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WHEN SHOULD YOU START RECEIVING SOCIAL SECURITY BENEFITS?

BY
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A recent article in *Estate Planning Magazine* analyzed factors that baby boomers should consider when deciding at what age they should start receiving Social Security benefits. The first baby boomers will retire this year, and much scrutiny has been focused on how the retirement of approximately 72 million Americans will affect the country's the economy. Specifically, there is much concern about how the Social Security system will fare with the baby boomers drawing retirement. Many baby boomers have educated themselves regarding the right age at which to begin receiving Social Security retirement benefits.

Individuals must wait to draw Social Security once they reach their full retirement age in order to receive nonreduced Social Security benefits. For the baby boomers (those born from 1943 to 1954), full retirement age is 66. Currently, an individual may elect to receive Social Security retirement benefits at age 62; however, if an individual chooses to receive benefits at age 62, then there is a permanent reduction in the amount of monthly benefit the individual will receive. Many people are choosing to retire early and draw their Social Security benefits, even though these benefits will be permanently reduced. They should carefully consider whether this is a wise choice.

The first factor individuals should consider when making this decision is whether they have other sources of income. A person is not required to stop working to receive benefits; however, a person who has elected to begin receiving Social Security retirement benefits before full retirement age faces a potential reduction if the person continues to work. For every two dollars a person earns over \$13,560 annually, there is a one dollar reduction in the

Social Security benefit. For those who want to continue to work, this may make taking benefits early an unwise decision. For individuals not working, then the reduction may not apply.

The second factor individuals should consider is their health. While Social Security provides tables to help predict one's life expectancy, it is an actuarial calculation. If an individual has been in poor health, is a smoker, or has been diagnosed with illnesses that may reduce life expectancy, then electing an early benefit may make good sense. For example, an individual's full retirement benefit at age 66 would be \$1,150 per month, and the benefit if taken at age 62 is \$750 per month, and they live to age 67. If the person had waited until age 66 to start taking the retirement benefit, then the person would have received a total of \$13,800; if this person had started taking the benefit at age 62, then this person would have received a total of \$45,000. Although no one knows one's actual life expectancy, realistically examining your health and potential for longevity may assist in your decision as to when to start receiving Social Security benefits.

If an individual needs to use Social Security benefits for monthly living expenses, then this individual may need to start taking the benefits as soon as possible. If an individual does not need to use Social Security benefits, then this individual may want to weigh taking the benefit early and investing it versus waiting until full retirement age or later to take the benefit. Using a reasonable cost of living growth rate and investment rate of return, one can determine the "break-even" age, and whether it is a realistic possibility to reach that age. For example, an individual with a \$750 per month Social Security benefit at age 62 and a benefit of \$1,125.50 per month at age 66 would need to reach age 80 years and 4 months to break-even. If this individual does not live long enough to reach the break-even age, then the individual would have received more money if the individual elected to take the benefit at age 62. If an individual lives longer than the break-even age, then the individual would have received more money by electing to take the benefit at age 66. (The example assumes a 3% cost of living advance and a 5% after tax rate of return.)

Another important, and often overlooked, concern is the payment of Medicare premiums. Currently, individuals become eligible for Medicare at age 65, regardless of when they elect to receive Social Security benefits. Typically, Medicare part B premiums are automatically deducted from an individual's monthly Social Security benefit. For those who elect to receive their benefits later than age 65, they must pay their premiums by other means until they begin drawing Social Security. Unfortunately, some individuals forget to pay these premiums and their Medicare benefits lapse. They may re-enroll, but they are penalized and have to pay a higher premium.

Determining the best age at which to begin receiving Social Security retirement benefits is a complex process. The attorneys at Oast & Hook can assist clients with their estate, long-term care, investment and financial planning needs, including Social Security and Medicare benefits.

Ask Allie

O&H: Allie, have you recently heard any interesting stories about animals with special jobs?

Allie: Yes, as a matter of fact I have! Last week, Nils Olav, a king penguin who resides at the Edinburgh Zoo in Scotland and who serves as the honorary colonel-in-chief of the elite Norwegian King's Guard, was knighted at a special ceremony. He is the third penguin to serve as honorary colonel-in-chief. According to press reports, the ceremony began with speeches and fanfare before Nils arrived, under escort with the King's Guard Color Detachment. Nils reviewed the troops lined outside the penguin enclosure at the zoo, occasionally stopping to crane his neck and check out the crisp uniforms of the soldiers lined up for the review. He was then knighted by British Maj. Gen. Euan Loudon on behalf of Norway's King Harold V. General Loudon dropped the king's sword gently on both sides of Nils's frame, and his colonel-in-chief badge, tied to his flipper, was swapped for one symbolizing his knighthood. Niles is now known as Sir Niles! Here's the video of the event: www.msnbc.msn.com/id/21134540/vp/26221685#26221685



Please feel free to e-mail your questions to Allie at: allie@oasthook.com.

Announcement

Oast & Hook will hold its quarterly Social Workers and Administrators Breakfast on August 28th at the Virginia Beach Central Library. Registration beings at 8:30 a.m. and the presentation begins at 9:00 a.m. The breakfast is designed to be both a networking opportunity and also an educational opportunity for area professionals who work with seniors, the disabled, and their families. This seminar's topic is "Sudden Changes in Cognition in Your Elderly Client." Oast & Hook attorney Letha McDowell and Barbara Williams will be the guest speakers. To register for this breakfast, please phone Linda Gerber at 757-967-9704.

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