



You Should Know

When Should I Start Collecting Social Security Retirement Benefits?

People often ask – “When should I start collecting my social security benefits?” The answer to that question is dependent on your particular circumstances and can come down to a very mathematical exercise to determine when the best time is. “Should I start collecting before my full retirement age?” or “Should I start collecting at or after my full retirement age to receive a larger monthly check?” These are some of the questions you may be thinking about and need to address to make a decision. Of course, you should consult with your tax advisor prior to making the decision.

How are Social Security Retirement Benefits Calculated?

When you work and pay Social Security taxes, you earn credits toward Social Security Retirement Benefits (SSRB). If you were born in 1929 or after, you need 40 credits, which is equivalent to approximately 10 years of work, to qualify for SSRB. A key question most people ask is “how much will my benefits be?” That depends on how much you earned while working and at what age you decided to start collecting SSRB. Those who have had higher lifetime earnings will receive higher SSRB, but collecting SSRB before one’s full retirement age will result in reduced benefits. Here are the full retirement ages based on year of birth:

<u>Year of birth</u>	<u>Full retirement age</u> ¹
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Note: People who were born on January 1 of any year should refer to the previous year.

The earliest retirement age is 62 for SSRB. If you collect SSRB before your full retirement age, however, you will receive a reduced benefit. On the other hand, if you do not collect SSRB until after your full retirement age you will receive an increased benefit, but the increases in SSRB stop at age 70. Therefore, you should generally not defer collecting SSRB past age 70, but that decision should be discussed with your tax advisor.

With the advances made in medicine and the need for extra retirement money, many individuals may decide to retire later in life, which can affect the amount of SSRB they receive. Also, a single person who starts collecting SSRB before his or her full retirement age and still works will generally have his or her SSRB reduced by \$1 for each \$2 earned over \$15,120 (2013 inflation adjusted amount).² Individuals who still work and start collecting SSRB before their full retirement age, but who reach their full retirement age in the same year they start collecting SSRB, will generally have their benefits reduced by \$1 for each \$3 earned over \$40,080 (2013 inflation adjusted amount) until the month they reach full retirement age.² Only wages and net self-employment earnings count toward the thresholds—interest, dividends, capital gains, annuities, and pensions do not count. Non-taxable and taxable distributions from a whole life insurance policy’s cash value would also not count, and may further provide an added source of retirement funds.³

Based on the Social Security Administration’s online quick benefits calculator, a person born on January 1, 1950 with current earnings of \$150,000⁴ would receive the following estimated monthly benefits at the following retirement ages:



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<u>Full Retirement Age</u>	<u>Age at Retirement</u>	<u>Estimated Monthly Benefit⁵</u>
66	63	\$1,935
66	66	\$2,464 (+\$529 compared to 63)
66	70	\$3,322 (+\$858 compared to 66)

Ignoring the personal reasons for retiring, this hypothetical person may undertake a purely mathematical analysis to determine which option provides the greatest benefits over life. Using an

estimated life expectancy of 84, as well as a contingent early death at age 75, the difference in total lifetime benefits may be computed as follows:

<u>Age at Retirement</u>	<u>Estimated Monthly Benefit</u>	<u>Years Collecting Benefits</u>	<u>Total Lifetime Benefits</u>
63	\$1,935	21 (assumes death at age 84)	\$487,620
66	\$2,464	18 (assumes death at age 84)	\$532,224
70	\$3,322	14 (assumes death at age 84)	\$558,096
63	\$1,935	12 (assumes death at age 75)	\$278,640
66	\$2,464	9 (assumes death at age 75)	\$266,112
70	\$3,322	5 (assumes death at age 75)	\$199,320

As these calculations demonstrate, you should consider your own unique situation, including estimated life expectancy, age, health, retirement needs, and other personal factors, when deciding at what age to start collecting SSRB. A shorter life expectancy may affect your decision to start collecting earlier even if the monthly payments are less. Having sufficient retirement funds from other sources, such as a 401(k) plan, IRA, or the cash value from a whole life insurance policy, could make the decision to delay receiving benefits easier.

Are Social Security Retirement Benefits Taxed?

Some of the SSRB that you may receive may be taxable depending on the amount of SSRB received, in addition to other taxable and non-taxable income. If your income is over a certain amount (called the "base amount"), some of your benefits may be taxable. The base amount is \$25,000 for single taxpayers and \$32,000 for

married taxpayers filing jointly. Here is an example of the calculation for a single person to determine if his or her income is over the base amount:

SSRB Received	\$23,000
½ of SSRB Received	\$11,500
+ Taxable Income	\$30,000
+ Tax-Exempt Interest	<u>\$10,000</u>
Total Income	\$51,500
Base Amount – Single	\$25,000

The above calculation only determines if some of your SSRB are taxable. In the above example, some of this individual's SSRB would be subject to tax because his or her total income of \$51,500 is above the base amount of \$25,000. Another calculation must be done to determine exactly how much of your SSRB are taxable and that calculation can be complex. But, as a general rule, up to 50% of your SSRB may be taxable if your total income is above the base amount. Further, up to 85% of your SSRB may be taxable if your total income exceeds





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\$34,000 for single taxpayers and \$44,000 for married taxpayers filing jointly. You should discuss the taxation of benefits with your accountant or tax advisor. The Internal Revenue Service also provides an online tool to assist in determining what portion, if any, of your Social Security benefits are taxable (<http://www.irs.gov/uac/Are-My-Social-Security-or-Railroad-Retirement-Tier-I-Benefits-Taxable%3F>).

With the lingering issue of Social Security's long-term sustainability and insufficient retirement savings, finding an alternative and supplemental retirement source is crucial. The lifetime benefits of tax-free withdrawals and loans from a whole life insurance policy's cash value may be that alternative.³

Note that there are many different types of Social Security benefits, such as retirement, disability, survivors, and supplemental security income. This document only discusses Social Security Retirement Benefits.

Lanny D. Levin, CLU, ChFC
LANNY D. LEVIN AGENCY, Inc.
1751 Lake Cook Road suite 350
Deerfield, IL 60015
(847) 597-2444
lanny_levin@levinagency.com

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¹ Source: SSA Publication No. 05-10035, ICN 457500, July 2012 (<http://www.ssa.gov/pubs/10035.html#a0=1>).

² Source: SSA Publication No. 05-10069, ICN 467005, March 2012 (<http://www.ssa.gov/pubs/10069.html#a0=2>).

³ Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses or is surrendered, any loans considered to be gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, and are subject to ordinary income taxes to the extent there is gain in the policy. If the policy owner is under 59 ½, any taxable withdrawal from a MEC may also be subject to a 10% penalty tax.

⁴ The maximum amount of wages subject to Social Security taxes is \$113,700 for 2013 and \$117,000 for 2014. Wages above these maximum amounts are not subject to Social Security taxes. These wage limits do not apply to Medicare's Hospital Insurance tax.

⁵ These are hypothetical benefit amounts based on inputs to the U.S. Social Security Administration's online quick calculator (<http://www.socialsecurity.gov/OACT/quickcalc/index.html>). These do not represent any particular person's retirement benefits and are used for illustration purposes only. The amounts were calculated on November 16, 2012 and are subject to change.