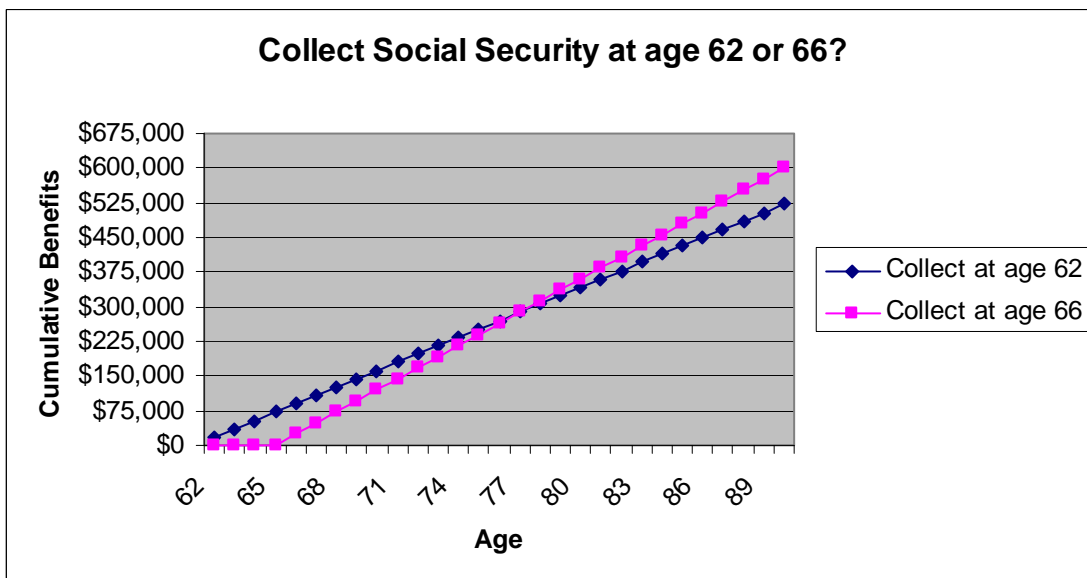


## Social Security Mulligan

*“Millions of retired Americans could substantially raise their living standards throughout retirement by sending checks for tens of thousands of dollars to the Social Security Administration.”<sup>1</sup>*

This is a quote from the Inspector General’s September 2008 report discussing their concern with the amount of media attention that Form SSA-521 is getting. Why is this form important? To answer this question, we must first begin with how advice was previously given and how many Americans have made their decision in the past on when to begin collecting Social Security benefits. For the past decade, the best advice was usually deconstructed into a break-even analysis. The analysis would look at the difference between collecting benefits early and collecting them late and at what age those numbers intersected. For example, if you could receive \$1,500 a month in benefits at age 62 or \$2,000 a month in benefits at age 66, there would be a point where the cumulative benefits of delaying would exceed the cumulative benefits of taking Social Security early. As long as you had a high likelihood of living past that age, the recommendation would have been to delay benefits.



One needs to keep in mind that the risk of living too long is substantially more than dying early. As you can see from the above chart, a beneficiary that dies at age 69 and delayed receipt of benefits would have missed out on \$48,000 of cumulative benefits compared to the same individual that began receipt at age 62. However, if she dies at age 96 and delayed receipt of benefits, she would be better off by \$114,000 over the same individual that began receipt of benefits at age 62. As my colleague Charles Sachs just pointed out in a recent “Nightly Business Review” commentary, there’s a one in four chance that a husband or spouse will live until age 95. Given that life expectancy is such a large concern, it may pay for individuals to delay.

Recent benefit formula changes and a plethora of research regarding the interaction between client, spousal, and widower benefits have changed the way we should be looking at the question and we determined that we needed a better mathematical analysis to capture and properly evaluate the various inputs involved. With nearly two years of painstaking and thorough research under our belts, we have just about completed a comprehensive analytical tool to help answer the question, "When should I begin collecting Social Security?" However, there are many folks reading this that have already begun collecting benefits and are probably thinking this article and our analysis has been created too late to help.

