

University of Illinois College of Law
Law and Economics Working Papers

Year 2008

Paper 102

A Guide to Starting Social Security Benefits

Richard L. Kaplan*

*University of Illinois, rkaplan@law.uiuc.edu

This working paper is hosted by The Berkeley Electronic Press (bepress) and may not be commercially reproduced without the permission of the copyright holder.

<http://law.bepress.com/uiuclwps/art102>

Copyright ©2008 by the author.

A Guide to Starting Social Security Benefits

Richard L. Kaplan

Abstract

When a person should begin taking Social Security retirement benefits is a critical question for planning one's retirement. This article explains the various factors at play in determining the optimum starting point, including: longevity considerations; spousal implications, whether for a previously employed or a previously unemployed spouse; the impact of post-retirement employment; the availability of health insurance prior to Medicare eligibility for the worker and the worker's spouse; alternative sources of retirement income, including distributions from retirement savings plan assets and lifetime liquidation of nonretirement assets (and the pertinent income tax ramifications); and anticipated investment strategies.

When a person should begin taking Social Security retirement benefits is a critical question for planning one's retirement. This article explains the various factors at play in determining the optimum starting point, including: longevity considerations; spousal implications, whether for a previously employed or a previously unemployed spouse; the impact of post-retirement employment; the availability of health insurance prior to Medicare eligibility for the worker and the worker's spouse; alternative sources of retirement income, including distributions from retirement savings plan assets and lifetime liquidation of nonretirement assets (and the pertinent income tax ramifications); and anticipated investment strategies.

A Guide to Starting Social Security Benefits

By Richard L. Kaplan

Richard L. Kaplan explains the range of factors that must be considered when determining when to begin receiving Social Security payments.

A dilemma central to retirement planning for many individuals is determining when is the most opportune moment to begin receiving Social Security retirement benefits. As this article will demonstrate, this inquiry must consider a wide range of factors, both economic and otherwise, if an informed choice is to be made. To be sure, some folks might commence such benefits out of a fear that the Social Security system will soon run out of money,¹ but people generally approach this question with the objective of determining the most advantageous course of action for their particular circumstances. This article explores the components of that decision-making process, while eschewing absolute rules of thumb for specific situations.

Early Retirement Option

The U.S. Social Security system authorizes retirement benefits to begin as early as age 62 at the election of the prospective beneficiary.² But any recipient who commences these benefits prior to reaching his or her full retirement age faces a reduction in the amount of those benefits to take account of the early starting date.³ For most of Social Security's existence, a person's full retirement age was 65 years, but a 1983 reform of the system raised that age gradually to age 67, depending upon the year of a person's birth.⁴ We are currently in

the middle of that phase-in period such that persons born between 1943 and 1954 have a full retirement age of 66 years.⁵ At the time of this change, however, Congress did not alter the earliest possible age at which a person can claim retirement benefits, which remains 62 years. As a result, the "early retirement" penalty for a person whose full "retirement age" is 66 years has increased to 25 percent.⁶

Example 1. If Hannah would otherwise be eligible for a monthly Social Security retirement benefit of \$1,000 at age 66, she will receive only \$750 should she begin receiving Social Security retirement benefits at age 62.

This reduced payment, moreover, will not "return" to \$1,000 when Hannah reaches full retirement age. That is, the early retirement reduction is *permanent*, a fact that may have long-term economic consequences to Hannah.

Delayed Retirement Option

On the other hand, if a person chooses to defer receipt of Social Security retirement benefits past her full retirement age, a delayed retirement bonus is added to the payments that she receives.⁷ The amount of these delayed retirement credits varies by a person's year of birth, but at this point, it is eight percent per year for each year that benefits are delayed beyond a person's full retirement age.⁸

Example 2. If Hannah in Example 1 delayed her retirement benefits until she reached age 68, she

Richard L. Kaplan, J.D. is the Peer and Sarah Pedersen Professor of Law at the University of Illinois where he teaches federal income taxation and elder law. He is the co-author of *ELDER LAW IN A NUTSHELL* (4th ed. 2006, Thomson/West Publishing Co.) and the faculty advisor to *THE ELDER LAW JOURNAL*.

would be entitled to two years of delayed retirement credits or a 16 percent addition (2 years \times 8%), producing a monthly Social Security payment of \$1,160 (full benefit of \$1,000 + 16%, or \$160).

