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White Paper

Electing Delayed Social Security Retirement Benefits

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Electing Delayed Social Security Retirement Benefits

What is it?

You can elect to delay receiving Social Security retirement benefits

You can choose to delay receiving Social Security retirement benefits until you are past normal retirement age. Perhaps you want to work longer because you enjoy it, or maybe you want your retirement benefit to be higher when you finally do retire.

Your benefit will be increased by the delayed retirement credit

If you are eligible to receive Social Security retirement benefits but you delay receiving benefits until after normal retirement age, you will be eligible to receive the delayed retirement credit. The delayed retirement credit increases your retirement benefit by a predetermined percentage of your primary insurance amount (PIA) for each month you delay receiving retirement benefits up to the maximum age of 70. The amount of the credit you receive depends upon two factors:

- What year you were born
- How many months you delayed receiving retirement benefits past normal retirement age

The following table shows the relationship between the year you were born and the delayed retirement credit you will be eligible to receive if you elect to delay receiving retirement benefits:

By this Age	Accumulated Benefit if Retirement Age is 65	Accumulated Benefit if Retirement Age is 70 (25% credit has been earned)
70	\$ 60,000	\$0
75	\$120,000	\$75,000
80	\$180,000	\$150,000
85	\$240,000	\$225,000
90	\$300,000	\$300,000

As this table illustrates, the delayed retirement credit you receive may differ from the delayed retirement credit someone else receives if you were born in different years. Note that because normal retirement age is set to increase to age 67 over a 22-year period, eventually you will only be able to receive a delayed retirement credit for 3 years instead of 5. However, as the table shows, the delayed retirement credit you receive will be higher.

Example(s): Claire was born in 1931 and decided to delay retiring until she turned 68. When she applied for her Social Security retirement benefits, she found out that she was eligible to receive a delayed retirement credit equal to 15 percent of her PIA. Her PIA was \$1,000, so her retirement benefit was calculated to be \$1,150.

Tip: Although the delayed retirement credit increases your Social Security retirement benefit, it does not increase your PIA.

Tip: Under the Senior Citizens' Freedom to Work Act of 2000, beginning with the month you reach normal retirement age and ending with the month prior to the month you turn age 70, you can earn delayed retirement credits for any month in which you request that your retirement benefit not be paid, even if you are already on the benefit rolls.

When can it be used?

You must be eligible to receive delayed retirement benefits

In order to receive delayed retirement benefits, you must meet the following criteria:

- You must be at least one month older than normal retirement age, and
- You must be fully insured for retirement benefits (in most cases have 40 quarters of coverage).

You must apply for benefits

Receiving delayed retirement benefits is not automatic. You must apply for benefits when you want to begin receiving them. The Social Security Administration (SSA) recommends that you contact an SSA representative two or three months before you want to begin receiving benefits. You can call the SSA at 1-800-772-1213 for more information.

Strengths

Your retirement benefit will increase

If you continue to work past normal retirement age and delay receiving Social Security retirement benefits, you may increase your retirement benefit in two ways. Not only will you receive a delayed retirement credit, but your earnings after normal retirement age may be substantial enough to increase your average indexed monthly earnings (AIME), upon which your benefit is based. For further

information regarding this subject, see Increasing Your Average Indexed Monthly Earnings (AIME). If having more income per month after retirement is important to you, consider this strategy.

Your surviving spouse's benefit will increase

If you elect to receive delayed retirement benefits, then die, your surviving spouse (at normal retirement age) may receive 100 percent of the benefit you were receiving. Therefore, if your spouse has a life expectancy substantially greater than your own, you might consider delaying retirement so that your spouse may receive a higher benefit after you die.

Example(s): Mrs. Sprat died of a heart attack at age 68. She had been receiving a monthly delayed retirement benefit of \$1,100, which was composed of 100 percent of her primary insurance amount (PIA) (\$1,000) plus a 10 percent delayed retirement credit (\$100). Therefore, her 65-year-old surviving husband received a monthly retirement benefit equal to 100 percent of the benefit she was receiving at the time of her death. Had Mrs. Sprat retired at her normal retirement age of 65, however, her husband's survivor's benefit would have been only \$1,000.

Your delayed retirement credit isn't counted toward your family maximum

When you retire, your family may be eligible to receive benefits based on your PIA. These benefits may be limited by the family maximum, which generally ranges from 150 to 180 percent of your PIA. However, if you delay receiving retirement benefits, your delayed retirement credit won't count toward your family maximum and can be paid whether or not your family's benefits are limited by the family maximum.

Tradeoffs

Even though your monthly retirement benefit will be higher, your lifetime retirement benefit may be lower

Just because you receive a higher monthly benefit when you delay retirement doesn't mean you'll receive a higher overall lifetime benefit.

