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Is your Social Security Benefit worth more than your IRA?

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When discussing retirement, many Americans overlook the value of their Social Security benefits. Although many are aware that they will be eligible to receive Social Security benefits beginning in their 60's, they may not fully realize the dollar value those benefits represent. For many, Social Security is their largest source of income in retirement.

The value of your Social Security benefits is dependent upon your annual income and the age at which you begin receiving your benefits. Currently, if you are a working 50 year old with an annual income of $100,000, you will be eligible to receive a pre-tax $2,390 monthly benefit ($28,680 annually) when you reach age 67. Assuming that you live to age 85, the Social Security Administration will pay you a cumulative benefit of approximately $519,000. This does not include future inflation adjustments based on federally determined cost of living adjustments (COLA).

What is your Social Security worth in current dollars? The income cash flow from Social Security is similar to an annuity's cash flow and can be similarly valued. In order to receive the equivalent of $2,390 per month in Social Security you would need a taxable account or an annuity with a current value of at least $286,000 to provide you with a similar payment stream. This estimate assumes that the account or annuity earns 4% and that no principal remains at the end of the time period. The value of the COLA makes this lump sum value even greater.

What about your IRA? Distributions from your IRA are taxed as ordinary income. Using the above example and assuming a marginal tax rate of 25% in retirement, your IRA would need to have a pre-tax value of $381,000 to be comparable to your social security benefit.

The chart below lists projected benefits and asset equivalents for an individual currently age 50 who will receive Social Security benefits at full retirement age of 67 until age 85 at various salary levels. When preparing your personal balance sheet, the taxable account value listed below should be considered an asset. If married, the husband and wife would each have individual asset values.

Salary	Social Security Monthly Benefit	Cumulative Total Payments(1)	Equivalent Taxable Account(2)	Equivalent IRA Account(3)
$50,000	$1,654	$359,000	$198,000	$264,000
$75,000	$2,109	$458,000	$252,000	$336,000
$100,000	**$2,390**	**$519,000**	**$286,000**	**$381,000**
$125,000	$2,592	$562,000	$310,000	$413,000
$150,000	$2,638	$572,000	$316,000	$421,000
$168,000	$2,647	$574,000	$317,000	$422,000

Note: Your benefit will be affected by your age when you apply for benefits, your longevity, the length of your employment and if your income varies during your years of employment. The numbers presented here are based on a specific set of assumptions. Social Security benefits max out at a salary level of $168,000, so any income above that level will receive $2,647 monthly for a total benefit of $574,000.

Spousal Benefit

The spousal benefit is a valuable addition to a family's social security benefit package. The lower spousal wage earner can receive a benefit equal to 50% of the higher wage-earner's benefit or take their own benefit, whichever is greater. To receive the spousal benefit, he or she must be at least 62 years of age, married for 10 years and be receiving or eligible to receive Social Security benefits. There are several timing and filing strategies which can help you and your spouse maximize benefits. Depending upon the type and timing of the spousal benefit, the total value of a couple's benefit may increase by as much as 50%.

Review Your Social Security Benefits Online

The SSA is now completely paperless and no longer mails statements. Their website offers individual access to your complete earnings history and your benefit statement that can either be printed or saved. In addition, those currently receiving benefits can now access instant verification letters that can be used as proof of income for loans, housing and state or local benefits, saving the time and trouble of having to visit a local office. To create an account at the SSA visit their website at www.socialsecurity.gov/myaccount.

At Noyes Capital, we have several programs that offer strategies to maximize your individual and joint benefits. For example, the timing of when to take a husband and wife's benefits is dependent upon a number of factors. Please contact us for a personalized Social Security analysis.

Footnotes

(1) Total cumulative benefits from age 67 to age 85.

(2) Equivalent Taxable Account is the 2013 dollar value of a taxable investment account needed to replicate the after-tax monthly benefit payments from age 67 to age 85 assuming a 4% interest rate.

(3) Equivalent IRA Account is the 2013 dollar value of an IRA account needed to replicate the after-tax monthly benefit payments from age 67 to age 85 assuming a 4% interest rate.

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