Are You Minimizing the Value of Your

Social Security Benefits?

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When Should You Start Receiving Social Security?

Many people think of Social Security as something the government "owes" them. After all, it's partly a return of the money they paid into the system. However, this attitude may lead you to make the wrong decision about when to start your benefits. You're more likely to think, "I want the benefit to start as soon as possible."

Let's look at some of the issues that you should consider before making this decision.

Think Carefully about When to Start Receiving Benefits

You've worked hard to earn your Social Security benefit, so it's important to consider how the age at which you begin receiving benefits impacts the size of your check. Three significant ages for collecting Social Security affect the amount of your Social Security check.

The first is your **full** or **normal** retirement age. As you can see in the chart that follows, this milestone has risen from age 65 to 67 depending upon the year in which you were born.

Age to Receive Full Social Security Benefits[1]

Year of Birth	Full Retirement Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943–1954	66

Year of Birth	Full Retirement Age
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

The second significant age is 62, the earliest age at which you can request that your benefits begin. Perhaps it is not surprising that many retirees—41.4% of men and 46.5% of women—start receiving their monthly Social Security check when they reach age 62.[2] However, there are significant consequences for beginning benefits "early."

If you begin receiving Social Security before the full retirement age, you will receive a reduced amount. For example, if you're a baby boomer who was born in 1950, your benefit will be 25% smaller if you begin receiving it at age 62 instead of waiting until your full age of 66. This is a permanent reduction that will not be restored when you reach your full retirement age. Moreover, it reduces the Social Security benefit your surviving spouse receives by up to 30%.

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The third significant age is 70. If you were born in 1943 or later, for each year beyond your full retirement age that you *delay* the start of Social Security benefits, your base benefit is increased by 8%, an adjustment known as the delayed retirement credit. In addition, an annual cost of living adjustment (COLA) is added to this delayed retirement credit to determine the new initial monthly benefit. Once you turn 70, there are no more increases in your base amount.

The example below, generated in February 2013 using the "Quick Benefit Calculator" on Social Security's website **www.ssa.gov**, may be helpful. For this example, the individual is currently earning $80,000/year, was born on June 1, 1954, and the monthly benefit estimates assume future increases in prices or earnings so the estimated benefit is in future (inflated) dollars.

You can see for every year this hypothetical individual postponed the start of Social Security, his/her monthly check increased by a meaningful amount. Clearly, the timing of Social Security can have an impact on the amount of income you can expect to receive.

If You Start Benefits in June of	Age	First Year Estimated Monthly Benefit (in Future Inflated Dollars)
2016	62	$1,663
2017	63	$1,843
2018	64	$2,063
2019	65	$2,296
2020	66*	$2,551
2021	**67**	**$2,855**
2022	**68**	**$3,179**
2023	69	$3,522
2024	70	$3,869

In this example, waiting an extra year from age 67 to age 68 resulted in 11.3% increase in the monthly benefit.

* Normal retirement age

Starting your Social Security benefits prior to your full retirement age has a permanent impact on the size of your future monthly benefit payments; when you reach your full retirement age, your benefit doesn't jump to the amount you would have received if you had waited.

What investment could you use today that would offer you what Social Security provides: a federal government-backed, annual, inflation-adjusted stream of income that lasts as long as you live?

1. Source: Social Security Administration, www.ssa.gov, "Retirement Benefits by Year of Birth."
2. Source: Social Security Administration, *Annual Statistical Supplement 2012,* Table 6.B5.

Determine the "Value" of Your Social Security Benefit

Instead of thinking of Social Security as a benefit that the government owes you, try thinking of Social Security as an *asset*. By thinking of Social Security as an asset, it is easier to understand how time can work to your benefit.

What is the value of your Social Security benefit? That depends on a variety of issues including your age, your earnings, how long you worked, when you start receiving your benefit, the length of your retirement and many other issues. To help better understand the value today of your future Social Security payments, review the following example:

Social Security Benefit Payment Examples (for a person born June 1954)[3]

Retirement Age	Estimated Monthly Benefit in Future Dollars[4]	If You Receive Social Security Benefits Until Age…	Estimated Total Benefits Paid to You[5]	Lump-Sum That Would Be Required to Create a Stream of Payments Equal to Social Security Benefit[6]
62	$1,663	80	$474,267	$303,016
		85	$657,344	$370,177
		90	$869,580	$431,181
		95	$1,115,620	$486,591
66[7]	**$2,551**	80	$530,892	$374,963
		85	$780,411	$486,224
		90	$1,069,671	$587,284
		95	$1,405,003	$679,080
70	$3,869	80	$540,229	$421,513
		85	$876,463	$603,751
		90	$1,266,251	$769,282
		95	$1,718,122	$919,637

For example, suppose your normal retirement age is 66 and that your benefit at that time will be $2,551/month. Also, assume that you will collect checks until age 90, that annual cost-of-living adjustments will be 3%, and you could earn 5% pre-tax on investments.

