SOCIAL SECURITY HIGHLIGHTS

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Three Social Security 'Do Over' Options

In spite of how hard they try, people often become confused when they try to figure out their Social Security. And it's no wonder. The Social Security Administration's operating guide, its *Program Operations Manual System*, commonly known as "POMS," runs for more than 20,000 pages.

And yet Social Security can provide a surprising amount of flexibility. Here's one example: in a recent article in *Investment News*, Mary Beth Franklin provided a summary of three "do over" options if you decide to start collecting your Social Security, then change your mind.

Why would you change your mind about Social Security? Well, for one thing, the longer you wait, the more money you'll get each month, at least until age 70. The difference between collecting at age 62 versus waiting until age 70 can be more than 75 percent. And sometimes people don't figure that out until after they've already filed. So what do you do when you realize you've made a mistake?

Here are the three strategies outlined in Franklin's article where, if the circumstances are right, you can get a do-over.

1. Withdrawing Your Application

This happens time and time again. Someone gets an early retirement offer and they decide to accept, say at age 62. They file for their Social Security, put their feet up, and relax. And after a few months…they're bored to tears. Now what? They've decided they'd rather go back to work, but it's not that simple. They've already started collecting their Social Security so what do they do now?

The Social Security Administration (SSA) has a way to deal with this. You can withdraw your application within the first 12 months using SSA Form 521. If you do this properly, it will be as if you never applied in the first case. Note that this option is no longer available once the 12 month period has passed.

But there's some bad news: you generally need to attach a check with the application. You will need to return whatever money you've collected from Social Security up until that point. For example, if you've collected $1,000 per month for six months, you'll need to write a check back to the Social Security Administration for $6,000. And if along the way, you've collected a benefit on behalf of a spouse or a minor child, you would need to pay that back as well. Note that there is no interest charge. This amounts to an interest-free loan.

2. Suspending Your Benefit

This is a twist on an old strategy. Up until about five years ago, there was a popular technique known as "File and Suspend." Basically, once you reached Full Retirement Age, you could file for your benefit and then immediately suspend it. In the right circumstances, this allowed your spouse to get a spousal benefit of up to 50 percent of your benefit, even though you technically were not collecting yet.

Unfortunately, it was too good to last, and in 2016 it was repealed. But people misunderstood what actually happened. They didn't actually eliminate the "suspend" part. They simply said that if you suspended your own benefit, the supplemental benefits, such as a spousal benefit, would be suspended as well.

So as an example let's say you started collecting at age 62, with a Full Retirement Age (FRA) of 66. FRA can be anywhere between age 66 and 67, depending on the year you were born. You are now age 66. You wanted to go back to work at various times over the last few years, but you decided against it. One good reason may be the so-called "Earnings Test," which for many people, makes it impractical to collect Social Security and work full time.

But the Earnings Test only lasts until you reach FRA, and now that you're age 66, it no longer applies. And you'd like to go back to work. So you decide to suspend your benefit.

Let's take a quick look at the math. By filing at age 62, you took a 25 percent reduction in your benefit. Your $1,000 benefit at age 66 would be $750 at age 62. But by suspending, you become eligible for Deferred Retirement Credits of 8 percent per year up until age 70. So when you resume your benefit at age 70, you will get 132 percent of your $750 benefit, or $990. In other words, you will now get back most of what you lost when you filed early.

But remember, you can only suspend once you reach Full Retirement Age, not before.

Here's one good potential reason to do this. In many cases, this could increase the survivor benefit available to your spouse should you pre-decease. Once you get past age 70, the survivor benefit is basically the higher of the two. If your spouse ends up outliving you by a number of years, that extra survivor benefit ($990 vs. $750) could make a huge difference.

3. Getting A Lump Sum Payout

This often-overlooked strategy got new attention last year when COVID-19 hit. Basically, you can file for a retroactive benefit of up to six months and receive a lump sum "bonus" when you file.

But there are significant limitations to this strategy. You can only go back to your FRA. So if you're now age 62½, you can't get a six month lump sum and go back to age 62.

But let's say you reached FRA earlier this year when you got to age 66 and two months. You're now 66 and eight months. If you decide to file, you have several choices. You can file now and get a higher monthly benefit than you would have gotten at FRA. If your FRA benefit was $1,000, you can file now for a 4 percent increase to $1,040 for the rest of your life. Or you could go back up to six months and collect a $6,000 lump sum, with a benefit of $1,000 per month for the rest of your life.

For many people, the deciding factor is their current cash position. And this where COVID-19 comes into play. A significant number of people lost their jobs suddenly when the pandemic hit. And if you had a sudden cash need, a lump sum from Social Security could make a huge difference.

Conclusion

As you can see, there are plenty of options when it comes to collecting Social Security. But there are a few things to keep in mind, as it can be very, very tricky. Security Mutual has the Social Security tools to help make your decision smarter and easier. Contact your Security Mutual life insurance advisor today to learn more.

Social Security Evaluator

To learn about your Social Security options, contact your Security Mutual life insurance agent. Using the Security Mutual Life Social Security Evaluator, your agent can provide you with an easy-to-understand illustration showing your various options, and then help you evaluate those options based on your personal financial needs and goals.

The applicability of any strategy discussed is dependent upon the particular facts and circumstances. Results may vary, and products and services discussed may not be appropriate for all situations; each person's needs objectives and financial circumstances are different and must be reviewed and analyzed independently.

We encourage individuals to seek personalized advice from a qualified Security Mutual life insurance advisor regarding their personal needs, objectives and financial circumstances.

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