Unfortunately, it isn't that simple. In fact, it's unlikely that you will come out ahead (financially, anyway) because you delayed receiving retirement benefits. Here's why:

- If you delay receiving retirement benefits, you will receive fewer benefit checks than you would have if you begin receiving retirement benefits at normal retirement age. How many fewer checks you receive will depend upon how many years you delay receiving retirement benefits. Although this will depend upon the individual, assume the following facts apply to you:
 - You retire at age 70 instead of age 65.
 - You turned 65 in 1996, making you eligible for a delayed retirement credit of 5 percent of your primary insurance amount (PIA) per year.

- Your PIA is \$1,000, so if you retire at age 65, your annual benefit will be \$12,000. Your delayed retirement credit is \$250, so if you retire at age 70, your annual benefit will be \$15,000.
- Assume that even if you've saved or invested all or part of your benefits, your real rate of return is 0 percent. (For a discussion of rate of return, see Electing Early Social Security Retirement Benefits.)

Using these factors, it would take you 20 years from the time you retire at age 70 to reach the point at which your benefits would crossover¹.

- Your life expectancy makes it improbable that delaying retirement benefits will be financially advantageous. If you elect to receive delayed retirement benefits, you won't make as much during your lifetime as you would if you elect to receive retirement benefits at normal retirement age unless you live to age 90. Unfortunately, most people can't expect to live this long. So, delaying retirement benefits may not be a smart financial decision for you.

The delayed retirement credit won't increase benefits paid to most family members

When you earn the delayed retirement credit, your retirement benefit will increase. However, because the delayed retirement credit doesn't affect your PIA, benefits that are paid to family members won't increase (unless you die, at which time your surviving spouse may receive the same benefit you were receiving).

Example(s): Adam's PIA is \$800, and he is eligible to receive a delayed retirement credit of \$24 when he retires at age 68, so his total retirement benefit will be \$824. When his wife, Eve, retires at normal retirement age, she will receive a monthly benefit equal to 50 percent of his PIA, or \$400. However, she will receive no extra benefit because Adam delayed his retirement.

How to do it

Decide whether you want to delay receiving retirement benefits by comparing your options

Order a Social Security Statement from the Social Security Administration (SSA) that will estimate your benefit if you retire at your normal retirement age or at a later age. For more information on how to order this statement, see Estimating Your Social Security Benefits.

¹ Does not take into account annual cost-of-living increases, which would delay the crossover point even further.

Consider the following questions before making your decision

- ✓ Why do you want to delay receiving retirement benefits?
- ✓ Do you expect to live long enough to benefit from delaying your retirement benefits?
- ✓ Will delaying your retirement benefits help you avoid losing benefits due to excess earned income?

Apply for delayed Social Security retirement benefits

Two or three months before you're ready to retire, fill out an application for benefits with the SSA. For more information, see Determining Eligibility for Social Security Benefits.

Tip: Don't forget to apply for Medicare benefits at age 65. See Questions & Answers.

Tax considerations

If you continue to work past normal retirement age, you will continue to pay Social Security or self-employment tax on your covered earnings. Even though your earnings may increase your AIME (and thus your retirement benefit), you may not be able to recoup those payroll taxes. For further information on this subject, see Increasing Your Average Indexed Monthly Earnings Amount (AIME).

Questions & Answers

If you delay receiving Social Security retirement benefits, can you still receive Medicare at age 65?

Yes. Anyone age 65 or older who is entitled to receive Social Security benefits is eligible to receive Medicare, even if he or she has not yet filed an application for Social Security benefits. However, enrollment in Medicare is automatic only for individuals who apply for Social Security retirement benefits at age 65. If you elect to delay receiving retirement benefits, remember to apply for Medicare benefits when you turn 65.

Can you delay receiving Social Security retirement benefits until you're 71 or older?

Yes, but there's no advantage to waiting longer than age 70 to begin receiving Social Security retirement benefits. You can earn the delayed retirement credit only up until age 70. In addition, if you want to work, any money you earn from working after age 70 won't decrease your Social Security retirement benefit. So why wait?

Disclosures

This material does not constitute the rendering of investment, legal, tax or insurance advice or services. It is intended for informational use only and is not a substitute for investment, legal, tax, and insurance advice.

State, national and international laws vary, as do individual circumstances; so always consult a qualified investment advisor, attorney, CPA, or insurance agent on all investment, legal, tax, or insurance matters.

The effectiveness of any of the strategies described will depend on your individual situation and on a number of other factors. After reviewing your personal situation, we may recommend that you not use any strategy in this document but instead consider various other strategies available through our practice.

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