

Retirees Can Undo Early Retirement Social Security Reduction

A seldom noticed provision in Social Security allows persons, who began taking their Social Security benefits early, to change their minds and get a much higher income for life. Experts who have looked at the idea see great benefits in it.

Scott Burns, syndicated business writer at the Dallas Morning News, recently wrote a column February 17, 2008 entitled “Reapplying for Social Security may be a good idea.” Burns wrote that there has been one main option for seniors who are interested in having a higher income for their remaining lifetimes. This option is to use savings to buy a life annuity which can provide life-long income. “Fortunately,” writes Burns, “there is a simple alternative. It will work nicely for retirees in their late 60s or early 70s who opted, years ago, to take Social Security benefits at a relatively young age. That’s millions of people. If you did this, you know your benefits were reduced because taking benefits early meant Social Security would have to pay benefits for more years. But you easily can reapply from scratch.”

Burns says go to Social Security and “make use of a little-known and seldom-exercised provision - request a ‘Withdrawal of Application.’ By filing an SSA Form 521, Social Security will treat you as if you had never applied for benefits. It will let you immediately reapply for benefits - at your current age.”

There is one big catch he points out. “You must repay every dime you’ve received in past benefits. But because Social Security charges no interest, reapplying turns out to be a really good deal. It represents a way to buy an inflation-adjusted annuity for a price that beats anything offered by the financial services industry.” (Find the complete Burns column in the Boston Globe at www.boston.com.)

Have your retirement cake and eat it, too

Shortly after the Burns column, Sandra Block of USA Today followed with, “Turning 62: Have your retirement cake and eat it, too.” She approached the subject from the viewpoint of the current crop of Baby Boomers just now reaching age 62, when you can opt to start receiving early Social Security benefit payments. She writes that Baby Boomers are beginning to face the decision almost all senior citizens have faced before them - “whether to claim their Social Security benefits early.”

“A little-known Social Security option, though, gives early retirees a way to have their cake and eat it, too,” she says. “Here’s the quandary: If you claim benefits at 62, you can retire while you’re young enough to enjoy it, but you’ll receive reduced benefits for the rest of your life. By contrast, waiting to file until at least full retirement age (66 for boomers who turn 62 this year) will increase your monthly payments, reducing the risk that you’ll run out of money in your old age.

“For many boomers, though, that means working longer — a hard pill to swallow if you hate your job and want to spend more time with your grandchildren.

“What most retirees don't realize is that they can change their minds. Under the Social Security Act, individuals who receive early-retirement benefits from Social Security can withdraw their application, repay the benefits they've received and refile for higher benefits at a later date.” She quotes Laurence Kotlikoff, a Boston University finance professor, who offers the following example of how this can work.

“A 70-year-old retiree has \$400,000 in regular assets and \$200,000 in retirement savings. She claimed early-retirement benefits and receives \$11,556 a year. Had she waited until age 70 to file, her benefits would total \$20,000 a year. To withdraw and reapply for benefits, the retiree would have to repay \$79,305. But even with that payment, reapplying for Social Security would raise her standard of living by 14%,” Kotlikoff says.

“This strategy, he says, would provide her with the equivalent of an inflation-indexed annuity — a contract sold by an insurance company that guarantees regular payments for life — for about 40% less than the lowest-cost annuity available on the private market.” According to Kotlikoff: “Incredibly, a recipient can ‘undo’ his decision to take Social Security retirement benefits early simply by paying back - without any interest or inflation adjustment - the benefits he's received. He can then re-apply for Social Security and claim the bigger monthly checks paid to those who wait until an older age to claim benefits.”

Before beginning this process, seniors should talk with an adviser at their local Social Security office. To locate your local office, go online to www.ssa.gov, click the link “Find a Social Security Office” on the left side, and enter your Zip Code.

To find an explanation by Social Security on withdrawing from the program, go online to www.ssa.gov, click the link “Publications” (under Useful Links), then click the link for “Social Security Handbook”, then click “Table of Contents”, then the link “15 – Filing a Claim”, then click link “1515 – Right to Withdraw Application”.

The form needed is Form 521, “Request for Withdrawal of Application,” which is available at www.ssa.gov. Here is an explanation in the form:

“IMPORTANT NOTICE - This is a request to cancel your application. If it is approved, the decision we made on your application will have no legal effect, all rights attached to an application, including the rights of reconsideration, hearing, and appeal will be forfeited, and any payments we made to you or anyone else on the basis of that application will have to be returned. You must then reapply if you want a determination of your Social Security rights at any time in the future but any subsequent application may not involve the same retroactive period. This procedure is intended to be used only when your decision to file has resulted, or will result, in a disadvantage to you. Your local Social Security office will be glad to explain whether, and how, this procedure will help you.”