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Re-Think Social Security

ARE YOU MINIMIZING THE VALUE OF YOUR SOCIAL SECURITY BENEFITS?



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 it 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 probably heard of recent changes that affect how you can file for your benefit. Because your claiming options are more limited, the factor that has the biggest impact on your benefit is the AGE at which you file. This will literally affect the retirement income you receive for the rest of your life.

There are three key ages to be aware of. The first is your “full” or “normal” retirement age. As you can see in the chart below, it depends upon the year in which you were born. Full Retirement Age, or FRA, is currently age 66. It will gradually increase to age 67 by 2027.

Full Retirement Age (FRA) by Year of Birth¹

Year of Birth	Full Retirement Age	Year of Birth	Full Retirement Age
1937 or earlier	65	1955	66 and 2 months
1938	65 and 2 months	1956	66 and 4 months
1939	65 and 4 months	1957	66 and 6 months
1940	65 and 6 months	1958	66 and 8 months
1941	65 and 8 months	1959	66 and 10 months
1942	65 and 10 months	1960 and later	67
1943–1954	66		

Another significant age is 62. This is the earliest age at which you can start a benefit based upon your own earnings record or a current or divorced spouse benefit. (You can begin receiving a widow’s benefit at age 60.) Perhaps it is not surprising that many retirees—29% of men and 32.9% of women in 2017—start Social Security when they reach age 62.² However, there are significant consequences for beginning benefits “early.”

If you file for any type of Social Security benefit before your FRA, you will receive a reduced monthly benefit. For example, if your FRA is 66+6mo, starting Social Security at 62 reduces your benefit by 39%³. This is a permanent reduction that will not be restored when you reach FRA. Moreover, it can reduce the monthly Social Security benefit your surviving spouse receives.

1. If you were born on January 1st of any year, you should refer to the previous year. (If you were born on the 1st of the month, we figure your benefit (and your full retirement age) as if your birthday was in the previous month.) Source: Social Security Administration, “Retirement Planner: Benefits by Year of Birth.” <https://www.ssa.gov/planners/retire/agereduction.html#chart>

2. Source: Social Security Administration, “Annual Statistical Supplement, 2018” Table 6.B5.1. <https://www.ssa.gov/policy/docs/statcomps/supplement/2018/supplement18.pdf>

3. Source: Social Security Administration, www.ssa.gov, Quick Calculator. Normal (full) retirement age based on a birth year of 1957 is 66+6mo. Estimates obtained using the Social Security Quick Calculator. Estimated monthly benefits are based on a birth date of 6/5/1957, \$80,000 in current earnings covered by Social Security, future (inflated) dollar terms and a future retirement date of 6/yyyy. As of January 2019.

Age 70 is another important milestone. If you can afford to do so, there is a substantial pay-off for waiting. That's because every 12 months past your FRA that you postpone the start of Social Security, your benefit automatically increases by 8%. This is due to the Delayed Retirement Credit (DRC). In other words, if your FRA is 66+6mo and you delay the start of benefits until you turn 70, the amount you receive will go up by 53%³ over those four years. In addition, your benefit will be adjusted by any cost-of-living increases Social Security recipients received during that time. DRCs no longer apply once you reach age 70, so there is no advantage to claiming past that age.

The example below, generated in March 2019 using the "Quick Benefit Calculator" on the Social Security's Administration's website www.ssa.gov, may be helpful. For this example, we assume the individual was born on June 5, 1957, is currently still working, earning \$80,000 in current earnings covered by Social Security and has a future retirement date of June in the selected year. Additionally, the Quick Calculator assumes the individual works every year until benefits are received.

As you can see, for each year that this hypothetical individual postpones the start of Social Security, his/her monthly check increases by a meaningful amount.

It's important to realize that beginning Social Security before your FRA has a *permanent* impact on the size of your benefit. That is, when you reach FRA, your monthly check does not jump up to the amount you would have received if you had waited.

Hypothetical Example:

If You Start Benefits in June of	Age	First Year Estimated Monthly Benefit (in Inflated (Future) Dollars)
2019	62	\$1,420
2020	63	\$1,577
2021	64	\$1,796
2022	65	\$1,996
2023	66	\$2,239
2024	66+6mo	\$2,317
2025	67	\$2,518
2026	68	\$2,836
2027	69	\$3,179
2028	70	\$3,549

In this example, waiting an extra year from age 67 to age 68 results in a 12.6% increase in the monthly benefit.

Consider this: what investment could you make today that would offer you what Social Security can provide: a federally sponsored program providing an inflation-adjusted stream of income that can last as long as you live?

DETERMINE THE “VALUE” OF YOUR SOCIAL SECURITY BENEFIT

Most Americans don't fully appreciate the value of their Social Security benefit. That's probably because we tend to think of it in terms of a *monthly* amount. In fact, it is a unique and valuable retirement income “*asset*.”

