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## When to File for Social Security Income: How Soon is Too Soon?

“Retirement at sixty-five is ridiculous. When I was sixty-five I still had pimples.” - *George Burns*



### **The First Baby Boomer**

Kathleen Casey-Kirschling was born one second after midnight on January 1, 1946. As such, this retired Maryland teacher has the honor of being our nation's first symbolic baby boomer. According to a US News and World Report article from January, 2008, Casey-Kirschling was also one of the first boomers to apply for Social Security benefits upon turning 62.

She wasn't alone! Almost a third of the 2.9 million boomers born in 1946 applied for early benefits in 2008, causing Social Security Commissioner Michael Astrue to dub it America's "silver tsunami".

And yet 38% of respondents to a Nationwide Financial Retirement Institute survey owned up to regretting their decision and wishing they had waited until they reached the full retirement age of 66. Why all the remorse?

## **Rushing Into Social Security**

The biggest regret for most people stems from being locked into a 25% lower payment for the rest of their lives. The average monthly payment for early claimants is \$1190, while those who wait until full retirement age of 66 receive an average check of \$1506 per month. Those who wait until age 70 see an average monthly Social Security check of \$1924. If you compare the lowest and highest amounts, the difference comes to \$8,808 per year!

Considering that those figures are the starting point for Social Security payments for the rest of one's life, it is clear that the longer a person can work and save as well as delay taking social security, the better off they are likely to be. For those who may live to 90, 100 or beyond, quitting work early and settling for smaller Social Security payments can be downright devastating. And since Social Security payments are automatically withheld if you are under 66 and making even a nominal amount (the 2015 figure is \$15,720), too often Social Security is used to replace income rather than supplement income.

And there lies the rub: sometimes people claim Social Security at 62 due to involuntary retirement resulting from layoffs, unemployment, and a seeming lack of options. The U.S. was in an economic tailspin at the same time those first boomers became eligible for benefits, and many had been laid off. By August of 2008, unemployment had risen to a five year high due to the loss of 605,000 jobs, with older workers often taking longer than others to find new jobs. This explains why, in 2009 and 2010, the Social Security Administration received 200,000 more claims than it predicted.

## **Hard Choices and Financial Regrets**

Clare Keany lives in Palm Springs and planned to work into her seventies. However, she lost her job as an Executive Assistant for an ad agency in 2008. Three years later, her unemployment benefits were exhausted, her savings were depleted and she still could not find work. She had just turned 62 and felt she had no other option than to start claiming Social Security, which she regrets to this day.

Another regretful early claimant is Paul Skidmore of Finksburg, MD. He was an insurance claims adjuster for 37 years before his company down-sized and then closed.

Paul looked for work for almost two years. His unemployment ran out, and at age 63, he filed for his Social Security claim.

Thousands are in a similar bind to Clare and Paul, feeling backed into a financial corner. The situation is especially difficult for life-long employees not adept at creating their own income. For those skilled at disappearing positions, it may be necessary to learn new skills, adopt new mindsets, or even "hire yourself."

### **Some Alternatives If You Claimed Too Early**

If you feel like you claimed your benefits too early, here are some possibilities worth exploring:

#### **1. The One-Year Safety Clause**

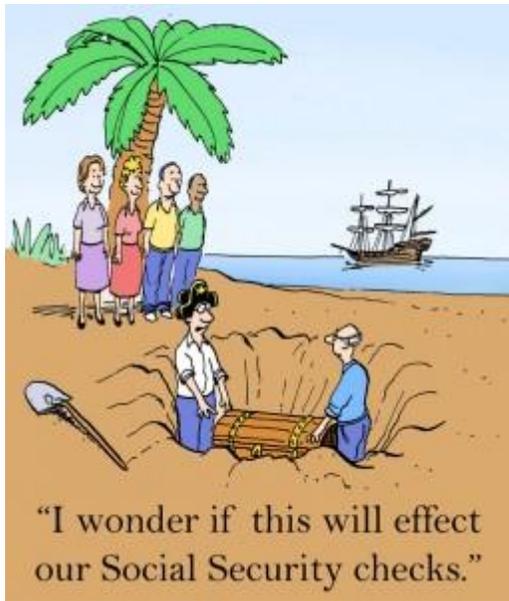
The Social Security Administration gives all applicants a full year to withdraw their claim and repay any monies received at no interest. Let's say you filed at age 62 and you suddenly find yourself with a higher-paying job, an unexpected windfall, or you simply change your mind and use savings to repay your SSI. By exercising the one-year clause, you would essentially start over in the eyes of the Social Security Administration. Plus, when you re-apply, your monthly check would be a little fatter due to the 8% increase for every year you don't receive benefits.

