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Key Concepts to Know About Your Social Security

For many retirees, there is a belief that filing for Social Security immediately upon turning 62 is a necessary rite of passage. But for those who are able to defer, there is a significant financial advantage by waiting until full retirement age and an even greater gain to be had by filing at age 70. This is true not only for individual benefits, but also for the payments that may eventually be received by a surviving spouse. For those that wish to continue working, the potential savings in income taxes along with an increased future benefit may make it more advantageous to delay filing as well.

People Are Living Longer

According to the Social Security Agency, one out of every four 65-year-olds will live past age 90 and one out of 10 will live past age 95. As a result, the risk of outliving your money has become a real concern for many. The average life expectancy for both men and women has risen steadily and is expected to continue to increase for the foreseeable future. Currently, the average 65-year-old male is anticipated to live to age 82 and the average woman to age 85. This represents an increase of five years over the past half-century. In view of this, the timing of when an individual begins Social Security can mean tens of thousands of dollars over not only their lifetime, but also their spouses'. Over the past decade, full retirement age has increased from 65 to 66 in an effort to adjust for individual's longer life spans. For those born between 1943 and 1954, the current full retirement age is 66 and it rises gradually to age 67 for those born after 1960.

At What Age Should I Begin Taking Social Security?

For anyone currently of retirement age, filing for Social Security at age 62 results in a 25% decrease in the benefit received. For example, if the monthly payment at full retirement age (typically age 66) is $2,000, the benefit at 62 would be reduced to $1,500. However, individuals who are able to delay filing until age 70 would receive 132% of the full retirement benefit or $2,640 per month.

Deciding when to begin Social Security depends on a number of things including additional sources of income and annual living expenses. But an individual's life expectancy plays an even greater role in the decision. For someone age 62, whose life expectancy is 75, waiting to begin taking benefits would be a costly mistake. However, an individual who expects to live to age 82 or beyond should consider waiting until age 70 when the present value of the lifetime earnings is greater (Table 1). For those whose life expectancies fall between ages 80 and 82, the difference between beginning at full retirement age and holding off until age 70 is negligible.

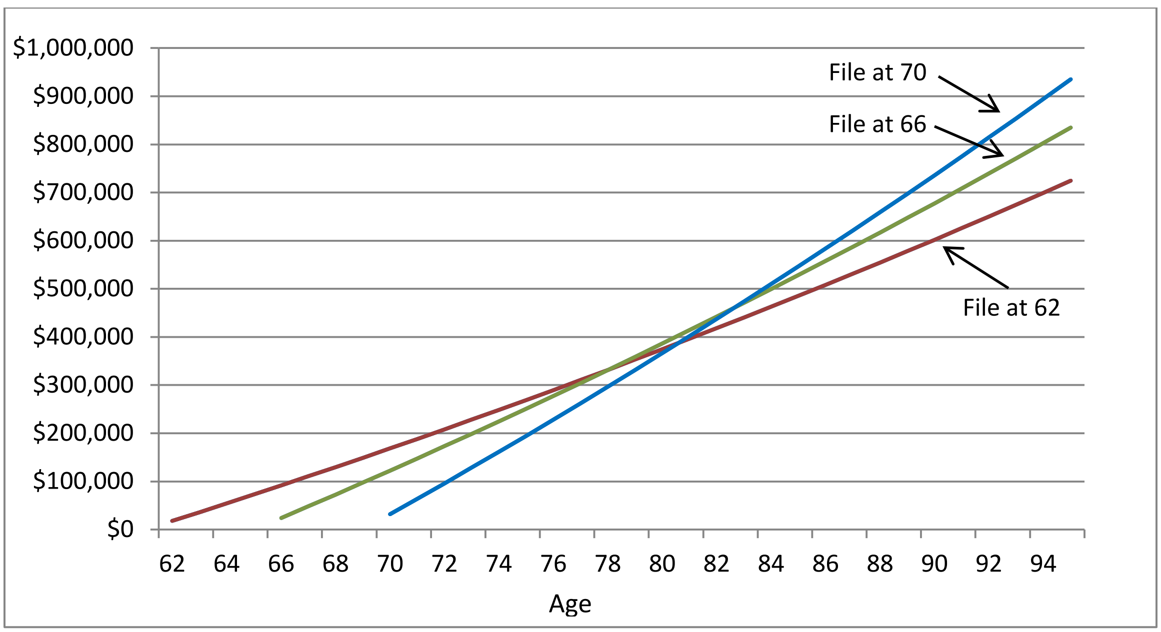
Table 1. For Many, Waiting to Take Benefits Pays.

Age at Start	Monthly Payment	Present Value of Benefit to 75	to 85	to 95
62	$1,500	$183,212*	$246,010	$273,208
66	2,000	170,982	267,764	314,756
70	2,640	132,715	277,023*	352,660*

Note: *Best case by age bracket. Assumes 1% cost of living adjustment and 3% inflation.