The example below illustrates how the age at which you start your benefit impacts the amount you receive. It also shows you how your monthly checks can add up over time. And, what it would cost if you had to replace your Social Security benefit by buying an annuity. For most Americans, Social Security is an investment that they have been contributing to for all or most of their work life. It is actually a unique retirement income “*asset*.”

Hypothetical Example:

Social Security Benefit Payment (for a person born June 5, 1957 currently earning \$80,000/year)⁴

Begin Benefits	Estimated Monthly Benefit in Today's Dollars ⁵	If You Receive Social Security Benefits until Age...	Estimated Total Benefits Paid to You ⁶	Lump-Sum That Would Be Required at Retirement to Create a Stream of Payments Equal to Social Security Benefit ⁷
62	\$1,420	80	\$404,967	\$258,739
		85	\$561,292	\$316,086
		90	\$742,516	\$368,176
		95	\$952,604	\$415,490
66+6mo (FRA) ⁸	\$2,317	80	\$477,560	\$335,962
		85	\$704,191	\$437,017
		90	\$966,917	\$528,808
		95	\$1,271,490	\$612,183
70	\$3,549	80	\$495,547	\$386,650
		85	\$803,972	\$553,815
		90	\$1,161,521	\$705,655
		95	\$1,576,018	\$843,575

For example, suppose your FRA is 66+6mo and that your benefit at that time will be \$2,317/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 buy an annuity that would generate the same income you could receive from Social Security over this timeframe, using the above example, you'd need \$528,808 to purchase an annuity.⁶ Surely, if you had that amount sitting in an account, you would not treat that money casually. Instead, 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.

4. This chart is hypothetical and for illustrative purposes only; individual Social Security benefits will vary. Taxes have not been taken into account. Source: Franklin Templeton with data derived from the Social Security Administration, Quick Calculator on ssa.gov website as of January 2019. For this example, we assume the individual has a birth date of 6/5/1957, is earning \$80,000/year in current earnings covered by Social Security and has a future retirement date of June in the selected year. Additionally, the Quick Calculator assumes the individual works every year until benefits are received.

5. Estimated monthly benefit assumes future increases in prices and earnings each year, through retirement year. Future increases are estimated using the national average wage index (AWI) under the intermediate assumptions in the 2018 Trustee's Report: <https://www.ssa.gov/OACT/TR/2018/index.html>

6. Estimated total benefits assume cost of living adjustment increases of 3% per year effective January of each year.

7. Calculated using the net present value of the monthly payments from Social Security as of January 2019. Hypothetical investment assumes a 5% (pre-tax) rate of return, compounded monthly, and monthly withdrawals equal to the Social Security benefit payment.

8. FRA depends on birth year. See "Full Retirement Age (FRA) by Year of Birth" chart on inside cover panel.

It's a Personal Decision

Of course, while postponing the start of Social Security will increase the size of your monthly benefit, not everyone can afford to wait. If you need the income, that's what Social Security is for. However, if you are married, you might have additional flexibility. In some cases it might be possible for one spouse to begin his/her benefit and for the other spouse to delay, which would result in a higher *joint* benefit. Your financial advisor can help you determine the best strategy and suggests ways to generate additional income from other sources, such as part-time work, investments and retirement accounts.

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 be eligible for Social Security benefits.

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 | Don't underestimate how long you are likely to live. In the past century, we have seen a tremendous increase in life expectancy in the developed world. Odds are, unless you have a serious medical condition, you will live a lot longer than you think. If you start your benefit too early, you are locking yourself into a lower retirement income for perhaps 30 years. Of course, the longer you live, the more inflation erodes the purchasing power of your money. That's why Social Security is so critical: For most retirees, it is the only source of retirement income that is adjusted to *keep up with* inflation.

Probability of Living to...

Age 65 Today	50% Chance of Living to:	25% Chance of Living to:
Male ⁹	83	89
Female ⁹	86	92

- 2 | Don't forget about taxes. If your income exceeds certain limits, up to 85% of your Social Security may be subject to income tax. The instructions to IRS form 1040 include a worksheet that helps you determine how much of your Social Security income may be subject to income tax. Your tax advisor and IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*, can provide you with more details.
- 3 | Determine the best date to start receiving your Social Security benefits based on your individual needs and situation. For example, if you're married, it might make sense for one spouse to start receiving benefits before their FRA and the other (probably the one entitled to the higher benefit) to wait. Franklin Templeton provides a third-party service provider's Social Security calculator that your advisor can use to help you determine the best age for you (and your spouse, if married) to file for Social Security benefits. You can instantly see what your estimated benefit will be each month. Based on the assumptions that are used, it will also estimate how much retirement income you'll receive on an annual and cumulative basis so you can get a sense of what your retirement budget will look like.

9. Source: U.S. Department Of Health And Human Services. Calculations are based on data from United States Life Tables, 2015. NVSR Volume 67, Number 7. Published on November 13, 2018. https://www.cdc.gov/nchs/products/life_tables.htm. Table 2. Life Table for Males: United States, 2015 & Table 3. Life Table for Females: United States, 2015.

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