

## The Basics of Social Security for Retirees

Social Security Income or SSI is often a central feature of retirement income planning. An average American receives about 1/3 of their retirement income from SSI. In this newsletter our goal is for you to better understand why it is important to get all the facts and consult with a professional before deciding to start withdrawing SSI. All too often decisions made about SSI benefits are not made with a clear understanding of all the facts and features available to the retiree. Each person's specific work history, age, spouse, income, health, etc... all can affect when is the best time to begin Social Security benefits.



### Facts About SSI

- Social security was designed to act as a supplement to a retiree's income when it was created under the Social Security Act in 1935.
- In 1935, employees and employers each paid one percent of the total income in SS tax.
- Currently employees and employers pay 7.65% *each*. (Though the current temporary law has reduced this percentage.)
- If you are self employed, you must pay approx. 13%. Ouch!
- In 1940 (when benefits began to pay out) the average lifespan of a 65 year old was just over 12 more years. That number is now 18 years, and likely to increase.
- Trustees of Social Security say in order to make it solvent, we will need to increase payroll taxes from both employee and employer, decrease benefits by roughly 13%, or decrease the income cap that payroll tax is based on.

### Receiving SSI Benefits

- All beneficiaries of SSI are eligible to begin benefits as early as age 62.
- Each year that benefits are delayed (after age 62) increases the annual benefit by approximately 7.275%, with additional inflation adjustments each year until age 70.

- After age 70 there are no additional increases except inflation adjustments.
- The average American receives \$1200 per month in SSI benefits.
- In general, the higher your lifetime income the higher your monthly payment will be.
- If you return to work after starting to withdraw SSI and earn more than \$14,160 annually, you will lose \$1 in SSI benefits for every two dollars earned above \$14,160.
- SSI has a feature called survivors benefits that allows for an adjustment to SSI benefits based on a spouse's lifetime income instead of yours. (This is one feature commonly overlooked.)
- Survivor benefits for your spouse is \$250. So if you die before drawing SSI this is the total amount of benefits anyone in your family will receive.

All McIlrath & Eck financial plans consider the possibility of changes to SSI, lower inflation adjustments, and the ability to maintain purchasing power. We also consider and assist customers in planning and considering when best to begin receiving benefits.

See <http://www.ssa.gov> for more features and facts.

### Common Mistakes with SSI Planning

- **Not Planning:** The decision regarding when to begin SSI benefits is one that should not be taken lightly. By not planning and considering all your particular circumstances you could end up leaving thousands of dollars in benefits on the table.
- **Taking Benefits too Early:** If you are in good health, starting benefits too early can reduce your lifetime income from SSI. Consider that by waiting, you are earning roughly 7.3% plus inflation adjustments on your SSI. This is considered a great return on investment. Also if you are still working, your SSI will likely be reduced, retarding your SSI earning power.

- **Waiting too Long:** Without adjustments after age 70, there is no reason to delay SSI! Remember, If you die, no matter how much you paid in, the death benefit is \$250.
- **Ignoring Survivor Benefits:** Survivor Benefits allows a spouse to choose which benefits to withdraw on, if the higher income spouse dies. This is particularly important for women who earn a lifetime income of about 2/3 of their husband's, usually because of time away from a career to raise children. Assuming the husband predeceases his wife, the surviving spouse (over age 60) will be given a choice of either continuing their own SSI benefit or dropping their's for the deceased spouse's SSI monthly amount.
- **Forgetting to Take Advantage of Timing:** This mistake is made by forgetting to use the catch up feature of SSI benefits. For instance, a stay at home mother will earn significantly less than her husband. It is best for her to start SSI early at age 62, and then later apply to receive one-half of her spouse's amount. FOR EXAMPLE: I recently worked with a couple where the wife could start collecting \$732 a month early at 62. Her statement shows she will receive \$901 at age 65. However, 1/2 her husband's SSI would be \$944. In this case, we advised her to start the SSI early. At age 65 she will apply for half her spouse's monthly amount, thus maximizing her benefits.

## Summary

Social Security has many features. Too often people make decisions about SSI benefits without a clear understanding of all the facts and possible withdrawal scenarios. We advise all clients to see a SSI claims representative early in the year of retirement (and at age 62) so they can explain your options using your own earnings history. Social Security recommends that people apply at least 90 days prior to when they want to see their benefits begin. McIlrath & Eck can also help you with this process and encourages you to see us as well to make sure that your SSI plans are included in your financial and retirement plan.

A complete discussion of Social Security is too complex for a single newsletter. Good retirement planning includes making smart decisions about when to begin benefits, considering survivor benefits, and understanding possible taxation of benefits. Hopefully some of this information will help in the decision making process and prompt everyone to seek advice before making such a critical decision. ■



## Happy New Year!

From all of us at McIlrath & Eck