably more than the other.

In order to claim spousal benefits you must be at least 62 years of age and the higher earning spouse must be receiving or eligible for retirement or disability benefits.

Moreover the decision to claim spousal benefits is not permanent. For example, a common strategy is to claim spousal benefits early in retirement (allowing your own benefit to increase) and then switch to benefits based on your own earnings record at some point after full retirement age. As with all benefit claims prior to full (normal) retirement age, the earlier you claim benefits the lower those benefits will be. More on this below.

3. Even divorcees can get spousal benefits

Even if you are divorced you may still be able to claim the spousal benefit (i.e. 50% of ex-spouse's benefit) as detailed above. You qualify if:

- You were married 10 years or more
- You are unmarried

- You are age 62 or older
- Your ex-spouse is entitled to Social Security retirement or disability benefits, and
- The benefit you are entitled to receive based on your own work is less than the benefit you would receive based on your ex-spouse's work.

This is true even if your ex-spouse has remarried.

If you remarry, you cannot collect benefits on your former spouse's record unless your later marriage ends (whether by death, divorce or annulment).

If your ex-spouse has not applied for retirement benefits, but can qualify for them, you can receive benefits on his or her record if you have been divorced for at least two years.

Any spousal benefit you receive has no effect on the benefit your ex-spouse will receive.

4. Dependent benefits may apply to your family

I'm sure when the rules for dependent benefits were written the SSA did not envision a world where there would be many parents over the age of 65 with children younger than 18. But as life expectancies have risen, people have started families later in life or have married a younger spouse who already has young children with increasing frequency.

But did you know that if you are of retirement age your dependent children may qualify for Social Security Benefits? Your child qualifies for benefits if they have:

- A parent who is retired (or disabled) and is entitled to social security benefits; or
- A parent who died after having worked long enough where s/he paid social security taxes.

In addition the child must be:

- Unmarried
- Younger than 18 (19 if a full-time student in grade 12 or below) or
- 18 or older and disabled (disability must have started before age 22)

If eligible your child may receive up to one-half of the parent's full retirement or disability benefit, or 75 percent of a deceased parent's benefit. There is a limit to the benefit paid to a family (generally between 150% and 180% of the parent's full retirement benefit).

Benefits will stop once the child reaches age 18 (19 if a full time student) unless they are disabled.

5. The amount of your benefit depends on when you start collecting

There are three significant milestones to consider in determining when to start collecting Social Security Benefits.

1. Age 62: The age you are first eligible to collect Social Security.
2. Full (or Normal) retirement age: Age 65 for those born before 1938 and gradually increasing to age 67 for those born 1960 or later.
3. Age 70: The age at which delayed benefits no longer increase.

What does this all mean? Perhaps an example will work best.

Daniel J. Public was born in 1952 and is 62 years old. He is now eligible to collect Social Security Benefits and his normal retirement age is 66. If he does collect at age 62 he will only receive 75% of his normal retirement age benefit.

For each month that Dan can wait to claim benefits his monthly benefit will increase. If he can wait until age 66 he will receive his normal retirement benefit.

If Dan delays collecting beyond age 66 his benefit will continue to increase at the rate of 8% per year up to age 70. At age 70 the amount Dan is eligible to collect will no longer increase.

Dan will maximize what he gets annually by delaying the start of benefits to age 70. If Dan starts collecting any time prior to age 70 he will receive a lesser amount. And that lesser amount is permanent.

But does that mean Dan will receive less over his life if he starts collecting early? Not necessarily. Remember, by delaying benefits to age 70 Dan has foregone collecting benefits for 8 years. It will take years to overcome the late start. In fact Dan will need to live beyond age 81 to have made it worth his while to delay collecting until age 70.

Essentially Social Security is longevity insurance. A source of income you cannot outlive. Each year you forgo collecting is like buying more insurance.

Should Dan delay? Of course this is a more complicated question than can be answered with a simple yes or no. If Dan has health issues and doesn't think he'll live beyond age 81 he should consider collecting early. If Dan needs the money to make ends meet he should collect early. If Dan can afford to wait (financially) and thinks his life expectancy is beyond age 81 he should delay. And if Dan does decide to collect early (or not) how will this decision his wife? A lot of ifs.

6. Earnings can change the equation

If you are collecting Social Security Benefits and are younger than your Normal Retirement Age the SSA will reduce your benefits by $1 for every $2 of income above $15,480. In the year you reach your Normal Retirement Age the SSA will reduce your benefits by $1 for every $3 of income above $41,400. Once you reach your Normal Retirement Age your benefits will no longer be affected by income.

The good news is that benefits that are withheld due to work are not lost forever. Once you reach normal retirement age your benefit payments will be increased to take into account that withheld money.

The other way earnings will affect social security is taxes. First you must determine your combined income, which is your adjusted gross income plus one half your social security benefits.

If you are an individual and your combined income is less than $25,000 you will not be taxed. If your combined income is between $25,000 and $34,000 you will have to pay taxes on 50% of your benefits above $25,000. If your combined income is above $34,000 then 85% of your benefits above $34,000 will be taxed.

The comparable combined income limits for joint returns are $32,000 and $44,000.

As you can see the impact of earnings make claiming benefits prior to your Normal Retirement Age much less desirable.

7. Tempo can help

Social Security rules and calculations are complicated and the above descriptions are meant to be helpful but are not an exhaustive analysis.

At Tempo we want you to know that we are here to help. We can analyze your specific social security options and show you how to best maximize your claiming strategy.

And best of all this analysis is free!

If you are interested in an analysis or have any questions please contact Dan Traub at Tempo Financial Advisors by e-mailing dtraub@tempoadvisors.com or by calling 508-655-7827.