There is a maximum age, however, for earning delayed retirement credits of 70 years, after which any further postponement of benefits does not augment the amount of a person's monthly payment.⁹

Impact of Inflation

All Social Security benefits are adjusted annually for the national cost-of-living increases,¹⁰ and these percentage increases are independent of whether the benefits received are early, on-time, or delayed retirement benefits. That is, the annual percentage cost-of-living adjustment (COLA) would apply either to Hannah's early retirement benefit of \$750, her full retirement age benefit of \$1,000, or her delayed retirement benefit of \$1,160, in each case starting from the year in which she reached age 62. Accordingly, from an economic perspective, anticipated inflation need not enter into the decision-making process with respect to starting the receipt of Social Security retirement benefits, because the COLA percentages from age 62 forward are added to whichever retirement benefit that Hannah selects.

Longevity Considerations

From the government's perspective, the early retirement penalty and the delayed retirement credits are calculated to be actuarially neutral. That is, the government is economically indifferent as to when Social Security beneficiaries elect to commence receipt of their retirement benefits. Individual clients, of course, are not so indifferent and that is why this issue is so important in retirement planning. Early benefits are smaller in amount, but will be received for more years, all things being equal, while delayed benefits are larger in amount, but will be received for fewer years, once again all things being equal. The question then becomes what the person estimates will be his or her life expectancy. To put this issue in the starkest terms, getting less now in exchange for more later makes sense only if there is, in fact, a "later." Thus, the question inevitably turns at the outset on such factors as one's personal medical history, including that of one's natural parents, if known. This history must be evaluated, however, in light of subsequent

medical developments. For example, if a parent died at a relatively early age due to an ailment that is now treatable (such as heart disease), that changed medical reality should be considered.

Multiple Decision Points

The client's decision is actually more economically complicated, because commencing retirement benefits is not limited to a few specific ages. The Social Security law's formulae for early retirement penalties and delayed retirement credits are actually calibrated in terms of *months* prior to, or following, a person's full retirement age.¹¹ Thus, a person might start receiving early benefits at age 62 years and three months, or 63 years and five months, or 64 years and eight months, and so forth. Similarly, the eight percent annual credits are adjusted so that a person receives a bonus for delaying the start of retirement benefits for each month of such delay, not simply entire years. As a consequence, there are no fewer than 96 possible decision points. That is, the eight years between the early retirement age of 62 years and the maximum earning of delayed retirement credits of age 70 translates into 96 starting points (8 years \times 12 months). Moreover, a decision to not start benefits in any given month does not preclude commencement of benefits in some subsequent month.

Implications for the Spouse

The Social Security statute provides that the spouse of a retired worker is entitled to a spousal benefit of half of what the worker would receive when that person would reach full retirement age.¹²

Example 3. If Hannah in Example 1 were entitled to receive \$1,000 when she turns 66-years old, her husband Sol would be eligible for \$500 at his full retirement age and lesser amounts should he begin taking spousal benefits prior to that date.¹³ Sol would receive this benefit, however, only if the worker's benefit that is based on his own earnings record were less than \$500.

That is, Social Security pays the spouse of a retiree the higher of that person's own worker's benefit (if any) and 50 percent of the retiree's benefit.

