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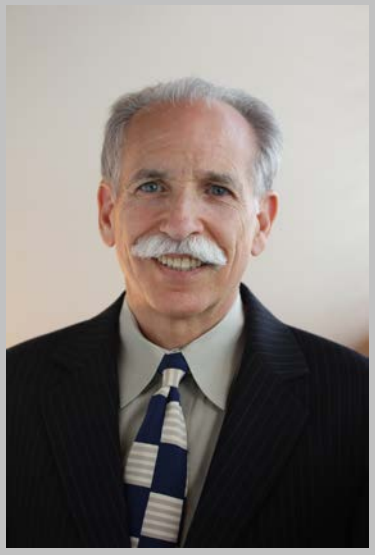
FINANCES TODAY

INSURANCE & RETIREMENT PLANNING ADVICE



Art Miller, President
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CLASSES & SEMINARS TAUGHT BY ART MILLER

Seminar on Preventing the Most Common IRA Mistakes
March 15
Chicago Bar Association
Chicago, IL

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The 7 Most Common IRA Mistakes
April 19, 21
Northeastern Illinois University
Chicago, IL

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Seminar on Preserving Income During Retirement
September 15
Lake County Bar Association
Waukegan, IL

"When Should I Begin?" Timing Your Social Security Benefits

By Art Miller

Whether or not to file for your Social Security benefits early (at age 62) is a question that confounds many retirees. There is a good reason for confusion and concern. Determining the most advantageous timing strategy for singles and couples requires a great deal of thought and planning. Unfortunately, the Social Security Administration has significantly diminished its local office staff around the country and its employees have little time and insufficient training to helpfully respond to queries about these matters.

Understanding Social Security's 2728 rules in its Program Operating Manual is not a simple task. Where does someone begin? You could study the rules for several months and come away with a head that is ready to implode, or you could seek help. Studies have been conducted and books have been written that attempt to demystify the rules. However, the explanations are not all that easy to comprehend. This is understandable, considering that the government has added thousands upon thousands of codicils to the manual in an attempt to clarify this murky body of rules.

There is a lot to consider before making a decision as to when to claim Social Security benefits. It would be reasonably simple if the problem was pared down to making the decision based only on what choice will afford you the maximum lifetime benefits**.** However, it's not just about the numbers or your money, it's about your life. Life has a way of demanding choices that do not always add up simply. There are several key factors for singles and couples to consider in order to make an informed timing decision.

First and foremost, you must answer the question of how long you may walk the earth or at least stroll over to the refrigerator to retrieve a caffeine jolt. Most people who reach age 65 are actuarially expected to live into their mid-eighties. The fastest growing segment of the population are people who live to the age of 100. I advise most clients to plan to

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live until age 95 because planning for a long existence eliminates the unwanted result of running out of money during their lifetime. Second, you must think of retirement as a journey. Like all excursions, it has both a beginning and an end. You must know where your retirement journey begins by determining how much it costs you to live. Once you compute your monthly expenses, you must determine how many of them will remain the same during retirement, which ones will disappear, and which ones will increase.

After you know your monthly expenses and add in annual cost-of-living adjustments, you are ready to consider the other factors pertaining to deciding when to begin receiving your Social Security benefits. The next question to answer is whether you enjoy working and want to continue. Social Security allows you to claim benefits at age 62 and earn income up to $15,720 in 2016 without reducing your benefits. For every two dollars earned over $15,720 during the year, Social Security reduces your benefit by one dollar. For every three dollars above $41,880, Social Security will reduce your benefits by one dollar. So, Uncle Sam taketh away but those benefits are not lost. In fact, they are rolled back into your account at the Treasury Department and your benefit will bump up at your full benefit age (either 66 or 67 depending on your year of birth). No matter how much you have earned once you reach full benefit age, there is no reduction in Social Security benefits. For those who continue to work after age 60, there is more good news. Social Security computes your benefit based on your highest 35 years of earnings. Every year after age 60 that you earn in excess of a lower earning year, Social Security will replace the lower earning year with a higher earning year, and that will boost your lifetime benefits.

There is some bad news regarding taking benefits before your full benefit age. First, your monthly benefit will be reduced by as much as 20% if you begin benefits at age 62. Second, you will not earn 8% deferred annual credits for four years between ages 66-70. Third, there are two instances when taking an early benefit (ages 62-65) that you will not receive a uniform increase in benefits. Consequently, people who want to take an early benefit should seek the advice of someone who has the experience to guide them toward making the best decision. Some people who have limited financial resources, or are disabled, or are terminally ill often have little choice but to claim their Social Security benefits early.

Prior to the passage of the Bi-Partisan Budget Act in November 2015, couples had an opportunity receive auxiliary or spousal benefits while letting their own benefits earn deferred credits for four years. That has changed for many couples. In order to qualify for spousal benefits, the youngest member of a couple had to turn 62 no later than December 31, 2015 and the older spouse must turn 66 by April 30, 2016. Although Congress made, in my opinion, a poor decision by eliminating these benefits, everyone still needs to carefully analyze their individual set of circumstances before making a claiming decision.

As you are determining the best strategy for claiming benefits, it is crucial to coordinate Social Security with your other income-producing assets. You must determine what type of lifestyle you would like to live during retirement and whether or not Social Security and a pension will provide the income you desire. If there is a shortfall, then it must be filled in by creating income from your accumulated assets. Next, you must determine how much of that income gap you want to be guaranteed and how much income you want that can vary from year to year. Those decisions should be based on amounts of risk and safety that will allow you to rest comfortably each night.

In the future, Social Security may be reconfigured to maintain its solvency. However, everyone should be prepared for a potential reduction in benefits based on certain asset and income levels, the full benefit age pushed back from 66-67 to 68-70, a reduced or eliminated cost of living, and an increased Social Security taxation. All in all, we must be prepared to make our assets last for as long as we live, knowing that in the future Social Security will supply a smaller portion of our retirement income needs.

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