The impact of deferring Social Security for just four years, either from 62 to 66, or from 66 to 70 is even more pronounced when looking at cumulative lifetime earnings (Exhibit 1). At age 90, an individual could potentially receive almost $76,000 more in lifetime earnings by waiting until full retirement age to file using a $2,000 per month benefit. In just five years, that difference grows to $110,000. By waiting until age 70, an individual could earn an additional $58,000 at age 90 or $100,000 at age 95.

Exhibit 1. Cumulative Lifelong Benefits Grow Measurably by Filing Later



Note: Cumulative lifetime benefit based on $2,000 per month full retirement benefit including 1% annual cost of living adjustments.

Filing Early Has A Long Term Impact On Spousal Benefits…

An individual's spouse may be eligible to receive a Social Security benefit even if they have never worked outside of the home. If the couple has been married for at least 10 years and the non-working spouse is at least age 62 or has a qualifying child they can receive up to 50% of the primary individual's social security amount. This spousal payment amount may be reduced if the working spouse files for benefits prior to full retirement age. If both spouses worked, the lower-earning spouse is eligible to receive the greater of their own benefit or their spousal benefit.

If the primary individual files for benefits before reaching full retirement age, the impact on the spousal benefit can be significant. In addition, further reductions are made if the spouse claims benefits before reaching full retirement age (65 or 66). The worst case scenario is when the couple both files at age 62; the spousal benefit is reduced by an additional 25% to $525 using our previous example (Table 2). The optimal scenario is deferring until the primary filer is age 70 and the spouse claims at age 66 resulting in a $1,320 monthly payment.

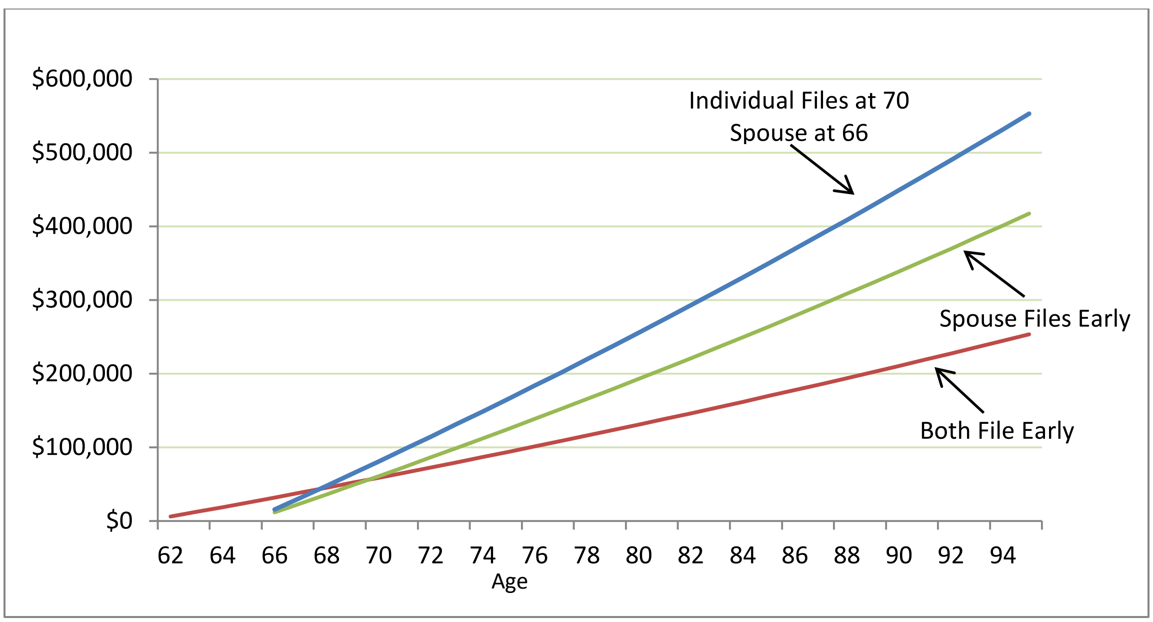
Table 2. Monthly Spousal Benefits Suffer When Individuals File Early

Spouse's	Individual's Filing Age		
Filing Age:	62	66	70
62	$525	$ 700	$ 924
66	750	1,000	1,320

Note: Assumes a $2,000 monthly benefit at full retirement age.

On a monthly basis, these differences might not seem substantial, but when compounded over a lifetime they add up (Exhibit 2). For a spouse who lives to age 95, the difference in lifetime benefits is over $135,000 by waiting until age 66. If a couple can hold off until the primary filer is age 70, there is a potential additional benefit increase of almost $300,000 for the spouse, based on current benefit projections.