But the significant point for this analysis is that a spousal benefit may be claimed only if the worker spouse has started to receive Social Security retirement

benefits.¹⁴ In other words, Hannah’s decision whether to start receiving Social Security benefits determines whether Sol can receive benefits as the spouse of a retiree. Accordingly, if Hannah decides to *not* start receiving her benefits, Sol cannot receive spousal benefits based on Hannah’s work record. Thus, married couples have this additional economic consideration to incorporate into their decision-making process. In this context, it should be noted that the federal Defense of Marriage Act defines marriage exclusively as between “one man and one woman” for purposes of all federal statutes,¹⁵ and the Social Security law is a federal statute. Thus, same sex marriages are not recognized, but common law marriages are.

The Social Security law also provides that a surviving spouse (and in some cases a surviving divorced spouse) succeeds to the deceased person’s actual Social Security benefit.¹⁶

Example 4. Assume that Hannah in Example 3 was married to Sol and that Sol survived Hannah’s death. Depending on the amount of Sol’s Social Security benefit based on his own work record, he might be entitled to a surviving spouse benefit from Hannah if that amount exceeds his own worker’s retirement benefit. Hannah’s decision to elect early retirement or delayed retirement, therefore, might impact how much money Sol receives after Hannah’s death.

In other words, the decision about when to commence receipt of Social Security benefits must consider not only the individual’s projected life expectancy, but also that of a potential surviving spouse. And this need to include the expected present value of these survivors’ benefits in the benefit commencement decision will be especially acute if the client’s spouse is younger or in better health than the client in question.

Post-Retirement Employment

The decision to start receiving Social Security benefits is necessarily bounded by a separate but related

decision about whether the client plans to engage in compensated employment after doing so, and to what extent. That is, does the client anticipate supplementing his Social Security benefit with part-time or full-time but perhaps less remunerative employment, including self-employment? At the outset, it might seem incongruous for someone receiving Social Security retirement benefits to continue working, but both economic and non-economic factors may be at play, and this phenomenon is becoming more common.

Availability of Health Insurance

The most significant economic factor is probably the cost of health care. A beneficiary without health insurance can find himself quickly overwhelmed

financially if a major illness or accident befalls him in retirement. Most Americans receive health insurance through their employer, at least if they are working on a full-time basis.¹⁷ While a retiree might secure health insurance on his own following his departure from the workforce, the cost of individually issued health insurance can be extremely high. That is, when the new retiree was

In this context, it should be noted that the federal Defense of Marriage Act defines marriage exclusively as between “one man and one woman” for purposes of all federal statutes and the Social Security law is a federal statute. Thus, same sex marriages are not recognized, but common law marriages are.

part of an employment-based group, his insurance premiums were being subsidized economically by others in that same group. But a 62-year old retiree seeking health insurance coverage on his own will lack that intra-group subsidy. For the same reason, health insurance might be unavailable regardless of cost. That is, when this person was part of an employment-based group, acceptance was guaranteed as the insurer was obligated to accept all current employees.¹⁸ When the retiree is on his own, however, insurability will be determined entirely by his personal medical profile, and in many cases, that will translate into no health insurance at all.

This situation, of course, was precisely why the federal government’s health program for older Americans, Medicare, was created.¹⁹ But Medicare is generally not available until the prospective beneficiary is 65-years old.²⁰ That is, unlike Social Security’s early retirement age option, which allows a person

to receive benefits—albeit permanently reduced benefits—starting at age 62, Medicare has no comparable early retirement option available. As a result, a person who is planning to start Social Security benefits prior to reaching age 65 must consider the economic cost and availability of private health insurance or should expect to work for an employer that will cover this person under that employer's group health insurance policy. Indeed, even a person who is 65-years old might need the automatic acceptance of an employer's group health insurance coverage if his spouse is not yet 65-years old and is uninsurable on her own due to pre-existing medical conditions, a not uncommon situation for persons in this age category. On the other hand, once someone reaches age 65, that person is eligible for Medicare even if she is not yet receiving Social Security benefits. Thus, the need for health insurance might be a major economic consideration in the commencement-of-benefits decision.