To generate the same income you would receive from Social Security over this time frame, you would need approximately $587,000.[8] Surely, if you had $587,000 sitting in a bank account, you would not treat that money casually. You would think long and hard about what to do with it. Your decision about when to start receiving Social Security benefits deserves the same amount of careful consideration.

It's a Personal Decision

Your personal circumstances should weigh heavily on deciding when to start your Social Security benefit.

If you need the extra income Social Security provides, then there may be no question about when you should start taking your benefits. You would start them as soon as you can. If you or your spouse has poor health, it may also make sense to start sooner rather than later.

In other cases, it may be advisable for one spouse to start Social Security at age 62 or his/her normal retirement age and for the other (generally the spouse entitled to the higher benefit) to wait until age 70.

If your portfolio and other sources of income—pensions, 401(k)s, IRAs, etc.—are generating adequate income, you may want to wait a few years to begin collecting Social Security in order to take advantage of an increase in benefits.

DID YOU KNOW:

If you've earned enough credits to be eligible for disability or retirement benefits, your current or divorced spouse, minor children or adult children disabled before age 22 may also receive Social Security benefits. Each may qualify for up to approximately 50% of your benefit payment. The total amount depends on how many family members qualify to receive benefits from your Social Security benefit.

3. This chart is hypothetical and for illustrative purposes only; individual Social Security benefits will vary. Taxes have not been taken into account. For this example, we assume the individual is currently earning $80,000/year, was born on June 1, 1954, and, as a result has a "normal" retirement age of 66. The calculations make certain assumptions about earnings and assume future increases in prices or earnings so the estimated benefit is in future (inflated) dollars.

4. Source: Social Security Administration, Quick Calculator on ssa.gov website. Assumes future increases in earnings each year, through retirement year.

5. Source: www.ssa.gov estimated future cost-of-living adjustments (COLAs). Assumes cost-of-living adjustment increases of 3% per year effective January of each year.

6. This is calculated using the net present value of the monthly payments from Social Security as of February 2013. Hypothetical investment assumes an 5% (pre-tax) rate of return, compounded monthly, and monthly withdrawals equal to the Social Security benefit payment.

7. Normal (or full) retirement age based on a birth year of 1954.

8. $587,284 is the exact number and this calculation uses the same assumptions as noted in the table on page 2.

Take Care Not to Minimize Your Social Security Benefits

Here are steps you can take with your financial advisor to determine your optimal age for collecting Social Security.

1] Think about longevity in your family. Little more than a generation ago people figured they'd live about 20 years after they retired at age 65. Thanks to lifestyle changes and medical advances, that time frame is now significantly longer. As you can see below, if you're a 65-year old man today and plan to spend your money as if you're going to live only another 22 years, you have a 50% chance of outliving your assets. Are you willing to take that chance? Make sure you are realistic when you determine how long your retirement income will have to last.

Probability of Living to…

Age 65 Today	50% Chance of Living to:	25% Chance of Living to:
Male[9]	87	93
Female[9]	89	95
Couple, one member[10]	92	97

2] Work with your tax advisor to look at your likely income in retirement and the tax implications once you start receiving benefits. IRS Publication 915 provides information on how to calculate the tax on your Social Security benefits.

3] Determine the best date to start receiving your Social Security benefits based on your individual needs. For example, if you're married, it might make sense for one spouse to start receiving benefits before their full retirement age and the other (probably the one entitled to the higher benefit based on their earnings) to wait until age 70.

PREVENT YOUR SOCIAL SECURITY CHECKS FROM BEING LOST OR STOLEN

Consider having your Social Security checks deposited directly into your checking account. This will eliminate the chance of a benefit check being lost or stolen.

9. Source: Mouton & Co., 2000 Individual Annuitant Mortality Table, projected to year 2011.
10. Source: American Society of Actuaries, "Annuity 2000 Mortality Table."

Congress has made changes to the laws impacting Social Security benefits in the past and can do so at any time.

This material is being provided for educational and informational purposes only and is not intended to provide tax advice. You should consult with the appropriate tax and legal advisors with respect to your individual circumstances and all applicable federal, state and local tax laws.

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