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POINTS OF Possibility

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Social Security –
The Secrets to Maximizing Your Benefits

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The decision about when and how to begin collecting Social Security has become an integral part of any effective retirement plan. In other words, Social Security and your strategy for claiming your entitled benefit are critical to your second act—a fulfilling and abundant retirement.

Two main factors have contributed to the significant increase in the importance of Social Security: the disappearance of defined retirement benefit plans and medical advancements that continue to increase the American lifespan.

A well-developed strategy for claiming Social Security should maximize your cumulative lifetime benefit, while also ensuring you don't outlive your money.

A SOUND IDEA, A SOUND IDEAL

President Franklin D. Roosevelt created and presented the Social Security program to Congress in 1934. At that time, over half of elderly Americans lacked sufficient income or other financial resources to support themselves and live independently. Roosevelt sought to provide for "…the security of the men, women, and children of the Nation [sic] against certain hazards and vicissitudes of life." Congress signed the bill into law in 1935 and Roosevelt referred to the program as "a sound idea, a sound ideal."

Over the years, Congress has amended the Social Security Act a number of times to include: spousal and dependent benefits, disability benefits, cost of living adjustments, and adjustments in retirement age. As American life has grown more complex, so have our laws and Social Security is no exception. Increased complexity has given rise to concerns and challenges surrounding the program, tarnishing Roosevelt's original sound idea and sound ideal. Tarnished or not, Social Security isn't going away anytime soon. A well-timed strategy will help you get the most out of your Social Security benefit.

TIMING IS EVERYTHING — DON'T LET EMOTION CLOUD LOGIC

In many areas of life, people tend to ignore logic and act based on emotional influences, especially when it comes to decisions involving money: they sell off stocks based on rumors and gossip; they succumb to clever marketing then make impulse purchases; and quarrel with loved ones over meaningless financial slights. These represent just a few examples of how emotions work to cloud logic when it comes to money.

People allow emotions to rule their decision-making because, oddly, most people fear losing more than they enjoy winning. This is known as loss aversion.

Unless you've made a flash, fear-laden decision that allows you to escape a life-threatening situation (i.e. hungry grizzly bear), any decision founded in fear has potential to backfire in a big way.

Consider logical arguments when deciding whether to start claiming your Social Security benefits early or wait until you reach full retirement age. Remember, there is no one size fits all plan.

STRAIGHT TALK TO SOOTH YOUR SOCIAL SECURITY INSECURITIES

Folks approaching retirement are typically buzzing with questions and concerns surrounding Social Security and the "now or later" conundrum. Here are some of the most common comments I hear:

"I'm worried that if I wait, there might not be any left for me."

There has been handwringing about the solvency of the Social Security program since the 1970s. According to Pew Research Center, if nothing is done, Social Security's reserves will be fully depleted by 2034. Depletion of the Social Security coffers would mean the program will only be able to pay 79 percent of the promised benefits to retirees. This fear is certainly well-founded, especially considering the way the media pounds this fact into our heads daily.

Fear not, because the reality is that a few minor changes will alleviate this problem entirely. Congress is considering making a number of adjustments that may include the following: extend retirement age, raise cap on taxable wage income, raise the payroll tax, reduce COLA for non-retirees, among others. Most of these changes would not impact those already over 50 years of age. Also, note that they will still be able to pay over three quarters of the benefits due – it's not a closure of the program altogether.

Research shows that extending the retirement age to 68 for those currently in grade school will cut the deficit by 20 percent. Extending it to 70 years old for the same demographic will reduce the deficit by 50 percent. We have options.

"I'm taking my benefits as soon as possible."

Don't shortchange yourself. It is important to understand how your, and your spouse's, benefits will be affected by claiming as early as possible. A thoughtful strategy could affect benefits over both your lifetimes. Waiting increases your benefit payout by six to eight percent annually.

"I'm not going to live very long, so I want to start my benefits early."

Unless you have a confirmed terminal illness and know that you have a limited time left on earth, you really have no idea how long you're going to live. People are living longer and healthier lives due to continued medical advances and readily available preventive healthcare. Just because people in your family have a "history" of dying before age 70 doesn't necessarily mean you will follow suit.