Possible Negative Impact on Retirement Benefits

Any Social Security recipient who has not yet attained the applicable full retirement age faces an onerous retirement earnings test that substantially reduces the economic rewards from working.²¹ Basically, any wages or self-employment income above an annually adjusted threshold lowers the recipient's Social Security benefits by \$1 for every \$2 above that threshold,²² which in 2008 is \$13,560.²³

Example 5. Assume that Stacey is 63-years old and earns \$21,560 from part-time employment in 2008. Stacey has \$8,000 of excess earnings (earnings of \$21,560—threshold of \$13,560). This excess will then reduce her Social Security benefits by half of this amount—namely, \$4,000. So, if Stacey's annual Social Security benefit would have been \$9,300, but for this retirement earnings test, her benefit will instead be only \$5,300 (original benefit of \$9,300—reduction of \$4,000).

This provision has the same economic impact as a 50 percent marginal tax rate on the affected earnings. Those earnings, moreover, are subject to a federal income tax on income generally of at least 15 percent²⁴ in addition to Social Security's effective 15.3 percent payroll tax on wages²⁵ and self-employment income,²⁶ a combined effective marginal tax rate of

over 80 percent and possibly even more, depending upon a retiree's other sources of income. In fact, additional income of \$19,940 in 2008 would push this taxpayer into the 25 percent federal income tax bracket, raising that person's effective marginal tax rate to 90.3 percent.²⁷ State income taxes would raise this effective marginal tax rate still higher.

On the other hand, the early retirement penalty that Stacey in Example 5 incurred by electing to receive Social Security retirement benefits before she reached full retirement age will be recalculated when she reaches that age to reflect the loss of benefits she suffered this year. In effect, she will be treated as retiring some number of months later than she actually retired. But that adjustment is small consolation in the current year, and its salutary effect is entirely contingent on her future longevity. In brief, the operation of the retirement earnings test acts as a major economic disincentive to take Social Security benefits and engage in any remunerative activity beyond a very low level until the claimant reaches his or her full retirement age.

Possible Positive Impact on Retirement Benefits

Once a person reaches full retirement age, the retirement earnings test described above no longer applies,²⁸ and additional income from employment has no direct impact on the amount of that person's Social Security benefits. In fact, employment from that point on might actually *increase* a person's Social Security benefits, depending upon that person's prior work history. That is, Social Security's retirement benefit is based on a person's average indexed monthly earnings (AIME), a construct that is based on a person's 35 highest years of annual earnings.²⁹ If some of the 35 years that were used to calculate a person's Social Security retirement benefit had very low or no earnings, higher earnings in a later year would substitute for one of those low-or-no earnings years and would thereby raise her AIME, in turn raising her Social Security retirement benefit. This possibility is particularly likely if the client had periods of low or no earnings due to child-rearing responsibilities, care of an older relative, extended higher education, or the like.

The possibility of this economic enhancement, however, is subject to two caveats. First, only earnings that are subject to the Social Security payroll tax are counted for this purpose, and there is an annual cap on such earnings. In 2008, that cap is \$102,000,³⁰

which means that any earnings received that year in excess of this amount are simply ignored when recomputing a person's AIME. Second, the relationship of Social Security benefits to a person's AIME is not isomorphic. That is, the Social Security statute employs a deliberately bottom-weighted formula³¹ that has the economic effect of moderating the impact of higher earnings on Social Security benefits. As a result, if Jack's AIME is twice that of Jill's, Jack's Social Security benefit will be higher than Jill's, but not twice as high.³² This effect is especially pronounced as one's AIME gets above the first tier (or bend point in Social Security's peculiar argot), which in 2008 was \$711 per month.³³ At that point, further increases in a person's AIME will increase that person's Social Security benefit but by increasingly smaller amounts.

Alternative Sources of Funds

A further economic consideration in the decision about when to start receiving Social Security retirement benefits is what other sources of funding are available if a client chooses not to start those benefits. In other words, what would the person live on in the absence of Social Security benefits?