Exhibit 2. Spousal Benefits Grow Substantially By Waiting until Age 66.



Note: Cumulative lifetime benefit based on $2,000 initial amount.

Survivor Benefits Are Also Affected By Filing Date.

Between the ages of 65 and 74, 77% of women living alone are widows and the percentage increases to 88% for those over age 75. While a widow or widower is the most common recipient of an individual's survivor benefit, there are others who may be entitled to file as well. Children up to age 18 (or 19 if still in school), any child who was disabled prior to age 22 and dependent parents over age 62 are also eligible to claim benefits. There is a limit to the total benefit a family may receive. In general, the range is between 150% and 180% of the deceased worker's benefit amount.

As with spousal benefits, survivor benefits are reduced if claimed before full retirement age. If a surviving spouse claims at age 60, payments will be reduced by 28.5%, while a claimant age 62 loses 19% each month. If the retired worker also filed prior to full retirement age, this could mean a survivor could receive as little as $1,072 using the $2,000 per month example. In the event a spouse passes away before they are eligible to file, all survivor benefits are based on the full retirement age benefit at the time of death, adjusted for cost of living allowances.

File and Suspend Can Help Increase Benefits

As couples look for ways to maximize their retirement income, the use of a "voluntary suspension" enables one spouse to begin taking benefits while the other spouse waits until age 70 to file. This can be particularly beneficial to couples where only one spouse has a long-term work record. In this scenario, the higher wage earner would file at full retirement age but suspend the benefit immediately, enabling their record to continue to accrue benefits at 8% per year. Even though the primary benefit is suspended the other spouse may file for spousal benefits as long as they have reached age 62. In the event that both spouses have worked, it is important to evaluate whether this strategy nets more than would be received if the lower earning spouse filed under their own record.

Put Social Security on Hold While Working

Continuing to work past retirement age is becoming much more common. Between 1993 and 2009, the percentage of men ages 62-74 in the labor force grew from 27.3% to 38.0% and the percentage of women increased from 16.9% to 28.1%. If you work past age 62, there are three good reasons to delay filing for Social Security—an increased benefit at full retirement age, a reduced income tax bill and avoidance of a reduction in current benefits. Choosing to delay Social Security allows an individual to continue to accumulate work credits up to age 70 and to have benefit amounts increased based on additional earnings. If you begin receiving Social Security at age 62 and continue working, your benefit will be reduced by 50% for every dollar you earn over $14,160. When you reach full retirement age, the amount of the reduction falls to 33% and the amount you can earn rises to $37,680.

Whether You Work or Not, Social Security Benefits Can be Taxed

While Social Security may be the main source of income for many, roughly 30% of those who receive payments must pay income taxes on their benefits. For individuals, the threshold for taxation is modified adjusted gross income in excess of $25,000, while married couples filing jointly must earn over $32,000. There is no threshold for those filing Married-Separate and up to 85% of the Social Security payments are subject to tax. Unlike standard income computations, modified adjusted gross income includes all tax-exempt income like that received from municipal bonds. In addition, one-half of Social Security benefits received must also be included in the calculation.

Benefits Will Increase 3.6% in 2012

It has been three years since Social Security recipients have had a raise. The Social Security Administration announced that benefits will be increased by 3.6% starting January 2012. This would amount to an additional $72 each month using our $2,000 example. Along with this adjustment will come an increase in the ceiling for workers who pay Social Security taxes from the current $106,800 to $110,100.

By 2013, You Must Take a Direct Deposit

In March of 2013, the Social Security Administration will stop mailing checks to those who receive their benefit by mail. Individuals applying for federal benefits for the first time must select an electronic payment method—either a debit card that is reloaded each month, or direct deposit into a bank account. Selecting direct deposit is a safe and easy way to ensure that you receive your monthly benefit without mishap. The debit card can have fees associated with its use and it is important to understand what they are. If you are already receiving benefits, don't wait until the last minute rush to switch your payment method. The Treasury has set up www.GoDirect.com to help you make this change.

Do Not Throw Out Your Annual Statement

According to the Social Security website, annual statements will no longer be mailed out as a result of the current budget situation. Therefore it is important to save your most recent statement and be sure that your earnings record is accurate. You may use the online Retirement Estimators to gauge what your benefit might be based on your actual earning record by visiting www.ssa.gov. Select the Retirement Tab at the top of the home page and click on Estimate Your Social Security Retirement Benefits under the heading Learn About Retirement Benefits on the right hand side of the page.

Consult Your Advisor Before You File

As advisors, we are amazed at the depth and complexity of the Social Security decision process. For each individual and couple, the correct distribution choice is based on a number of different factors. It is important to recognize that there are many nuances and options that need to be understood before filing for benefits. While we have made several suggestions in this report, we strongly advise you to consult with your advisor about your specific situation.

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