Alas, those of you that have already started receiving benefits need not fret because the Social Security Administration (or SSA) essentially allows a do-over. (Don't worry, this will all tie together very shortly!) This little known rule was only utilized by between 12,000 and 26,000 individuals last year, depending on whose statistic you use. By comparison, 41 million Americans received benefits for the year ending in 2007! Even though many articles have been written about this subject in the Wall Street Journal, USA Today, and Money Magazine, the vast majority of people have never heard of this "loophole."

Form SSA-521 allows the Social Security beneficiary to withdraw their benefits, pay back what they have received to-date and begin receiving the higher benefits at a later point in time. You may be asking whether the difference is substantial enough to warrant making this change. We estimate that the difference between collecting benefits at age 62 and collecting benefits at age 70 is approximately 76% for most people! In addition, contrary to your credit card company that loans you money at 10-30%, the benefits need to be repaid but not the interest. In essence, you have received an interest-free loan for all the benefits received! So, if you are one of many that have already begun collecting benefits and feel like your decision may have been made by mistake or without complete information, you may be able to rectify the situation and receive a higher benefit for the rest of your life. Alternatively, if you haven't started receiving benefits yet, you may elect to strategically begin receiving the benefits as early as possible, knowing that if you die early, at least you received something and if you don't, you can presumably withdraw and re-file at a later point.

Before running to your nearest SSA office, there are two important points that should not go unmentioned. First, the beneficiary must pay back the lifetime benefits already received in a lump sum so the taxpayer needs to have access to enough cash to make the payment. This could easily exceed \$100,000. Secondly, without going into too much detail at this point in time, the single largest reason for someone to delay receiving benefits is: THEIR SPOUSE. When one spouse dies, the remaining spouse gets to receive the greater of their own benefit or their spouse's benefit. That means that if Spouse 1 is receiving \$1,500 per month and Spouse 2 is receiving \$900 per month and Spouse 1 dies, Spouse 2 instantly gets converted over to Spouse 1's benefit and begins receiving \$1,500 per month (certain restrictions do apply). As a result, if you are married and the spouse with the higher benefit is receiving their benefits early, at a lower amount, they are not only potentially hurting themselves but their spouse as well. This is obviously an important distinction for anyone that is deliberately taking benefits early with the expectation of filing Form SSA-521 later. If you die before resetting the benefits, your spouse is stuck with a meager widowers benefit.

As of now, those beneficiaries that file the form are asked for the reason they are withdrawing their benefits and the beneficiary can provide any reason imaginable from a change in work status to simply a desire to receive higher benefits. No penalties, no interest, no questions asked! While it's perfectly legal, however, it's time in existence may be short lived.

It should be noted that the same Inspector General's report later states that "The openness of these procedures allows a loophole for those SSA [Social Security Administration] beneficiaries who would like to increase the amount of their reduced benefits. Moreover, it permits SSA beneficiaries use of

Federal funds at a zero percent interest rate while denying the OASI [Old Age and Survivors Insurance] Trust Fund the opportunity to earn interest on those same funds.” The recommendation submitted to the Social Security Commissioner is to modify the cases of withdrawals and limit its use.

Over the coming months, we plan to hold a series of webinars on the subject of social security. These webinars will cover all the pertinent topics from penalties and credits for taking benefits early or late, to the impact of working while receiving benefits, to other little known tips designed to help maximize your benefits. Also, if you are already receiving benefits or have not started receiving benefits yet, we invite you to call us so that we may help you make the best decision possible. We can also show you how a change in benefits can increase the probability of success in your long-term plan. The Social Security Administration, which faces a deficit over the next 75 years, will look to shore this up by examining all policies and provisions. Beneficiaries would be wise to take advantage of the current opportunities and take their mulligan, before it's too late.

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<sup>1</sup>Based on the 2008 Inspector General's Report entitled "Individuals Withdrawing Title II Benefit Applications (A-05-08-28110)