One possibility, of course, is employer-provided pensions and/or retirement-oriented savings arrangements such as Individual Retirement Accounts (IRA), deferred salary arrangements under sections 401(k), 403(b), and 457, and Roth-type retirement accounts. Some employer-based pensions, however, do not pay benefits before some specified age or do so only with fairly heavy early retirement reductions. In any case, pension plan payments are almost always fully taxable, as are withdrawals from most IRAs and deferred salary arrangements.³⁴ Only Roth-type retirement accounts permit tax-free withdrawals if the accounts have been open at least five years.³⁵ Even those withdrawals, however, lose the benefit of further tax-free growth once those funds are taken out of their respective accounts, a major economic drawback to such withdrawals.

Social Security benefits, in contrast, are taxable only in part, that part depending upon a person's income from all sources,³⁶ including interest on municipal

bonds,³⁷ which is otherwise free of federal income tax.³⁸ The exact formula does not warrant explication here,³⁹ but a few parameters merit mention:

- If an individual recipient has annual income from all sources of less than \$25,000, or a married couple has annual income of less than \$32,000, Social Security benefits are not taxable at all.⁴⁰
- If an individual's income is between \$25,000 and \$34,000 (or a couple's income is between \$32,000 and \$44,000), a portion of their benefits, perhaps as much as 50 percent of those benefits, is taxable, with the exact percentage rising proportionately within the specified range.⁴¹
- If an individual's income exceeds \$34,000 (or a couple's income exceeds \$44,000), a higher percentage of those benefits, but never more than 85 percent, is subject to income tax.⁴²

In any case, the bottom line is that *only a portion* of Social Security benefits is subject to tax, in contrast to most retirement account withdrawals, which are taxable in full. Moreover, Social Security benefits

are taxable in only 15 of the 41 states with broad-based personal income taxes, while pension income is taxable in all but three of those states.⁴³

Another possible source of retirement funding is liquidation of nonretirement assets. Most of those assets, especially stocks and mutual funds as well as investment real estate,

would qualify for a preferential long-term capital gains tax rate of 15 percent or even less in some circumstances.⁴⁴ In contrast, to the extent that a person's Social Security benefits are taxable at all, those benefits would be taxed at ordinary income rates, which can go as high as 35 percent.⁴⁵ And if one of those assets is the client's principal residence, the first \$250,000 (or \$500,000 if married) of gain realized from the sale of that residence would be received free of income tax.⁴⁶

In other words, many older persons might experience lower tax rates by disposing of their non-retirement assets while postponing the receipt of Social Security benefits. On the other hand, electing to take Social Security benefits might enable the client to keep her appreciated assets until she dies, in which case the entire accumulated gains would

The decision to start receiving Social Security benefits is necessarily bounded by a separate but related decision about whether the client plans to engage in compensated employment after doing so, and to what extent.

be excused from incurring any income tax, via the so-called step-up-in-basis rule that applies to assets held at a person's death.⁴⁷

Investment Strategy

Some clients might start receiving Social Security benefits, even if they do *not* need these funds to live on, in order to take the money and invest it elsewhere for a higher anticipated rate of return. The economics of Social Security's early retirement penalty and delayed retirement credits, however, suggests that the break-even point in this strategy is about 6.7 percent to eight percent, depending upon whether the client in question has reached full retirement age.⁴⁸ This result, moreover, must be obtained on at least a partially after-tax basis, depending upon which tier of taxation of Social Security benefits applies to the specific client. Further, the relevant increase in Social Security benefits is mandated by federal statute,⁴⁹ so the economically appropriate comparison must be to investments with zero risk. As a result, if the client plans to invest his Social Security benefits in bank certificates of deposit, money market funds, or U.S. Treasury obligations, it is extremely unlikely that the yield on those financial instruments—all of which are fully taxable as ordinary income—will exceed the available increase in Social Security benefits. Only

The most significant economic factor is probably the cost of health care.

if that person contemplates much riskier investments will the strategy of take-the-benefits-and-invest-elsewhere work out economically.

