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Cherry Tree Wealth Management

CHERRY TREE WEALTH INSIGHTS: Published by Keith Tufte, President of Cherry Tree Wealth Management, LLC, with insights on investing and wealth management.

WHEN SHOULD I START TAKING SOCIAL SECURITY BENEFITS?

The best age to start taking Social Security (SS) depends very much on the specific circumstances of each person. For some people it will be smart to start taking Social Security (SS) benefits at age 62 when they are first eligible. For others it will make sense to start at or near their Full Retirement Age (FRA) of around 67. And for some it will make sense to wait until age 70. The amount of SS benefits you will receive varies significantly depending on at what age you first start taking your benefits. The longer you wait the more you will get paid each month for the rest of your life. You do not get a higher SS benefit for waiting beyond age 70.

Your Social Security benefits are calculated on the average of the highest 35 years of your inflation-adjusted income over your working life. If you worked less than 35 years you get a zero for the missing years. Your benefits are measured and reported to you in terms of how much you would receive at your full retirement age (FRA), which is age 66-67 (depending on your birth year). You must have worked and paid SS taxes for 10 years to qualify for SS benefits.

At your full retirement age (67 for most people) you will receive 100% of your calculated SS benefit. If you start taking SS early at age 62 you will only receive 70% of your calculated SS benefit. If you wait until you are age 70 you will receive 124% of your calculated SS benefit. You get an extra 8% per year for each year you wait from age 67 to age 70 to start taking your SS benefits. SS benefits also increase each year based on a cost of living adjustment.

FACTORS TO CONSIDER IN DETERMINING THE RIGHT AGE TO START TAKING SS BENEFITS:

Financial Need. Many people start taking SS benefits at age 62 because they need the income to live on. If you need the money to live on for food, shelter, medical cost, etc. and have no other options taking your SS benefits early will make sense.

Availability of Other Assets and Income. If you have other assets and investments you can use for living expenses for a few years, you can afford to wait to start taking SS benefits. You can gradually sell investments in brokerage accounts, trust accounts, IRA accounts, and other accounts for your living expenses. You may also have other income such as a pension or part-time work that can allow you to postpone starting your SS benefits and let your SS payout numbers grow.

Are You Still Working? If you are still working, you can likely postpone taking your SS. You may end up paying more in income taxes than necessary if you are still working and you start taking your SS benefits. You will get a permanent reduction in your SS benefits by taking it early. If you earn too much your SS benefits may be reduced. You will pay income taxes on 85% of your SS benefits and the SS income (taxable) may push you into a higher overall tax bracket.

Health and Longevity. How good is your health and what is your life expectancy compared to other people your age? Your SS benefits are paid to you for as long as you live, and sometimes to your spouse as long as they live. The longer you expect to live, the more it pays to wait to start taking SS benefits. One-third of people who are age 65 now will live to age 90 or beyond. The average life expectancy for a man aged 65 is currently age 84, and for 65 year-old women it is age 87.

If you have poor current health, you may have a shorter life expectancy than average which may suggest taking SS benefits earlier than your full retirement age (typically 67). What age did your parents and grandparents live to? If you are healthy, exercise regularly, have normal weight, no chronic illnesses and a good genetic history it may be smart for you to wait beyond your full retirement age to start taking SS.

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Marital Status. Your marital status can affect when you should start taking your SS benefits because your spouse may end up getting "spousal benefits" based on your SS payout and/or "survivor benefits" based your SS payout amount. Generally, if you are the higher earning spouse (over your entire career), it pays to wait longer to start taking your SS benefits. If you do so, your spouse will likely end up getting higher benefits over their lifetime. This is especially true if you are male (you have a shorter life expectancy), and/or you are older than your spouse (thus more likely to die sooner), and/or your earnings history is significantly higher (50%-100% higher) than your spouse's. If your earnings record is 100% higher than theirs, they are likely to be using spousal benefits rather than SS based on their own earnings record. Each spouse will get SS benefits based on the higher of their own earnings record or half (50%) of the SS payouts of the higher earning spouse (spousal benefits). When one spouse dies, the surviving spouse can take the SS survivor benefit of the higher earning spouse (at 100%).

We have access to software to help clients calculate the SS benefits they (or they and their spouse) might receive at different starting ages to help people maximize their lifetime benefits.

OTHER IMPORTANT SOCIAL SECURITY INFORMATION:

- You can only file for "spousal benefits" after your spouse starts taking their own SS benefits.
- The maximum spousal benefit is 50% of the other spouse's benefit, when the higher earning spouse starts taking SS and the lower earning spouse is full retirement age.
- There is no benefit (or increase) to waiting to claim the spousal benefit or the survivor benefit beyond full retirement age for the lower earning spouse.
- The lower earnings spouse can claim benefits on their own earnings record first, and then later switch to the higher spousal benefit once the higher earning spouse starts benefits.
- Survivor benefits can be 100% of the higher benefit of either spouse, but are discounted if the surviving spouse starts taking survivor benefits before their full retirement age (typically age 67).
- Some people are concerned about the Social Security system going bankrupt in 10 years or so and a possible major cut to their SS benefits. We believe people over the age or 60 are likely to be grandfathered in to the current level of SS benefits.

There is no obvious right answer ahead of time about when to start taking SS because nobody knows exactly how long they (and/or their spouse) will live. Many people make the decision on when to start taking their SS benefits on a "gut feel" on what feels best for them. We have access to software to help clients calculate the SS benefits they (or they and their spouse) might receive at different starting ages to help people maximize their lifetime benefits.

Cherry Tree Wealth Management, LLC (CTW) provides unique wealth management services for a select group of client families to help give them peace of mind. Author Keith Tufte, (President of CTW) has over 25 years of successful investment management experience as a Wall Street Analyst, Mutual Fund Portfolio Manager, Director of Equity Research for a major mutual fund firm, Hedge Fund Portfolio Manager, and Wealth Management Advisor. Please FORWARD this e-mail to friends/relatives/business associates that you think may have an interest. Please see our website at http://www.cherrytree.com.

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