



# Krosnowski & Scott LLC

Investment & Retirement Planning Specialists

## **Retirement Income Distribution Planning- Social Security or IRA, which should I begin to draw on first?**

### **SOCIAL SECURITY INCOME UPDATE**

A few years ago we distributed an essay that reviewed some of the factors to take into consideration when going through the process of deciding when to begin to receive Social Security income benefits. This information is contained in Section B below.

If you are approaching retirement and evaluating when to begin to receive Social Security income benefits (SSIB), we thought that the commentary in Section A might interest you.

#### **Section A. – When should I start to begin to receive SSIBs?**

Recently, we have been asked by a number of individuals who were approaching retirement when do we think that they should start to receive SSIBs. Our response is the following: There is no right or wrong age to start to receive SSIBs. Individuals need to take into consideration such factors as their health, family history of longevity and future employment status to name a few. However, a factor that is frequently overlooked are your financial priorities.

##### **1. Wealth Accumulation/Maximize Legacy to Beneficiaries -**

If you have a retirement plan balance and you hope to pass a portion of these assets on to your beneficiaries after you pass away then you might want to consider starting to receive your SSIBs sooner than later. According to a study published by Doug Lemons in the *Journal of Financial Planning* titled “When to Start Collecting Social Security Benefits? A Break Even Analysis,” it takes around sixteen years to break even when comparing whether to begin receiving SSIBs at age 62 versus age 66. If you start to receive SSIBs sooner, this may enable you to distribute less assets from your retirement accounts during your lifetime. Reducing your retirement plan balance withdrawals would enhance the potential for these assets to increase in value. You cannot pass on SSIBs to your beneficiaries. You can pass on retirement plan balances to your beneficiaries.

This wealth accumulation strategy may enable you to provide a greater financial legacy to pass onto your children and grandchildren. If maximizing the amount of assets that you can pass on to

your beneficiaries is a priority for you, then you might want to begin to receive your SSIBs as soon as possible after you retire.

## 2. Taxation of Social Security Benefits –

Depending on your income, Social Security benefits may be taxed at a lower rate than IRA income distributions. Whereas IRA distributions are 100% taxable as ordinary income, the maximum that your SSIBs would be taxed is 85%. Your income (adjusted gross income plus 50% of your SSIBs, plus any tax-free interest from municipal bonds) determines the amount of taxes you pay:

For Single Filers:

<b>INCOME LEVEL</b>	<b>TAXABLE BENEFIT</b>
Less than \$25,000	0%
Between \$25,000 and \$34,000	50%
Greater than \$34,000	85%

For Joint Filers:

<b>INCOME LEVEL</b>	<b>TAXABLE BENEFIT</b>
Less than \$32,000	0%
Between \$32,00 and \$44,000	50%
Greater than \$44,000	85%

Many states do not tax Social Security Income. We advise you to check with your local Social Security office to determine the annual state taxation.

For 2015 the maximum earnings (during work years) subject to FICA tax is \$118,500.

Loss of Social Security retirement benefits: In years prior to full retirement age, \$1 in benefits will be lost for every \$2 of earnings in excess of \$15,120. In the year of full retirement age, \$1 in benefits will be lost for every \$3 of earnings in excess of \$40,080 (applies only to months of earnings prior to full retirement age). There is no limit on earnings beginning the month an individual attains full retirement age.

3. Collecting as a spouse higher benefit payment – If you have been married for longer than ten years, you also have the option to collect the higher of your benefit or 50% of your spouse’s benefit. You have an option to make a one-time switch from collecting 50% of your spouse’s benefit by potentially delaying your collection of benefits until normal retirement age (67 or later). We can review your situation and help walk through these options make sense for you.

## **Section B. Social Security Income (SSI)** –

1. To start the process of applying for SSI payments on your computer go to [www.ssa.gov](http://www.ssa.gov) to fill out your “Benefit Application” and get answers for any question.

If you wish to talk with a Social Security Administration (SSA) representative via telephone, call 1-800-772-1213. SSA counselors are available 24 hours a day. If you cannot handle your business through the automated services, you can speak to a Social Security representative between 7 a.m. and 7 p.m. Monday through Friday. The via telephone SSA counselor can put in a request to mail

you the Benefit Application and help you fill out the form and complete the process of setting up your SSI payments. You can also go to your local SSA office and talk to a counselor. The SSA will not mail you or allow you to pick up a blank Benefit Application.

The SSA suggests that you start the process at least two (2) months prior to your 62<sup>nd</sup> birthday (or whenever you are ready). The processing time is approximately 30 days. Just like your mortgage payment the SSA payments are always a month behind. (For example: If your birthday is 9/29/1951 and you begin the process 7/29/2015, if you do not run into any documentation processing issues, you become eligible to begin to receive payments on your birthday). There is a one month lag between your birthday and when you receive your first payment. In this example, depending on the date that is set for your payments, the soonest payments could begin to be processed would be on October 29, 2015 or shortly thereafter.

2. When should you begin to receive SSI?

The age at which you become eligible for full SSI benefits:

YEAR OF BIRTH	FULL RETIREMENT AGE
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

If your full benefit age is 66 (\$1,000 per month) and you choose to begin to receive SSI early at age 62, your benefit amount will be reduced to \$750.00 per month (25% discount). If you choose not to receive benefits until age 70, you would increase your monthly benefit amount to \$1,320 (32% premium).

3. Taxable Bank or Brokerage Accounts – Prior to your last day of employment, if you need liquidity for your transition into retirement, you may wish to move a few months’ worth of your monthly income needs into a money market account. This can be accomplished by selling a portion of your investments or by coding your existing security and fund holdings to pay dividends in cash (not reinvest) twelve to eighteen months before you retire.

We hope that you find this information to be useful in your retirement planning efforts. Please do not hesitate to contact us if you need assistance.

Sincerely,

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