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Employment Law Forum

Social Security – Increasing the Reduced Benefit

A person who qualifies for Social Security may begin receiving benefits at age 62.¹ The age 62 benefit is a “reduced” benefit which is approximately 75 percent of the full benefit. In 2008 the full benefit is received at age 66 for eligible persons born between 1943 and 1954.² It is estimated that approximately 50 percent of Social Security recipients begin receiving benefits at age 62 and more than 90 percent before eligibility for the full benefit.

The baby boomer generation consists of individuals born between 1946 and 1964. The oldest baby boomers who are turning 62 this year and qualify for the Social Security benefit must decide when to claim their benefit. If an individual elects to receive a benefit at age 62, as a rule of thumb that person will be ahead in pension benefits received until age 77 as opposed to the individual who waits to receive the full benefit.

Individuals becoming eligible for the Social Security benefit may find themselves in a quandary. On one hand they may elect to take the reduced benefit while young enough to participate in other activities. However, they will receive reduced benefits for the rest of their lives. On the other hand an individual who waits for full retirement age and a larger benefit, it may require that the person work longer.

Increasing the Reduced Benefit

Individuals who have elected to receive Social Security benefits before reaching full retirement age have two options available with respect to increasing their benefit. Each of the options is described below:

Option 1 – Withdrawing from Social Security

Under the Social Security Act, individuals who elected to receive an early retirement benefit can file to withdraw their application.³ To do so it is required that any benefits that have been received be repaid. It is not required that interest be paid on the benefits received. If your spouse is receiving benefits based on your earnings record, Social Security will require his/her consent before approving the application.

Once the application is approved and benefits repaid, an individual must wait a minimum of 60 days before again filing for the Social Security benefit. In determining when to again file, there is no reason to wait past age 70 since there is no further increase in benefits after reaching 70. If approved, the new benefit will be determined on the current age of the applicant.

The payback option may be attractive to individuals who regret their decision to take early retirement and reduced Social Security benefits. If interested in increasing the reduced benefit, it will be necessary to contact the local Social Security Office to schedule an appointment.

Option 2 – Temporarily Stopping the Social Security Benefit

An individual receiving Social Security benefits may increase future benefits by stopping the benefit being received. A “credit” is received for each month that the benefit is not received. Each credit is the equivalent of an increase in benefits of just over one half of one percent for each month that a benefit is not received.

“Stopping” the benefit is very different from withdrawing from Social Security as described in Option 1. There is no requirement that the individual pay back all previous benefits received. Under Option 2 the benefit will stop until such time that the individual elects to again begin receiving benefit payments. The new benefit will be increased on a percentage basis for each month that the benefit was not received

How Long Will the Payback Option be Available?

It is not known how long the Social Security Act will continue to make the Option 1 withdrawal available to early retiree recipients. Since interest is not paid on benefits previously received when a person elects to withdraw, an individual could elect early retirement, invest the Social Security funds received, elect to withdraw the application for benefits, payback the funds received, and keep any interest received on the investment. With an increasing number of “investment savvy” baby boomers filing for benefits in the immediate future, and an “interest free” loan available from Social Security for those filing for early benefits, the payback option may have a limited lifetime.

Considerations

There are many issues that must be considered if interested in Option 1. These include:

1. Taxes paid on Social Security benefits previously received may not be completely recovered. It is suggested that you contact your income tax advisor.

2. If electing to payback Social Security benefits, it may be required that funds be withdrawn from individual retirement accounts (IRA) to make up for the loss of income. IRA income received will be taxable.
3. If electing to payback Social Security benefits, interest received on the funds used for the repayment will be lost.
4. If electing to payback Social Security benefits, the increased benefit subsequently received will be beneficial to the spouse or other eligible individual in the event of the death of the recipient.
5. The higher the Social Security benefit the greater the annual cost of living adjustment.

Conclusion

If an individual elected to receive other than a full Social Security benefit and has an interest in increasing the benefit, either of the two options outlined herein are available. Irrespective of the option selected, it will be required to contact the local Social Security office to schedule an appointment. The Social Security representative can provide detailed information considering either of the options available.

¹ 42 U.S.C. 402(a)(1)(2)(3).

² 42 U.S.C. 416(l)(1).

³ SSA-521 (07 – 2003), Request for Withdrawal of Application.