Social Security Do-Over

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A little known Social Security option may soon be eliminated by the Social Security Administration (SSA). The option is known as the Social Security "do-over" or "reset" option. The concept of a "do-over" has evolved from the time we were children and did not like a result, to a "mulligan" on a golf course, and to government benefits when we do not like the end result. The Social Security "do-over" option allows a recipient receiving Social Security benefits to pay back all previously received benefits (with no interest and penalties) in order to refile for benefits at a later age and receive larger monthly checks for life. Any individual, over age 62, receiving benefits can select the "do-over" option by filing Form SSA-521 ("Request for Withdrawal of Application").

Social Security Eligibility:

Social Security benefits are available to any individual beginning at age 62 with at least 40 credits. An individual can begin receiving benefits at age 62. Individuals who elect this option will receive 70-80% of the benefits they would have received at "full retirement age." Alternatively, an individual can delay his/her receipt of benefits and increase his/her benefits by as much as 8% for every year he/she delays the start of benefits (up until age 70). This is a very popular option for service members who are receiving a military pension.

"Do-Over" Considerations:

While the "do-over" option may result in higher future monthly Social Security benefits, the payback option requires the recipient to pay back all previously received benefits and the consent of all individuals who received benefits based on the recipient's original decision. This includes benefits received by (1) the recipient, (2) the recipient's spouse, and (3) the recipient's children or any other individual who received benefits based on the recipient's original application.

In addition to the requirement for the repayment of all Social Security benefits received, amounts withheld from benefit checks must also be repaid. This includes Medicare Part B and Part D premiums, voluntary federal income tax withholding, garnishments (including child support or alimony obligations), and IRS levies (to collect unpaid federal income taxes).

Tax Implications:

A recipient who previously paid federal income taxes on Social Security benefits received will not be required to amend previously filed income tax returns upon selection of the "do-over" option. The recipient may claim an "other miscellaneous itemized deduction" on Schedule A for the year(s) the benefits were refunded or submit a tax credit claim for benefits received in previous years.

Medicare:

A recipient enrolled in Medicare Parts A and B, when making the "do-over" election, could but is not required to, terminate his/her Medicare coverage. Unless the recipient is employed with health benefits he/she will be penalized when he/she re-enrolls in Medicare Part B during a future Medicare Part B "open season." The recipient will be subject to a ten percent (10%) premium increase for every year he/she delays his/her Part B enrollment.

Financial Considerations:

Actuarial research reflects that a recipient must live at least 12-to- 16 years, after the higher monthly payments begin, to break even with the Social Security repayment option. A recipient with a terminal illness or short life expectancy will not benefit from the "do-over" option.

It is important to recognize that when a recipient's benefits cease so does his or her automatic Medicare premium deductions. The recipient will become responsible to pay the Part B premiums until his/her Social Security benefits resume.

Proposed New Rules:

The SSA proposed new rules are designed to modify the "do-over" option. Under the proposed rules, Social Security recipients would only be allowed to withdraw their benefits application once during their lifetime and only within 12 months of their beginning to receive benefits. If the "do-over" option is elected, the recipient must pay back the benefits received and then restart his/her benefits at a later date. However, once the 12-month deadline has passed, he/she would no longer be eligible to repay benefits in order to receive a higher benefit at a later age. ⚓