FINANCE
101

FULL RETIREMENT AGE

WORKING AFTER RETIREMENT

DEFERRING BENEFITS

*By Daniel M. Isard*

# Retirement Planning and Social Security

*Dear Dan,*
*I'm getting old, about to turn 62. I have owned my business for 30 years. I'd like to work until age 66 and sell the business at that time. I have a key person who wants to buy my business. The sale could coincide with my birth month, and I would like to take my Social Security at its full value.*

*As my location is rural, I have had trouble attracting staff. My key person has been with me for 20 years – just the two of us doing everything. I told him I would be happy to stay on after the buyout for a modest salary, assuming I am only doing modest labors. I don't want any surprise to my Social Security retirement benefit due to my continued working status. What advice can you give me?*

*Old and In the Way in Washington*

Dear Old,
The Jewish greeting of *mazel tov* is often exclaimed at birthdays and other celebrations. Selling your business and living to retirement age is also cause for me to extend a *mazel tov* to you!

Having a business successor helps with a retirement plan. However, there are certain things to keep in mind as you integrate your retirement income between a business sale and a continuing work schedule. It's fairly common today for someone to work after retirement. According to AARP, about 37% of all people anticipate working full time or part time after normal retirement age.

Another study by Transamerica Center for Retirement determined that of those working beyond retirement age:

- 43% expected they needed the earnings to cover essential expenses
- 37% needed the added income to cover healthcare costs
- 20% worked to generate more retirement money.

So it's not just greeters at Walmart who work past retirement age!

There are three key points to your Social Security Retirement Benefit.

Full retirement age is the age at which a person may first become entitled to full (or unreduced) retirement benefits. If you were born in 1937 or before, that is age 65. The earliest you can take benefits if you were born in or before 1937 is age 62; however, it will be a reduced amount (75% of the age 65 benefit).

If your full retirement age (FRA) is older than 65 (that is, you were born after 1937), you will still be able to take your benefits at age 62, but the reduction in benefit amount will be greater than it is for people who were born before 1938.

This year of birth ratchets up and pushes your FRA higher by two months for each year of birth above 1937. If you were born between 1943 and 1954, your FRA is 66 years. We see that two-month increase for each year you were born above 1954 until someone achieves a birth year of 1960 or later, and at that point, the FRA is 67.

Based on this information, it seems like your FRA is 66, so you can sell your business and take FRA benefits upon attained age 66 (give or take two months, depending on your year of birth). Some people like the idea of taking benefits before FRA even though it is a reduced amount. The reduction is about 6.7% for a one-year reduction, 13.3% for a two-year reduction, 20% for a three-year reduction and 25% for a four-year reduction.

Just as some will want to take a reduced early retirement amount, there are added benefits when you defer receipt of retirement benefits until the maximum age of deferral, which is 70 years old regardless of the year you were born. In this case, benefits increase by about 25% when you defer taking benefits until age 70.

*There are certain things to keep in mind as you integrate your retirement income between a business sale and a continuing work schedule. It's fairly common for someone to work after retirement. According to AARP, about 37% of all people anticipate working full time or part time after normal retirement age.*

The risk a person must compute when deciding when to take his or her benefits is in part determined by life expectancy. Life expectancy is known as "God's Renewable Term Insurance" since no one knows when the term insurance will not be renewed! By today's actuarial tables, at age 65, life expectancy is 84.3 years old for men and 86.6 years for women.

Assuming the starting benefit is $30,000 per year at FRA, the period of benefits is 18 years (the difference between age 84 life expectancy to starting benefits at age 66). That is a total payout of $540,000.

If you start benefits at age 62, even with a 25% reduction in benefits, you would get about $22,500 a year as a benefit for 22 years. That totals a payout of about $495,000.

If you defer benefits to start at age 70, with a 25% increase, you will draw benefits for about 14 years. That is a total payout of about $525,000. Analytical minds can compute the "time use of money" for people starting at age 62 versus age

66. But regardless of how sophisticated your abacus is, there is no benefit in waiting for benefits until age 70.

Now, Old, you mentioned that upon retirement, you might need or want to continue working and stated you would take a modest wage. This should be taken into consideration with your retirement income plan.

There is an offset for earned wages depending on your year of birth. If you are younger than FRA during 2017, the limit for earned income is just about $17,000. The retirement benefit reduction for income over this amount is $1 for every $2 earned.

So, if you fit this age scenario and are paid earned income of $47,000, you would lose about $15,000 in benefits ($47,000 less $17,000 is $30,000 and a decrease of $1 in benefits for every $2 over the limit). Any benefit you might have gained in "time use of money" is probably washed down the drain if you are still working.

If you reach FRA in the year of retirement, you can earn about $45,000 before there's a reduction in benefits. That reduction is adjusted by $1 of benefits for every $3 of earned income above the allowable threshold. Assuming the same facts as above, earning $47,000 a year would only expose $2,000 to be above the threshold, and that would reduce benefits by about $650 a year. Now the argument can be made that waiting a bit is a big benefit savings.

Of course, if you wait to take benefits at age 70, you can make all the money you want with no offset. (This could explain why the Walmart greeters are all over age 70!)

These benefits are not truly "lost," however, they are merely deferred. If your benefits have been reduced due to earning too much prior to reaching your FRA, you'll get these benefits back at your FRA. At this time, your monthly Social Security check will be increased to account for benefits withheld earlier due to excess earnings.

For example, say you started your benefits at age 62 and your FRA was 66. Assume you earned enough income to reduce your Social Security benefit by 50%. At age 66, the Social Security Administration would recalculate your retirement age from 62 to 64 (accounting for the cumulative two years you did not receive benefits). It would increase your monthly benefit to what it would have been if you had retired at age 64.

Retirement benefits are one component. Social Security has a spousal benefit to be considered as well, but that would totally confuse you.

There are other things to consider in this complex small-town transaction. Maybe you limit your pay to make sure it's under the threshold for your retirement year/age.

The buyer's source of funding can also complicate matters. Today, with Small Business Administration rules, former owners cannot be employed for more than a year as part of the contemplated transaction. I can see you negotiating a series of one-year employment agreements, but only the first should be in the documents sent to the SBA.

Funeral service is a sign that the Almighty has a pretty good sense of humor. When you are young and full of energy, families don't want to talk to you. When you finally become the elder statesman of funeral service in your town, everyone wants you to make their arrangements, but you don't have the energy. The objective is to have the energy, the money and the time to enjoy life. A wise client once told me, "Don't stay at the blackjack table waiting to lose!" I think the same can be said of retirement.

*Dan Isard, MSFS, is president of The Foresight Companies, a Phoenix-based business and management consulting firm specializing in mergers and acquisitions, valuations, accounting, financing and consumer surveys. Isard can be reached at 800-426-0165 or via email at danisard@theforesightcompanies.com. For copies of this article and other educational information, visit* theforesightcompanies.com.

*Financial and tax advice contained in this article is for informational purposes only and may or may not apply to your individual position. Readers are strongly encouraged to seek the counsel of qualified advisors before undertaking any action based on this information.*