

Your Retirement Age Can Affect your Child's Disability Benefits

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If you have a child with special needs you should think carefully about whether it is advisable to take early retirement. Social Security has a formula for reducing retirement benefits depending upon how many years before reaching full retirement a worker retires (but not younger than age 62). So for example, if you retired at age 64 you would receive more than if you retired at age 62 but less than if you waited until your full retirement age. Full retirement age varies between age 65 and 67 depending on the worker's date of birth. You can calculate your full retirement age by going to Social Security's web site, <http://www.ssa.gov/OACT/quickcalc/index.html>.

There are several articles on the pros and cons of taking early retirement from Social Security at age 62. Many of the articles discuss what is referred to as the "break even" point. The idea is to try and calculate whether you will receive more money over your lifetime if you receive a smaller amount starting at age 62 or a larger amount that does not start until a later age. There are calculator programs to determine how long you would have to live before the amount social security pays at the full retirement rate would be greater than the smaller amount you would receive if you elected early retirement.

These articles and calculators fail to take into account one factor that is of critical importance to parents with a special needs child. Your child may be eligible for a social security benefit that is based on your retirement benefit. The less you receive in retirement income, the less your child's benefit will be.

Child Disability Benefits

If children are disabled before the age of 22 they may be eligible for Child Disability Benefits (CDB) when their parent retires, becomes disabled or dies, if the parent paid into the social security system while working. This benefit is sometimes referred to as Disabled Adult Child benefits (DAC). The child's benefit amount is 50% of the parent's social security benefit. If the parent dies the CDB benefit is increased to 75% of the parent's benefit amount. If both parents are retired, disabled or deceased, the child will get the higher benefit amount of the two parents.

Many adult disabled children are already receiving SSI benefits when they qualify for CDB. CDB will replace or offset the SSI benefit dollar for dollar. If the CDB amount is less than the SSI benefit amount the child will receive both CDB and enough SSI to bring the child up to the SSI benefit amount plus an additional \$20.

The SSI benefit amount for 2008 is \$674. So for example if your son's CDB benefit is \$600 he will be eligible for an additional SSI benefit of \$94 per month (\$74 + \$20). If your son's CDB benefit was \$800 per month he would receive no SSI benefits because the CDB amount exceeds the SSI benefit amount plus \$20. Recent changes in federal law allow children to retain their Medicaid eligibility if they would have been eligible for SSI but for the higher CDB amount.

How Retirement Age Affects Child Disability Benefits

The CDB amount paid to your child is based upon your actual benefit amount. Applying for early retirement social security benefits will not only reduce your social security benefit amount for the rest of your life but it will also reduce your child's CDB benefit.

To illustrate this, let's take a hypothetical single parent, Kate, who is 61 years old and trying to decide whether to take early retirement at age 62 or wait until her full retirement age at 66. Kate has a 30 year old son, Kevin, who is currently receiving SSI benefits of \$674 per month. Using the above social security chart and Kate's earnings record reported to Social Security, Kate determined that if she retired at age 62 and later died Kevin's survivor's benefit amount would be \$843 per month (75% of \$1,124). If she retired at age 66 and later died Kevin's benefit would be \$1,107 per month (75% of \$1,476). Kate did not take into account annual cost of living adjustments (COLA) in making these rough calculations and disregarded the CDB benefits Kevin would not receive during the four year period before she reached her full retirement age.

The difference in Kevin's CDB amount depending upon when Kate applied for social security amounted to \$264 per month or \$3,168 per year. Projecting out this increased benefit amount over 40 years, Kevin would receive approximately \$125,000 more in CDB income if Kate waited to apply for social security until she reaches her full retirement age. Keep in mind that the above projections are based upon Kate's employment history so the projected CDB benefits for her son will not be same as another parent with higher or lower earnings.

There are many factors to take into account before deciding when to apply for social security retirement benefits and there is no right answer to the question, "is early retirement a good idea?" For some families there are economic or employment issues that make early retirement necessary regardless of the impact on a child's CDB amount. For some families there are significant assets to leave to their children in a special needs trust, making additional monthly income from delayed retirement less significant. Some children contribute almost all of their income as a co-payment towards residential care paid by the Medicaid program so additional monthly income will not impact the quality of their life. Some children have their own employment history that gives them a higher disability benefit than what they would receive on a parent's social security account.

All of the above factors should be weighed carefully before you decide whether to apply for early retirement with Social security. Your financial planner can give you guidance on the best age for you to retire based upon you net worth. But if you have a special needs child who was disabled before the age of 22 no decision should be made before considering the impact of your retirement age on your child's future social security benefits.