



SOCIAL SECURITY LUMP SUM PAYMENTS

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Many people begin to collect Social Security at age 66, which is their full retirement age (FRA). (Please note that full retirement age is NOT the same for everyone.) Some individuals may choose to start receiving Social Security as soon as they are eligible, at age 62, even though this will cause a significant reduction in their benefit. Still others may choose to wait until after 66 – even up to age 70, at which point your beginning benefit amount will “max out” to an amount 32% higher than your FRA of 66.

For anyone who chooses to file for Social Security after age 66, there is another option you may face. This is the lump sum payment. Regardless of whether you file for Social Security a few months after you turn 66, at age 70, or somewhere in between, you are eligible for a lump sum payment. This lump sum is equal to a maximum of 6 months of monthly benefit, or retroactive to age 66, whichever is less. For example, if you file when you are 3 months past your 66th birthday, you will only receive three months of benefit in the lump sum. If you file when you are 68, you will get 6 months.

Receiving an extra amount of money when you start to collect Social Security might be attractive. It could pay for a special vacation you have been dreaming about, or minimize the need to take out a loan for an unforeseen expense. However, you need to be aware that taking a 6 month retroactive lump sum actually sets your beginning benefit to that prior level. If you make a claim at say, 67 ½ and elect the 6 month lump sum, your benefit will be set back to an age 67 level.

Other individuals might prefer to by-pass the lump sum payment, which gives them a higher beginning benefit and thus a larger base for future cost of living increases. Either way, you can only choose one option – either the lump sum payment and set back to a lower monthly benefit, or the current age beginning benefit.

Remember that this lump sum payment may be subject to taxation, as it is considered Social Security income and it could result in a larger amount of Social Security benefits that are taxable in that year. Also, the year in which you *receive* the benefit is when it may be subject to tax, even if the 6 month payment includes months from the prior tax year.

While a lump sum payment might be a nice “treat”, you need to be aware of the consequences, both in possible taxation and a reduction in the beginning benefit for which you were eligible. When and how to claim Social Security can be very complex and should be discussed with a financial professional who is knowledgeable about this issue.

This article is for informational purposes only and should not be construed as tax, legal or financial advice. Please consult your tax, legal or financial advisor for your specific situation.

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