Truthfully, the greatest risk retirees face today is outliving their financial resources during retirement. Social Security provides a guaranteed, inflation-adjusted lifetime benefit. View it as a sort of longevity insurance—it provides you security even if you live significantly longer than all those other family members. Score!

People are living longer because they're healthy, active, and taking better care of themselves.

	50% Chance of living to age:	25% Chance of living to age:
65-year-old Man	85	92
65-year-old Woman	88	94
65-year-old Couple*	92	97

**At least one surviving individual.*
Source: Annuity 2000 Mortality Table, Society of Actuaries.
Figures assume that you are in good health.

Social Security Facts
Everyone Should Know

- While you're eligible for retirement benefits as early as age 62, you pay a penalty (about six percent annually) for starting benefits before full retirement age.
- Full retirement age is 66 for those born before 1955, and 67 for those born 1960 and later.
- Early collection penalties (collecting between 62 and 66/67) are between six and seven percent per year, but in some cases, the benefit reduction is up to 30 percent. That's almost one third of your benefit payout!
- You can delay taking your benefits beyond your full retirement age and receive a bonus of eight percent annually to age 70.
- If you work and collect Social Security before full retirement age, your benefits could be temporarily withheld if you earn too much.
- Social Security is the single largest source of income for the majority of Americans 65 and older, representing half or more of the total income for 53 percent of married couples and 74 percent of unmarried individuals, according to the Social Security Administration.
- 74 percent(!) begin claiming Social Security before reaching full retirement age, opting to go through their most vulnerable years with less than their maximum entitled benefit.

In a time when so much is available instantly, delayed gratification—opting for less now so you can get significantly more later—represents a much needed discipline among today's modern population.

SOCIAL SECURITY

Timing Strategies for Singles

If your full retirement age is 66 and you elect to collect Social Security at age 62, you will end up with a cumulative 25 percent reduction in benefits. If your full retirement age is 67 and you collect at 62 you will end up with a cumulative 30 percent reduction in benefits. Once you start collecting, you can't change your mind (with a few exceptions). You're permanently locked in to simply giving up 25-30 percent of your entitled Social Security benefit.

Here are some of the common rationalizations I hear from folks who are considering collecting early: they feel they need the money now; they fear they'll die before they get to collect any of their entitled benefits; they worry that Social Security coffers will be empty by the time they reach your full retirement age; they fancy themselves investment wizards, of sorts, and think they can get a much larger return if they reinvest it themselves, now.

If your full retirement age is 66 and you elect to delay collecting benefits beyond your full retirement age, you receive an eight percent bonus (everyone likes a bonus), per year, up to age 70. That's an eight percent increase, guaranteed! It's hard to beat that these days.

The Social Security Administration bases the payout calculations on actuary tables. If you begin benefits at 62, 63, 64, or any time through 70, and die around age 80, your cumulative lifetime benefit will roughly be the same. This holds true regardless of what year you collected. It's when you live beyond age 80 that the benefit of delaying benefits begin to really pay off.

Obviously, each person's individual situation is unique. In general, if you expect to live past age 80 it makes logical sense to wait until full retirement age, or, better yet, age 70 to collect.

Important: It's critical that you consider your other retirement assets when deciding when to collect. Can you draw from your portfolio for a few years before starting benefits? I've seen this make a difference of hundreds of thousands of dollars over one's lifetime, and it's worth running an analysis.

SOCIAL SECURITY

Timing Strategies for Couples

If you're married, you must consider the impact your benefits collection decision has on your spouse, because the benefits span two lifetimes.

Now the question moves beyond estimating your individual life expectancy to your life expectancies as a couple. To make a sound decision you also need to understand how the various claiming options will affect your spouse's benefits.

The spousal benefit consideration may make the decision about whether to delay benefits all the more important. **Each person in a marriage is entitled to the larger of his-or-her personal benefit or, if eligible, half of his or her spouse's full retirement benefit.**

Secret Security: When a married retiree reaches full retirement age (let's assume for the sake of example that Mr. Husband is the higher wage earner), they can take advantage of a couple of little-known, yet quite lucrative, benefit maximizing techniques:

- **File and suspend.** Use this technique by filing for and subsequently suspending Mr. Husband's benefits, which would begin at his full retirement age. This allows Mrs. Wife to collect a spousal benefit amounting to 50 percent of Mr. Husband's, while he defers benefits and collects those valuable deferred retirement credits of eight percent per year (remember, bonus cash) up to age 70. Assuming Mr. Husband's full retirement age is 66, his benefit at age 70 is 132 percent of his age 66 benefit.

