

SUMMER 2017

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This edition of the Navigator is all about Social Security. Our new Wealth Advisor, Josh Scandlen, reports that Social Security is an issue of increased importance for the Seascope clients he's had the pleasure of speaking with. If Social Security is on your mind, talk to us, we can help devise a clear path forward. We hope you have enjoyed the summer. As always, please reach out to us with any questions, concerns, or just to catch up!

Are my Social Security benefits subject to income tax?

A portion of your benefits may be subject to income tax if your modified adjusted gross income (MAGI), plus one-half your Social Security benefits, exceeds specific limits. Your MAGI equals:

- Adjusted gross income (or the adjusted gross income of you and your spouse if married and filing jointly), including wages, interest, dividends, taxable pensions, and other sources,
- Tax-exempt interest income (e.g., interest from municipal bonds and qualified U.S. savings bonds), and
- Amounts earned in a foreign country, U.S. possession, or Puerto Rico that are exempt from tax

If your combined income (MAGI plus one-half your Social Security benefits) exceeds \$34,000 (\$44,000 if married and filing jointly), up to 85 percent of your benefits is taxable. If you are married and filing separately, up to 85 percent of your benefits will be taxed unless you and your spouse live apart for the entire year.

Will my pension affect my Social Security benefit?

If your pension is from a job where you paid Social Security taxes, then it won't affect your Social Security benefit. However, if your pension is from a job where you did not pay Social Security taxes (such as certain government jobs) two special provisions may apply.

The first provision, called the government pension offset (GPO), may apply if you're entitled to receive a government pension as well as Social Security spousal retirement or survivor's benefits based on your spouse's (or former spouse's) earnings. Under this provision, your spousal or survivor's benefit may be reduced by two-thirds of your government pension (some exceptions apply).

The windfall elimination provision (WEP) affects how your Social Security retirement or disability benefit is figured if you receive a pension from work not covered by Social Security. The formula used to figure your benefit is modified, resulting in a lower Social Security benefit.

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Social Security: What Should You Do at Age 62?

Is 62 your lucky number? If you're eligible, that's the earliest age you can start receiving Social Security retirement benefits.

Although collecting early retirement benefits makes sense for some people, there's a major drawback to consider: if you start collecting benefits early, your monthly retirement benefit will be permanently reduced. So before you put down the tools of your trade and pick up your first Social Security check, there are some factors you'll need to weigh before deciding whether to start collecting benefits early.

Have you thought about your longevity?

Is it better to take reduced benefits at age 62 or full benefits later? The answer depends, in part, on how long you live. If you live longer than your "break-even age," the overall value of your retirement benefits taken at full retirement age will begin to outweigh the value of reduced benefits taken at age 62.

You'll generally reach your break-even age about 12 years from your full retirement age. For example, if your full retirement age is 66, you should reach your break-even age at 78. If you live past this age, you'll end up with higher total lifetime benefits by waiting until full retirement age to start collecting. However, unless you're able to invest your benefits rather than use them for living expenses, your break-even age is probably not the most important part of the equation. For many people, what really counts is how much they'll receive each month, rather than how much they'll accumulate over many years.

Do you plan on working after age 62?

A key factor in your decision is whether or not you plan to continue working after you start collecting Social Security benefits at age 62. That's because income you earn before full retirement age may reduce your Social Security retirement benefit. Specifically, if you are under full retirement age for the entire year, \$1 in benefits will be withheld for every \$2 you earn over the annual earnings limit (\$16,920 in 2017).

You start collecting Social Security benefits at age 62. You continue working, and your job pays \$30,000 in 2017. Your annual benefit would be reduced by \$6,540 ($\$30,000$ minus $\$16,920$, divided by 2).

If your monthly benefit is reduced in the short term due to your earnings, you'll receive a higher monthly benefit later. That's because the SSA recalculates your benefit when you reach full retirement age, and omits the months in which your benefit was reduced.

What will your retirement benefit be?

Your Social Security retirement benefit is based on the number of years you've been working and the amount you've earned. Your benefit is calculated using a formula that takes into account your 35 highest earnings years. If you earned little or nothing in several of those years (if you left the workforce to raise a family, for instance), it may be to your advantage to work as long as possible, because you'll have the opportunity to replace a year of lower earnings with a higher one, potentially resulting in a higher retirement benefit.



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If you begin collecting retirement benefits at age 62, each monthly benefit check will be 25% to 30% less than it would be at full retirement age. The exact amount of the reduction will depend on the year you were born. (Conversely, you can get a higher payout by delaying retirement past your full retirement age--the government increases your payout every month that you delay retirement, up to age 70.)

However, even though your monthly benefit will be 25% to 30% less if you begin collecting retirement benefits at age 62, you might receive the same or more total lifetime Social Security benefits as you would have had you waited until full retirement age to start collecting benefits. That's because even though you'll receive less money per month, you might receive more benefit checks.

The following chart shows how much an estimated \$1,000 monthly benefit at full retirement age would be worth if you started taking a reduced benefit at age 62.

Birth Year	Full Retirement Age	Benefit
1943-1954	66 years	\$750
1955	66 years, 2 months	\$741
1956	66 years, 4 months	\$733
1957	66 years, 6 months	\$725
1958	66 years, 8 months	\$716
1959	66 years, 10 months	\$708
1960 or later	67 years	\$700