

When to Apply for Social Security Benefits

James V. Peters, CLU, ChFC
Grace Wealth Management Group, Inc.

18662 MacArthur Blvd.
Suite 330
Irvine, CA 92612
949-631-3840
jpeters@cfiemail.com
www.financialadvisorirvine.com



By Elaine Floyd, CFP®

With the demise of guaranteed pensions, and in light of the risks you face in managing your own retirement assets, maximizing Social Security becomes a critical part of retirement planning.

One of the most important decisions a retiree faces is when to apply for Social Security benefits. This is not a decision to be made lightly; the lifetime, inflation-adjusted income promised by Social Security makes it one of a retiree's most significant assets. If you were to calculate the present value of a person's Social Security income stream, it would rival the lump sum many people have in their 401(k) plans at retirement. While the Social Security "asset" may not be managed in the traditional way, pre-retirees can enhance its value by building a strong earnings record and applying for benefits at the optimal time.

The basic choices for applying for Social Security are these:

- Apply at age 62 and receive a reduced benefit for life
- Apply at full retirement age and receive full benefits for life
- Apply at age 70 and receive an additional credit for life

You may apply for Social Security anytime between the ages of 62 and 70, but we often use these ages

to show the minimum and maximum amounts. Full retirement age is now 66, for anyone born between 1943 and 1954. When full retirement age was 65, the penalty for taking early benefits was lower than it is now. Likewise, the credit for delaying benefits was lower than it is now. These adjustments, combined with longer life expectancies, are making it more advantageous for today's retirees to delay benefits to age 70.

For example, here's what a 60-year-old person with \$100,000 in earnings would receive under the following scenarios:

	In today's dollars	In future inflation-adjusted dollars
Apply at age 62	\$1,631	\$1,699
Apply at age 66	\$2,232	\$2,599
Apply at age 70	\$3,030	\$4,004

Source: Quick Calculator at www.ssa.gov

The traditional way of deciding when to take benefits has been to calculate the break-even age. This is the age the retiree must live beyond in order for delayed benefits to provide a higher lifetime

income. Here are the break-even ages for today's 60-year-old, considering benefits in inflation-adjusted dollars:

Retirement ages considered	Break-even age
62 vs. 66	75
62 vs. 70	78
66 vs. 70	80

Source: Horseshmouth Simple Breakeven Calculator

However, it seems the break-even method of determining the onset of Social Security benefits leaves out several factors that can influence the age at which benefits should begin. A groundbreaking paper titled "Rethinking Social Security Claiming in a 401(k) World" makes the point that today's retirees face major risks in managing their accumulated retirement funds which generally end up in an IRA rollover account. These include investment risk, longevity risk, inflation risk, and the financial risk caused by the death of a spouse. Authors James I. Mahaney and Peter C. Carlson argue that Social Security benefits will become increasingly valuable due to their longevity protection, inflation protection, and survivor protection. In light of the risks retirees face in managing their own retirement assets, it behooves them to maximize Social Security benefits to the extent possible.

Spousal and survivor benefits

When the combined benefits for a married couple are taken into consideration, the analysis becomes much more complex. You must take into account each spouse's age, their combined life expectancies, the benefit based on each spouse's own earnings record as well as the spousal benefit, and the amount the surviving spouse would receive after the spouse dies.

Under the Senior Citizens' Freedom to Work Act of 2000, a primary worker can "file and suspend" his own benefits upon reaching full retirement age in order to initiate spousal benefits while continuing to build delayed retirement credits for his primary benefit. Many people do not understand this rule, but it can provide the optimal solution for married couples where the spousal benefit (one-half of the primary worker's benefit) is higher than the benefit based on the lower-earning spouse's own earnings record and where the lower-earning spouse is younger than the primary working spouse. Of great significance is the survivor income protection this strategy provides: If the primary worker dies first, the spousal benefit will drop off and the spouse will begin receiving the primary worker's benefit, made higher due to the delay in the onset of benefits.

The authors conclude by saying that the additional benefits of survivor protection, inflation adjustments, low expenses, and customization options available, delaying Social Security (for at least one member of a retiring couple) and taking income from personal retirement savings during the bridge period becomes a very efficient strategy of providing retirement income.

It is common sense, however, to always consider health status and other individual circumstances when deciding when to apply for Social Security benefits.

Elaine Floyd, CFP®, is the Director of Retirement and Life Planning, Horseshmouth, LLC., where she focuses on helping people understand the practical and technical aspects of retirement income planning. Horseshmouth is an independent organization providing unique, unbiased insight into the most critical issues facing financial advisors and their clients. Horseshmouth was founded in 1996 and is located in New York City.

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