#### **2. Adjustment to the Reduction Factor (ARF)**

If you are under 66, there is a maximum amount of earnings that Social Security allows before payments get automatically withheld (for 2015, the figure is \$15,720). So... what if you take benefits early, then land a job or become profitably self-employed? This is actually a very good thing. After you turn 66, your payments will restart and your earnings no longer count against you. Plus, your Adjustment to the Retirement Factor (ARF) kicks in. That means that your early filing payments at the 75% level go up to the 96% level. You automatically accrue an ARF for every month your check is withheld due to being gainfully employed!

#### **3. File and Suspend**

Similarly, if you can suspend payments anytime from age 66 to age 70, you'll be giving yourself a raise when you resume. While payments are suspended, the amount you eventually receive increases by 8% a year. So even if you filed your claim at 62, a suspension after the full retirement age would give you a shot at climbing up to the 99% benefit level.



### **Sidestepping Those Pesky Social Security Problems**

In the words of Olivia Mitchell, professor of insurance and risk management at the University of Pennsylvania's Wharton School, "Delaying is better if you can afford to wait." Claiming early might be a good way to go if you have a major health problem or are in dire straits. However, if you are in a position to plan ahead, here are some things to bear in mind:

**Social Security is NOT a Retirement Plan.** When the Social Security program was introduced, it was meant to be a *supplement* to savings or pension plans, not a retirement strategy. One quick look at the [SSA Retirement Estimator](#) should be enough to convince anyone that the monthly payments are not enough to live on.

**It is wise to have savings and investments outside of qualified plans like a 401k.** Any resources that can be tapped if necessary are preferable to applying for Social Security benefits too early, as the money lost over time can be substantial. Furthermore, tax-deferred retirement plans aren't good sources of emergency income as you'll likely pay taxes plus fees to access the money early.

**You can never have too big of an emergency fund.** As those who were laid off in the recent Great Recession can attest, oftentimes even an emergency fund equal to a year's worth of income isn't nearly enough. But we don't like to think of it as simply an "emergency fund," but rather, an all-purpose fund that can be used for opportunities as well as rainy days.

**Consider creating your own income.** Self-employed or entrepreneurial seniors find themselves more able to turn economic lemons into lemonade. And here's where that "opportunity fund" comes in handy. How many seniors could have created their OWN jobs with money to hire a mentor, get business training, perhaps even purchase a franchise or become active real estate investors?

Many well-known names in business, such as J. C. Penney, Ray Kroc, Walt Disney and the founder of The Pampered Chef used their life insurance policies to start a business or sustain it through difficult times. Some of our clients have done the same by borrowing against their whole life policies.

**Reconsider retirement.** Finally, we encourage you to re-think the concept of retirement itself. We believe that retirement is a concept that simply doesn't work well – financially and in other ways – for most Americans. Instead of collecting Social Security at 62 or even 66, we recommend to find work that you love and keep doing it, with plenty of time off for travel, learning, and whatever you find rewarding.

### **When Should You File for Social Security Income?**

[Rosabeth Moss Kanter](#) of the Harvard Business School and Harvard's Advanced Leadership Initiative states, "The boomers' biggest impact will be on eliminating the term 'retirement' and inventing a new stage of life... the new career arc." We certainly hope that she is right!

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