Conclusion

When to begin receiving Social Security retirement benefits is a surprisingly layered determination. The big picture is that currently, more than three out of four Americans start their benefits before reaching full retirement age.⁵⁰ But any specific individual must consider a range of very distinct factors, especially if there is the possibility of a surviving spouse or future employment some day. Social Security should be thought of as an inflation-indexed lifetime annuity that must be integrated into the totality of a client's financial circumstances, including other assets—whether in retirement-oriented savings vehicles or otherwise—and other potential sources of retirement income. Ultimately, what counts is not whether a client obtains the hypothetical maximum possible dollars from Social Security; after all, such a calculation necessarily depends upon extremely accurate estimations of annual after-tax investment returns *and* actual life expectancy.⁵¹ The real issue is whether a person's Social Security benefits have been coordinated with his or her other resources to best meet all of that person's objectives. The array of options that Social Security presents makes that task challenging indeed.

ENDNOTES

¹ See Richard L. Kaplan, *The Security of Social Security Benefits and the President's Proposal*, ELDERLAW REP., April 2005, at 1, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=700323; see generally Richard L. Kaplan, *Top Ten Myths of Social Security*, 3 ELDER L.J. 191, 198–99 (1995), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1087367.

² 42 U.S.C. § 402(a)(2)(2000).

³ *Id.* § 402(q).

⁴ *Id.* § 416(l)(1).

⁵ *Id.*

⁶ See Lawrence A. Frolik and Richard L. Kaplan, ELDER LAW IN A NUTSHELL p. 290 (4th ed. 2006) (explaining the computation formula). The penalty at age 63 would be 20 percent; at age 64, it would be 13.33 percent; and at age 65, it would be 6.67 percent.

⁷ 42 U.S.C. § 402(w).

⁸ *Id.* § 402(w)(6)(D).

⁹ *Id.* § 402(l)(2)(A).

¹⁰ See *id.* § 415(i).

¹¹ See *id.* § 402(q), (w).

¹² *Id.* § 402(b)(2), (c)(3).

¹³ *Supra* note 6, at 302–03.

¹⁴ Soc. Sec. Rul. 64-52, C.B. 1960–65 at 3. The worker spouse can suspend receiving Social Security benefits without terminating the spousal benefit being paid to that person's spouse. See Social Security's PROGRAM OPERATIONS MANUAL SYSTEM §§ GN 02409.100, 02409.110.

¹⁵ 1 U.S.C. § 7 (2000).

¹⁶ 42 U.S.C. § 402(e)(2)(A), (f)(3)(A).

¹⁷ See Paul Fronstin, *Sources of Health Insurance and Characteristics of the Uninsured: Updated Analysis of the March 2006 Current Population Survey*, EMPLOYEE BENEFIT RES. INST. ISSUE BRIEF No. 307 (May 2007), at 4 (62.7 percent of nonelderly have employment-based health insurance, comprising 90 percent of those with nonpublic coverage), available at www.ebri.org/pdf/briefspdf/

EBRI_IB_05-20074.pdf.

¹⁸ See Richard L. Kaplan, *Who's Afraid of Personal Responsibility? Health Savings Accounts and the Future of American Health Care*, 36 McGEORGE L. REV. 535, 541 (2005), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=805825.

¹⁹ See generally Theodore R. Marmor, THE POLITICS OF MEDICARE (2d. 2000).

²⁰ 42 U.S.C. § 1395c (2000).

²¹ *Id.* § 403(b)(1), (f).

²² *Id.* § 403(f)(3). During the calendar year in which a person reaches full retirement age, this test is applied on a monthly basis, and benefits are reduced by \$1 for every \$3 above the applicable threshold, which in 2008 is \$3,010.