- **File a restricted application.** Once Mrs. Wife reaches full retirement age, if she hasn't already applied for benefits, she can file a restricted application for spousal benefits only, allowing her to collect 50 percent of her husband's benefit, while postponing collection of her own. She'll earn delayed retirement credits of eight percent annually on her own benefit, and can switch to collecting her higher benefit payout when she turns 70.

These two little known techniques give you two ways to go about doing the same thing with the same great result – maximum cash payout.

So, should both parties delay collecting benefits? Wouldn't it be ok for one to begin receiving payments at age 62 as long as they waited for the other to reach full retirement age?

Not always.

Case Study

For married couples delayed gratification and strategic timing often results in an even higher payout windfall. Here's how it works:

Consider Bill and Sarah, both 62 years old. Assume, as statistics overwhelmingly suggest for married couples, that they will both live to at least their average life expectancy. They are active and in reasonably good health.

Bill, the higher income earner, chooses to delay collecting benefits until he turns 70 because he doesn't want a permanent reduction in benefits and he wants those annual eight percent delayed retirement credits, from 66-70. When Bill turns 70, the subsequent benefit collected will add up to 76 percent more than had Bill started collecting at age 62. Sarah, also refusing to settle for the lowest possible benefit amount, plans to wait until she turns 70 as well; however, she can take advantage of her spousal benefits in order to provide some current retirement income.

When Bill reaches 66, he files and suspends his own benefits (example #1 above). This triggers spousal benefits for Sarah. Sarah then files a restricted application for spousal benefits only, and receives half of Bill's age 66 benefit, all while allowing her own benefit to earn delayed retirement credits. When she reaches 70, she will switch from spousal benefit to her own, higher benefit.

The eventual death of a spouse represents another reason it is imperative for the higher earning spouse to choose to delay benefits. Here's why:

Ben and Polly have implemented a strategy that ensures the surviving spouse will receive the maximum possible benefit regardless of who passes away first. Recently, their financial advisor explained that when one spouse passes away, the surviving spouse then collects the greater of their two benefits, but not both.

Polly, a physician and highest wage earner, opted to delay collecting her benefits until age 70. That way, regardless of when Ben begins collecting his benefits, they've ensured the surviving spouse will receive the higher payout.

If Ben passes away first, Polly can receive her benefits when she turns 70. If Polly goes first, Ben will stop receiving, or forfeit future access to, his lower payments and begin collecting Polly's higher payments.

GET INFORMED AND BUILD A PLAN

This brief is intended as a basic primer on Social Security, in order to provide an overview of the important role it plays in your retirement plan. There are many factors to consider, and I hope this arms you with enough information to have an informed conversation with your advisor(s). Be aware that the clerks at Social Security cannot advise you on your strategy – please consider making this choice with an advisor who understands the program.

When analyzing the Social Security claiming decision, it is important that this decision is not made in a vacuum, but instead made in context of one's overall retirement plan. What other financial assets will be used to fund retirement? How will the Social Security decision affect the projected longevity of those financial assets? How much money will be left over to pass on to heirs? Etc.

Key takeaways:

- The right strategy could nearly double a couple's Social Security income.
- Taking benefits early amounts to leaving cash on a park bench.
- If married, your claiming decision may directly impact your spouse.
- Careful and disciplined Social Security planning can provide a sturdy hedge of protection if you end up living many years past expectations.
- Social Security is not going to "run out" anytime soon.

The goal should be two-fold: **maximize expected cumulative lifetime benefits**, while also **minimizing longevity risk**: the risk that retirees will deplete their financial portfolio during their lifetime.

A knowledgeable and proven wealth advisor will give you additional information and details. The right advisor will work with you and evaluate your unique financial situation, while also considering important non-financial aspects of your life that may impact your retirement vision. Together you will develop a customized, flexible retirement plan that ensures you have what you need to enjoy a fulfilling second act.

Remember, retiring and deciding when to collect Social Security are two separate decisions. They do not need to, and many times should not, occur at the same time.

If you are currently considering your Social Security options, please feel free to ask us for help!

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