

THE SHINE REPORT

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Social Security Tax-Free Loan Program

It can be a beautiful thing when life allows one to go back in time and make a profit.

Retirees who started collecting Social Security at age 62 received from 25% to 30% lower benefits than if they had waited until their full retirement age. (Eligibility to receive full Social Security benefits is 65 for those born in 1937 or earlier. The eligibility age increases for retirees born in 1938 or later. I was born in 1942 so my full retirement age was 65 and 10 months. For those born in 1960 or later the full retirement age is 67. See chart below.)

Birth year and age for receiving full Social Security benefits:

Birth year	Minimum age to receive full benefits
1937 or earlier	Age 65
1938	Age 65 and 2 months
1939	Age 65 and 4 months
1940	Age 65 and 6 months
1941	Age 65 and 8 months
1942	Age 65 and 10 months
1943-1954	Age 66
1955	Age 66 and 2 months
1956	Age 66 and 4 months
1957	Age 66 and 6 months
1958	Age 66 and 8 months
1959	Age 66 and 10 months
1960 or later	Age 67

The real problem is once benefits have started to be paid, all future COLA (inflation adjustments) are based on the lower benefit payments. There is a break-even calculation that can be done on an individual basis that shows at what age a person will have received the exact same dollars if he starts taking benefits at age 62 versus starting at full retirement age. Generally break-even is between the ages of 75 to 78. If you live longer than age 75, then it is to your financial advantage to have waited for full retirement age to start taking your Social Security benefits.

By delaying Social Security beyond the full retirement age to age 70, delayed retirement credits (DRCs) are applied to the monthly benefit on a compounded basis from 7.5% to 8.0%, depending on your full retirement age. By waiting from age 62 to age 70 you can almost double the initial benefits. This year the maximum pretax benefits at age 62 are \$21,228. At age 65 they are \$26,064. At age 70 they are \$36,648. Waiting does pay.

Because of the market downturn and investment uncertainty, retirees are looking for ways they can increase their inflation adjusted income over time with minimum risk.

Resetting the Social Security benefit clock is one way retirees can achieve this goal. Retirees who are collecting Social Security can start over, provided they can pay back all the benefits received so far.

The option to withdraw an application and reapply later was originally designed to help people who regretted having applied too early. Perhaps they went back to work and didn't need the benefits, or they realized that their monthly benefit would be considerably higher if they had waited. However, rules are rules, and if people say that withdrawing their application and reapplying at a later date will improve their financial situation, their request will be granted.

A retiree can make this work by taking advantage of **SSA Form 521, "Request for Withdrawal of Application."** Let's say a retiree applies for Social Security at age 62 with the intention of investing all the benefits. At age 70, he withdraws his application, repays all the benefits received over the eight years—without interest—and reapplies for Social Security claiming a new, higher benefit that includes delayed retirement credits (DRCs). The investment earnings are his to keep.

The strategy has come to light primarily due to a recent piece by Alicia Munnell from the Center for Retirement Research at Boston College titled, "Strange but True: Free Loan From Social Security."

Munnell even notes that it's a no-lose proposition. One of the reasons people claim early benefits is that they "could die tomorrow." But with SSA Form 521 waiting in the wings, if they find themselves still alive at age 70, they'll be able to claim the higher benefit after all. Heads, they win; tails, they win eight years' worth of Social Security checks plus the option to increase their monthly benefit at age 70. And they get to keep the earnings on the invested benefits.

Alicia Munnell concludes her paper by saying, "Social Security was not designed to give zero-interest loans to those who can afford to retire without their monthly benefit." It would not be surprising to see Congress close this loophole. This would be a shame if it denied people who made an honest mistake the chance to rectify it.

For those retirees that are beyond their full retirement age, but are not yet 70, and started taking Social Security benefits before their full retirement age, now could be the only time you have to correct that financial decision.

What are the risks? Before retirees jump at the chance to earn what appears to be a risk-free loan they should consult a qualified financial planner knowledgeable in Social Security and income retirement planning to learn the potential pitfalls that can cause this opportunity to go awry.

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