²³ Social Security Administration, Table of Automatic Increases, available at www.ssa.gov/OACT/COLA/autoAdj.html.

²⁴ See Code Sec. 1(c).

²⁵ Code Secs. 3101(a), (b)(6), 3111(a), (b)(6).

ENDNOTES

- ²⁶ Code Sec. 1401(a), (b).
- ²⁷ Income of \$21,560-standard deduction of \$5,450-personal exemption of \$3,500 = taxable income of \$12,610. To reach the 25 percent tax bracket in 2008, taxable income must exceed \$32,550, which requires additional income of \$19,940.
- ²⁸ 42 U.S.C. § 403(f)(3).
- ²⁹ *Id.* § 415(b)(2)(A)(i), (B)(iii); see also Avram L. Sacks, 2006 SOCIAL SECURITY EXPLAINED 233 (2006); William P. Streng and Mickey R. Davis, RETIREMENT PLANNING: TAX AND FINANCIAL STRATEGIES ¶ 24.04[4][a], at 24-18 (2d ed. 2001).
- ³⁰ Social Security Administration, Table of Automatic Increases, available at www.ssa.gov/OACT/COLA/autoAdj.html.
- ³¹ 42 U.S.C. § 415(a)(1)(A) (2000).
- ³² *Supra* note 6, at 294–95 (illustrating computation of Social Security monthly benefit).
- ³³ Social Security Administration, Table of Automatic Increases, available at www.ssa.gov/OACT/COLA/autoAdj.html.
- ³⁴ Code Secs. 61(a)(11), 402(a).
- ³⁵ Code Sec. 408A(d)(1), (2)(B).
- ³⁶ Code Sec. 86(b)(1)(A)(i), (2).
- ³⁷ Code Sec. 86(b)(2)(B).
- ³⁸ Code Sec. 103(a).
- ³⁹ *Supra* note 6, at 317–20 (illustrating the computations involved).
- ⁴⁰ Code Sec. 86(b)(1)(A), (c)(1)(A), (B).
- ⁴¹ Code Sec. 86(a)(1), (2), (c)(2).
- ⁴² Code Sec. 86(a)(2), (c)(2)(A), (B).
- ⁴³ David Baer, *State Taxation of Social Security and Pensions in 2006*, AARP ISSUE BRIEF 55 (Nov. 2007), at 4–5, 8–10, available at http://assets.aarp.org/rgcenter/econ/ib84_taxation.pdf.
- ⁴⁴ Code Secs. 1(h)(1)(B),(C), 1221(a) (definition of a “capital asset”).
- ⁴⁵ Code Sec. 1(a)–(d).
- ⁴⁶ Code Sec. 121(b).
- ⁴⁷ Code Sec. 1014(a)(1).
- ⁴⁸ *Supra* note 6, at 290, 292.
- ⁴⁹ See 42 U.S.C. § 402(q), (w).
- ⁵⁰ Author’s calculations derived from the latest Social Security Annual Statistical Supplement (2006), at 6.12, available at www.ssa.gov/policy/docs/statcomps/supplement/2006/6b.pdf.
- ⁵¹ See, e.g., Mimi Lord, *Choosing Early or Normal-Age Social Security Benefits: Factors to Consider*, J. RETIREMENT PLAN., July–Aug. 2002, at 37, 38–39; Matthew A. McGrath, *Evaluating the Commencement of Social Security Benefits*, J. RETIREMENT PLAN., Sept.–Oct. 2000, at 27.

This article is reprinted with the publisher’s permission from the JOURNAL OF RETIREMENT PLANNING, a bi-monthly journal published by CCH, a Wolters Kluwer business. Copying or distribution without the publisher’s permission is prohibited. To subscribe to the JOURNAL OF RETIREMENT PLANNING or other CCH Journals please call 800-449-8114 or visit www.CCHGroup.com. All views expressed in the articles and columns are those of the author and not necessarily those of CCH.

a Wolters Kluwer business